Lochinvar Limited

Annual Report and Financial Statements

Year Ended

31 December 2021

Company Number 03453820

Lochinvar Limited

Company Information

Directors	J F Stern H H H Meelen T J G M Van Der Hamsvoort C T Lauber
Company secretary	J F Stern Gravitas Company Secretarial Services Limited
Registered number	03453820
Registered office	One, New Change London EC4M 9AF
Independent auditor	BDO LLP Thames Tower Station Road Reading Berkshire RG1 1LX

Lochinvar Limited

Contents

Lochinvar Limited

Strategic Report
For the Year Ended 31 December 2021

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2021

Business:

As used in this report 'our' or 'company' or 'business' refers to Lochinvar Limited and not our parent company. Lochinvar Limited is a consolidated subsidiary of A.O. Smith Corporation, a United States based global manufacturing public company that files its annual report with the Securities and Exchange Commission (SEC). This report is solely for the directors and sole shareholders of Lochinvar Limited. The following discussion should be read in conjunction with our financial statements. Our company provides reliable hot water solutions for commercial and industrial applications in the UK and Ireland. We market comprehensive lines of commercial electric and gas-fired atmospheric and condensing water heaters, heat pump packages, boilers and solar thermal packages. With every product, we strive to fill the needs of our customers, from small footprints to ease and versatility of flue options to sophisticated controls and compatibility with building management systems all designed and manufactured for specific needs of the UK market.

As the industry leader in the design, manufacture and distribution of a wide range of commercial gas-fired boiler and water heaters, we pride ourselves on offering a solutions driven approach to heating and hot water. As industry leaders, we are at the forefront of technology when it comes to integrated, low-carbon technologies, such as heat pumps and solar thermal solutions.

2021 Overview:

In January 2020, an outbreak of a novel coronavirus (COVID-19) surfaced in Wuhan, China, which by March 2020 had spread throughout the world and was declared a global pandemic. Since March 2020 and continuing into 2021, we experienced impacts to our business and markets. As a result of the COVID-19 pandemic and in support of continuing our business, we undertook numerous and meaningful steps to protect our employees, suppliers and customers. As we continue to receive guidance from governmental authorities, we continue to adjust our safety measures to meet or exceed these guidelines.

Our supply chain team continues to navigate through supply chain and logistics challenges in 2021. We have seen supply constraints for certain components and raw materials used in our operations, as well as limited container and trucking capacity, together with port congestion and delays. While supply chain issues moderated as we moved into 2022, we remain in close contact with our suppliers and logistics providers to troubleshoot, manage and resolve bottlenecks, as the environment remains unpredictable, particularly with the recent surge in the Omicron variant of COVID-19.

Principal Risks and Uncertainties:

In the ordinary course of our business, we face various strategic, operating, compliance and financial risks. These risks could have an impact on our business, financial condition, operating results and cash flows. The risks set forth below are not an exhaustive list of potential risks but reflect those that we believe to be material.

Economic and Industry Risks:

Our business could be adversely affected by product price volatility and availability, as well as supplier concentration.

The market price for certain materials and components used in our products, primarily steel, have been volatile. Steel prices alone increased by other 100 percent in 2021. We have also experienced inflation related increases in our transportation costs. Some components used in our products are subject to long lead times. Disruptions to the commercial transportation network, including limited container and trucking capacity and port congestion, have increased delivery times from our suppliers and, in some cases, our ability to timely ship to our customers. We engage in ongoing communications with our suppliers to identify and mitigate risk of potential disruptions and to manage our inventory levels. Significant increases in the cost of any of the key products we purchase or delays in their delivery could increase our cost of doing business and ultimately could lead to lower operating earnings if we are not able to recover these cost increases through higher prices to our customers.

Principal Risks and Uncertainties (continued)

As a response to cost inflation, we announced price increases on our full product portfolio in 2021 that compound to approximately 11%. Historically, there has been a lag in our ability to recover increased material costs from our customers, and that lag, particularly for the price increases implemented in 2021, could negatively affect our profitability. We are dependent on a limited number of suppliers for some of our finished products and a significant disruption or termination of the supply from one of these suppliers could delay sales or increase costs, which could result in material adverse effect on our financial performance.

The global coronavirus (COVID-19) pandemic, or other global public health pandemics, could have a material effect on our business and financial condition

Our business and financial position may be adversely affected if a global public health pandemic, including the current COVID-19 pandemic, interferes with the ability of our employees, suppliers and customers to perform our and their respective responsibilities and obligations relative to the conduct of our business. The COVID-19 pandemic has significantly affected economic activity and markets around the world, and it could have a negative impact on our business in numerous ways, including but not limited to those outlined below:

- The risk that we, or our employees, suppliers or customers may be prevented from conducting business activities for an indefinite period of time, including shutdowns that may be requested or mandated by governmental authorities.
- Restrictions on shipping our products from certain jurisdictions where they are produced.
- Inability to meet our customers' needs and achieve cost targets due to increased logistics costs, longer shipment times and disruptions in our supply arrangements caused by the loss or disruption of essential manufacturing and supply elements, such as finished product, transportation, workforce or other distribution capability.
- Failure of third parties on which we rely, including our main suppliers, to meet their obligations to us, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties, workforce disruptions, or mandated shutdowns by governmental authorities, may adversely affect our business.
- Significant reductions in demand, particularly for our commercial Water Heaters, or significant volatility in demand and an economic recession that could reduce demand for our products, resulting from activities taken by governments, businesses, and/or the general public in an effort to limit exposure to and spreading of such infectious diseases, such as travel restrictions, quarantines and business shutdowns or slowdowns. In addition, there is the risk that the commercial sector, such as the restaurant and hospitality industries in which we have customers, will experience long-term shifts in consumer behaviour, which could negatively impact demand and may not return to pre-pandemic levels.

The extent to which the COVID-19 pandemic, or other outbreaks of disease or similar public health threats, materially and adversely impacts our business and financial condition remains uncertain and will depend on future developments. Such developments may include the geographic spread and duration of the virus, periodic surges of the virus, the severity of the virus and the actions that may be taken by governmental authorities and other third parties in response to the outbreak. In addition, we cannot predict how quickly, and to what extent, normal economic and operating conditions can resume, and the resumption of normal business operations may be delayed or constrained by lingering effects of the COVID-19 pandemic on our suppliers, third-party service providers, and/or customers.

Principal Risks and Uncertainties (continued)

Because we participate in a highly competitive market, our revenues and earnings could decline as we respond to competition

We sell all of our products in a highly competitive market and compete based on product design, reliability, quality of products and services, advanced technologies, product performance, maintenance costs and price. Some of our competitors may have greater financial, marketing, manufacturing, research and development and distribution resources than we have; others may invest little in technology or product development but compete on price and the rapid replication of features, benefits and technologies. We cannot assure that our products will continue to compete successfully with those of our competitors. There could be new market participants that change the dynamics of our market and it is possible that we will not be able to retain our customer base or improve or maintain our profit margins on sales to our customers, all of which could materially and adversely affect our financial condition, results of operations and cash flows.

Our business may be adversely impacted by product defects

We may incur various expenses related to product defects, including product warranty costs, product liability and recall or retrofit costs. While we maintain a reserve for product warranty costs based on certain estimates and our knowledge of current events and actions, our actual warranty costs may exceed our reserve, resulting in current period expenses and a need to increase our reserve for warranty charges. In addition, product defects and recalls may diminish the reputation of our brand. Further, our inability to cure a product defect could result in the failure of a product line or the temporary or permanent withdrawal from a product or market. Any of these events may have a material adverse impact on our financial condition, results of operations and cash flows.

The outbreak of hostilities in Ukraine may exacerbate certain risks we face:

Russia's invasion of Ukraine and the global response, including the imposition of sanctions by the United Kingdom and other countries, could create or exacerbate risks facing our business. We have evaluated our operations, vendor contracts and customer arrangements, and at present, we do not expect the outbreak to directly have a material and adverse effect on our financial condition or results of operations. However, further escalation of geopolitical tensions related to the military conflict, including increased trade barriers or restrictions on global trade, could result in, among other things, cyberattacks, supply disruptions, lower consumer demand, and changes to foreign exchange rates and financial markets that could have a material adverse impact on our financial condition, results of operations and cash flows.

Legal, Regulatory, and Governance Risks:

Changes in regulations or standards could adversely affect our business:

Our products are subject to a wide variety of statutory, regulatory and industry standards and requirements related to, among other items, energy and water efficiency, environmental emissions, labelling and safety. While we believe, our products are currently efficient, safe and environment-friendly, the government may adopt laws, regulations and codes that will require a transition to non-fossil based sources of energy production as well as significantly reducing or eliminating the on-site combustion of fossil fuels in the building sector, such as limiting or prohibiting the delivery of natural gas in new construction. A significant change to regulatory requirements that promote a transition to alternative energy sources as a replacement for natural gas, or a significant shift in industry standards, could substantially increase manufacturing costs, impact the size and timing of demand for our products, affect the types of products we are able to offer or put us at a competitive disadvantage, any of which could harm our business and have a material adverse effect on our financial condition, results of operations and cash flow.

Results of Operations:

	Year ended 31st December		
	2021	**2020**	**2019**
Turnover	£14,362,349	£11,779,320	£12,372,255
Cost of sales	-£8,581,910	-£6,916,420	-£7,233,795
Gross profit	£5,780,439	£4,862,900	£5,138,460
Selling, general and administrative	-£3,904,269	-£3,785,150	-£3,637,385
Other operating income	£0	£72,335	£0
Operating profit	£1,876,170	£1,150,085	£1,501,075
Interest receiveable and similar income	£111	£0	£0
Profit before tax	£1,876,281	£1,150,085	£1,501,075
Tax on profit	-£346,139	-£223,354	-£291,883
Profit on total comprehensive income for the financial year	£1,530,142	£926,731	£1,209,192

Our sales in 2021 were £14,362,349, £2,583,029 or 21.9% higher than 2020 sales of £11,779,320. Compared to 2020, which was negatively affected by the COVID-19 pandemic, our sales increase in 2021 was driven by higher Water Heater and Integrated Renewable Solution volumes and inflation related pricing actions.

Our gross profit margin in 2021 of 40.2% declined compared to 41.2% in 2020. The lower gross margin in 2021 was primarily due to higher material and logistics costs, which outpaced our pricing actions.

Selling, general and administrative (SG&A) expenses were £3,904,269 in 2021, £119,119 or 3.1% higher than 2020. The increase in SG&A expense in 2021 was primarily due to higher wages and salaries as we increased headcount in line with the turnover growth, higher certification cost for new product introductions and moving costs associated with the move to larger premises scheduled for completion in June 2022.

Turnover growth was a result of higher market share of the condensing water heater sector with 2021 sales rising to £5,682,507 or 20.3% higher than 2020 sales of £4,723,853 and greater market acceptance of our integrated renewable solutions with 2021 sales rising to £1,892,683 or 96.2% higher than 2020 sales of £964,916. With the move to de-carbonisation and lower emissions in the UK, our Heat Pump offerings are gaining greater market acceptance, which resulted in sales rising to £1,079,312 in 2021, an increase of £635,388 or 143.1% over 2020 sales of £443,924.

This report was approved by the board on August 31, 2022 and signed on its behalf.

C T Lauber
Director

The directors present their report and the financial statements for the year ended 31 December 2021.

Principal activity

Lochinvar designs, manufactures and distributes a large range of gas-fired boilers and water heaters, and complementary equipment including indirect and direct storage vessels, electric water heaters and a range of integrated renewable solutions to the UK Commercial sector. Our route to market is via specification and specialist distributors or contractors place orders for equipment

Results and dividends

The profit for the year, after taxation, amounted to £1,530,142 (2020 - £926,731).

The directors believe that the company is well placed to deal with the pressure on our supply chain as the company benefits from being part of the AO Smith group and the actions it has taken to protect the wider groups supply chain. As we source approximately 70% of our finished products from group companies, the directors do not feel that supply chain pressure will have a material impact on our business, as evidenced by our strong performance in 2021 and Q1 2022.

Due to our strong cash position, we are able to react to non-group supply issues and shortages quickly and have increased stock purchases and safety stocks when potential issues arrive. To protect our Heat Pump business, we have taken the decision to hold inventory in Banbury for the first time to counter the extended lead times from our supplier, with the first stock order worth £150k due to arrive in early summer and we will increase stock levels further once we have completed the move to the adjacent larger premises.

Qualifying third party indemnity provisions

The company has indemnified the directors of the company against liability in respect of proceedings brought about by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision was in force throughout the period and at the date of signing of these accounts.

Going concern

The directors believe that Russia's invasion of Ukraine and the global response, including the imposition of sanctions by the United Kingdom and other countries, could create or exacerbate risks facing the business. The directors have evaluated operations, vendor contracts and customer arrangements, and at present, they do not expect the outbreak to directly have a material and adverse effect on the financial condition or results of the company.

Directors

The directors who served during the year were:

J F Stern
H H H Meelen
T J G M Van Der Hamsvoort
C T Lauber

Disclosure of information to auditor

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

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

Directors' Report (continued)
For the Year Ended 31 December 2021

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on August 31, 2022 and signed on its behalf.

CT Lauber

C T Lauber
Director

Lochinvar Limited

Directors' Responsibilities Statement
For the Year Ended 31 December 2021

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent Auditor's Report to the Members of Lochinvar Limited

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state 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.

We have audited the financial statements of Lochinvar Limited ("the Company") for the year ended 31 December 2021 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, and notes to the financial statements, 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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Independence

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.

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 at least 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 directors are responsible for the other information. The other information comprises the information included in the Directors' report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or 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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, 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.

Extent to which the audit was 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Auditor's responsibilities for the audit of the financial statements (continued)

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The significant laws and regulations we considered in this context included the UK Companies Act, the accounting framework, and relevant tax legislation.
- enquiring of management, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud,
- specifically in relation to recording of journal postings and judgemental adjustments around the year-end.

Audit response to risks identified

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- challenging assumptions made by management in their significant estimates in particular relation to valuation of inventory, warranty provisions and dilapidation provision recognised.
- identifying and testing journal entries, in particular any journal entries with values above materiality, journal entries with specifically identified key words, journals posted by senior management and manual journals posted to revenue.

We also communicated relevant identified laws, regulations, and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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.

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:
Chris Pooles
F757103 24A07483...

Christopher Pooles (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Reading, UK

Date: 12 September 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Lochinvar Limited

Statement of Comprehensive Income
For the Year Ended 31 December 2021

	Note	2021 £	2020 £
Turnover	4	**14,362,349**	11,779,320
Cost of sales		**(8,581,910)**	(6,916,420)
Gross profit		**5,780,439**	4,862,900
Administrative expenses		**(3,904,269)**	(3,785,150)
Other operating income	5	**-**	72,335
Operating profit	6	**1,876,170**	1,150,085
Interest receivable and similar income		**111**	-
Profit before tax		**1,876,281**	1,150,085
Tax on profit	9	**(346,139)**	(223,354)
Profit and total comprehensive income for the financial year		**1,530,142**	926,731

The results stated above are derived from continuing activities.

The notes on pages 15 to 27 form part of these financial statements.

Lochinvar Limited
Registered number:03453820

Statement of Financial Position
As at 31 December 2021

	Note	2021 £	2021 £	2020 £	2020 £
Fixed assets					
Tangible assets	11		**122,986**		93,479
			122,986		93,479
Current assets					
Stocks	12	**1,682,766**		1,804,226	
Debtors: amounts falling due within one year	13	**2,471,742**		2,410,088	
Cash at bank and in hand		**3,387,411**		2,923,449	
		7,541,919		7,137,763	
Creditors: amounts falling due within one year	14	**(3,695,600)**		(3,707,108)	
Net current assets			**3,846,319**		3,430,655
Total assets less current liabilities			**3,969,305**		3,524,134
Provisions for liabilities					
Deferred tax	15		**(27,212)**		(12,183)
Net assets			**3,942,093**		3,511,951
Capital and reserves					
Called up share capital	17		**400,002**		400,002
Profit and loss account	18		**3,542,091**		3,111,949
Total equity			**3,942,093**		3,511,951

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

C T Lauber
Director

Date: August 31, 2022

The notes on pages 15 to 27 form part of these financial statements.

Lochinvar Limited

Statement of Changes in Equity
For the Year Ended 31 December 2021

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2021	400,002	3,111,949	3,511,951
Comprehensive income for the year			
Profit for the year	-	1,530,142	1,530,142
Total comprehensive income for the year	-	1,530,142	1,530,142
Dividends: equity capital	-	(1,100,000)	(1,100,000)
Total transactions with owners	-	(1,100,000)	(1,100,000)
At 31 December 2021	400,002	3,542,091	3,942,093

Statement of Changes in Equity
For the Year Ended 31 December 2020

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2020	400,002	2,935,218	3,335,220
Comprehensive income for the year			
Profit for the year	-	926,731	926,731
Total comprehensive income for the year	-	926,731	926,731
Dividends: Equity capital	-	(750,000)	(750,000)
Total transactions with owners	-	(750,000)	(750,000)
At 31 December 2020	400,002	3,111,949	3,511,951

The notes on pages 15 to 27 form part of these financial statements.

1. **General information**

Lochinvar Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activity is set out in the directors' report.

2. ***Accounting policies***

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with *Financial Reporting Standard 102, the Financial Reporting* Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of A O Smith Corporation as at 31 December 2021 and these financial statements may be obtained from PO Box 245008, Milwaukee, Wisconsin, 53224, USA.

2. Accounting policies (continued)

2.3 Going concern

In preparing the financial statements, the directors have considered the ability of the company to continue as a going concern and have prepared cash flow forecasts to inform their decisions. At the date of approval of these financial statements, the world in the midst of supply chain issues and higher inflationary pressures affecting both the cost of raw material and componentry, which has resulted in some product and shipment delays. However, as the majority of the company's goods are purchased through group companies, product shortages and delays have largely been mitigated and have not had a material impact on sales.

To counter cost inflation we announced price increase of 11% on our full product portfolio in 2021 and have further increase planned for 2022. As all of our competitors are experiencing the same cost inflationary pressures, these price increases have not affected our market position and are not expected to have a detrimental impact on planned sales in 2022 and beyond.

To facilitate the planned growth and expansion of the business, the company moved to an adjacent office/warehouse facility in Banbury that offers an additional 50% of both office and warehouse space that will support future business expansion. The move to the larger facility has been self- funded by the business and has not required any external financing.

Using the above information, management have prepared cash flow forecasts identifying all contractual cash commitments for the next twelve months and compared this to current cash holdings. For the reasons discussed above and based on the stress tests performed, the directors believe that it remains appropriate to prepare the financial statements on the going concern basis.

2.4 Revenue

Turnover represents amounts receivable for goods and services net of VAT and trade discounts. Turnover relating to the sale of goods is recognised when the risks and rewards of ownership have passed to the customer. Turnover relating to maintenance and installation services is recognised once the work has been completed.

2.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following basis:

Leasehold property	- over the term of the lease
Plant and machinery	- 25% Reducing balance
Motor vehicles	- 25% Reducing balance
Fixtures, fittings and equipment	- 25% Reducing balance
Computer equipment	- 33% Straight line

2.6 Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the stocks to their present location and condition. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

2. Accounting policies (continued)

2.7 Debtors

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

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.9 Financial Instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans to and from related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

2.10 Creditors

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

2. Accounting policies (continued)

2.11 Government grants

Payments received from the government for furloughed employees are a form of grant. This grant money is receivable as compensation for expenses already incurred, and where this is not in respect of future related costs, is recognised in other income in the period in which it becomes receivable and the related expense is incurred. Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

2.12 Foreign currency translation

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the statement of financial position date. Any differences are taken to profit or loss.

2.13 Operating leases: the company as a lessee

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

2.14 Pensions - defined contribution pension plan

Contributions to the company's defined contribution pension scheme are charged to statement of comprehensive income in the year in which they become payable.

2.15 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2. Accounting policies (continued)

2.16 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

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

Critical judgements made in applying the entity's accounting policies are as follows:

(i) Leases

Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

(ii) Impairment of tangible assets

Determine whether there are no indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performances of that unit. Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

3. Judgements in applying accounting policies (continued)

(iii) Stocks (see note 12)

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value. In calculating net realisable value stocks are assessed for impairment. If stock is deemed to be impaired an estimate is made of the value of the impairment and the carrying amount is reduced to selling price less costs to complete and sell.

(iv) Trade debtors impairment loss (see note 13)

Trade debtors are reviewed for impairment loss on an annual basis and provision made for any balances where there is uncertainty against the recoverability of the balance. This methodology is applied on a customer by customer basis.

(v) Creditors, provisions and liabilities (see note 14)

Liabilities are recognised at the statement of financial position date and include amounts for warranty costs based on an estimate of the costs of satisfying any warranty claims. Although these amounts are reviewed on a regular basis and adjusted to reflect management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

4. Turnover

Analysis of turnover by country of destination:

	2021 £	2020 £
United Kingdom	**13,858,658**	11,232,628
Rest of the World	**503,691**	546,692
	14,362,349	11,779,320

Turnover is wholly attributable to the principal activity of the company.

5. Other operating income

	2021 £	2020 £
Furlough grant income	-	72,335
	-	72,335

6. Operating profit

The operating profit is stated after charging/(crediting):

	2021 £	2020 £
Depreciation of tangible fixed assets	**38,229**	26,200
Exchange differences	**(17,988)**	(62,248)
Other operating lease rentals	**63,650**	135,661
Auditor's remuneration - audit services	**34,650**	26,000

7. Employees

The average monthly number of employees, including directors, during the year was 44 (2020 - 41).

Staff costs were as follows:

	2021 £	2020 £
Wages and salaries	**2,235,683**	2,000,365
Social security costs	**242,183**	217,850
Cost of defined contribution scheme	**81,400**	74,051
	2,559,266	2,292,266

8. Directors' remuneration

The directors are employees of other companies within the AO Smith group and receive remuneration in these companies.

There were nil directors in the company's defined contribution pension scheme during the year (2020 - none).

9. Taxation

	2021 £	2020 £
Corporation tax		
Current tax on profits for the year	**316,081**	230,382
Adjustments in respect of previous periods	**-**	(3,971)
Total current tax	**316,081**	**226,411**
Deferred tax		
Origination and reversal of timing differences	**26,211**	(4,850)
Effect of tax rate change on opening balance	**3,847**	1,793
Total deferred tax	**30,058**	(3,057)
Taxation on profit on ordinary activities	**346,139**	223,354

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2020 - higher than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £	2020 £
Profit on ordinary activities before tax	**1,876,281**	1,150,085
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 -19%)	**356,493**	218,516
Effects of:		
Fixed asset differences	**508**	530
Expenses not deductible for tax purposes	**4,900**	6,487
Adjustments to tax charge in respect of prior period	**(22,292)**	(3,971)
Adjustments to tax charge in respect of prior period - deferred tax	**6,530**	1,792
Total tax charge for the year	**346,139**	223,354

9. Taxation (continued)

Factors that may affect future tax charges

The Finance Act 2021 was substantially enacted in May 2021 and has increased the corporation tax rate to from 19% to 25% with effect from 1 April 2023. The deferred taxation balances have been measured using the rates expected to apply in the reporting periods when the timing differences reverse.

10. Dividends

	2021 £	2020 £
Dividends	**1,100,000**	750,000

There was an interim dividend paid of £2.75 per share (2020 - £1.87)

11. Tangible fixed assets

	Computer equipment £	Plant and machinery £	Motor vehicles £	Fixtures, fitting & equipment £	Leasehold property £	Total £
Cost						
At 1 January 2021	98,700	142,321	43,916	121,167	210,361	616,465
Additions	-	2,447	67,264	-	-	69,711
Disposals	-	-	(29,150)	-	(597)	(29,747)
At 31 December 2021	98,700	144,768	82,030	121,167	209,764	656,429
Depreciation						
At 1 January 2021	98,700	99,154	40,917	119,088	165,127	522,986
Charge for the year	-	11,348	15,865	520	10,496	38,229
Disposals	-	-	(27,772)	-	-	(27,772)
At 31 December 2021	98,700	110,502	29,010	119,608	175,623	533,443
Net book value						
At 31 December 2021	-	34,266	53,020	1,559	34,141	122,986
At 31 December 2020	-	43,167	2,999	2,079	45,234	93,479

12. Stocks

	2021 £	2020 £
Finished goods and goods for resale	**1,682,766**	1,804,226

There is no material difference between the replacement cost of stocks and the amounts stated above.

13. Debtors: amounts falling due within one year

	2021 £	2020 £
Trade debtors	**2,339,235**	2,295,953
Prepayments and accrued income	**132,507**	100,053
Tax recoverable	**-**	14,082
	2,471,742	2,410,088

The impairment loss recognised in the profit for the year in respect of bad and doubtful trade debtors was £61,464 (2020 - £52,000).

14. Creditors: amounts falling due within one year

	2021 £	2020 £
Trade creditors	**425,100**	412,665
Amounts owed to group undertakings	**2,051,524**	1,595,636
Corporation tax	**27,517**	-
Taxation and social security	**331,299**	1,009,872
Other creditors	**120,468**	-
Accruals and deferred income	**739,692**	688,935
	3,695,600	3,707,108

15. Deferred taxation

	2021
	£
At beginning of year	12,183
Charged to profit or loss	15,029
At end of year	**27,212**

The provision for deferred taxation is made up as follows:

	2021	2020
	£	£
Accelerated capital allowances	27,212	12,183
	27,212	12,183

16. Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge amounted to £81,400 (2020 - £74,051). Contributions amounting to £nil (2020 - £10,926) were payable to the fund and are included in creditors.

17. Share capital

	2021	2020
	£	£
400,002 ordinary shares of £1 each	400,002	400,002

18. Reserves

The company's capital and reserves are as follows:

Called up share capital

The called up share capital represents the nominal value of the shares issued.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

19. Commitments under operating leases

At 31 December 2021 the company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2021 £	2020 £
Not later than 1 year	**192,485**	150,125
Later than 1 year and not later than 5 years	**812,294**	390,347
Later than 5 years	**2,082,046**	-
	3,086,825	540,472

20. Related party transactions

The company has taken advantage of the exemption available in Section 33.1A of FRS 102 whereby it has not disclosed transactions with the ultimate parent company or any wholly owned subsidiary undertaking of the group.

21. Ultimate parent company and parent undertaking of larger group

The company is a subsidiary of A O Smith Corporation which is the ultimate parent company incorporated in the United States of America. A O Smith Corporation is the parent undertaking of the smallest and largest group to consolidate the results of the company. Copies of the consolidated financial statements of this company are available in the public and can be obtained from A O Smith Corporation, PO Box 245008, Milwaukee, 53224, USA.