

## Lochinvar Limited

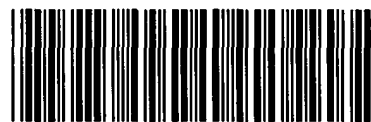
Annual Report and Financial Statements

Year Ended

31 December 2022

Company Number 03453820

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# Lochinvar Limited

## Company Information

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

# Lochinvar Limited

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# Lochinvar Limited

## Strategic Report For the Year Ended 31 December 2022

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The directors present their strategic report together with the audited financial statements for the year ended 31 December 2022.

### **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.

### **2022 Overview:**

Our supply chain team continues to navigate through supply chain and logistics challenges in 2022. We have seen supply constraints for certain components, which caused finished product shortages 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 2023, we remain in close contact with our suppliers and logistics providers to troubleshoot, manage and resolve bottlenecks.

### **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:**

*The effects of global and regional economic conditions could have a material adverse effect on our business*

A decline in economic activity, such as a recession or economic downturn in the UK, could adversely affect customer confidence and spending patterns which could result in decreased demand for the products we sell, a delay in purchases, increased price competition, slower adoption of energy efficient Water Heaters, Boilers and Integrated Renewable solutions including Heat Pumps, which could negatively impact our profitability and cash flows. Such deterioration in economic could arise from many factors or fears including public health crises, political instability or a financial banking crises. In addition, an increase in price levels generally or in particular industries such as the inflation in steel prices in 2021 and the recent inflation in other material and logistics costs), could result in a consumer shift away from the products we offer, which could adversely affect our revenues and, at the same time, increase our costs. A deterioration in economic conditions also could negatively impact our vendors and customers, which could result in an increase in bad debt expense, customer and vendor bankruptcies, interruption or delay in supply of products or increased prices, which could negatively impact our ability to sell our products and our financial condition, results of operation and cash flows.

# Lochinvar Limited

## Strategic Report (continued) For the Year Ended 31 December 2022

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### Principal Risks and Uncertainties (continued):

#### Economic and Industry Risks: (continued)

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

The market price for certain products we purchase, have been volatile. We have also experienced inflation related increases in our transportation costs. Significant increases in any of the key products we purchase would 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 price increases to our customers. Historically, there has been a lag in our ability to recover increased product costs from customers, and that lag, could negatively impact our profitability. As we are dependent on a non-group supplier for our Amicus range of Air Sourced Heat Pumps, a significant disruption or termination of supply could delay sales or increase costs which could result in material adverse effect on our financial condition, results of operation and cash flows.

*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 and evolving 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.

#### Business, Operational, and Strategic Risks:

*A material loss, cancellation, reduction or delay in purchases by one or more of our largest customers could harm our business*

Sales to our five largest customers represented approximately 23 percent of our sales in 2022. We expect that our customer concentration will continue for the foreseeable future. Our concentration of sales to a relatively small number of customers makes our relationships with each of these customers important to our business. We cannot assure that we will be able to retain our largest customers. Some of our customers may shift their purchases to competitors in the future. Further, a customer may be acquired by a customer of a competitor which could result in our loss of that customer. The loss of one or more of our largest customers, any material reduction or delay in sales to these customers, or our inability to successfully develop relationships with additional customers could have a material adverse effect on our financial position, results of operations and cash flows.

# Lochinvar Limited

## Strategic Report (continued) For the Year Ended 31 December 2022

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### Principal Risks and Uncertainties (continued):

*An inability to adequately maintain our information systems and their security, as well as to protect data and other confidential information, could adversely affect our business and reputation*

In the ordinary course of business, we utilize information systems for day-to-day operations, to collect and store sensitive data and information, including our own proprietary and regulated business information and personally identifiable information of our customers, suppliers and business partners, as well as personally identifiable information about our employees. Our information systems are susceptible to outage due to system failure, cybersecurity threats, failures on the part of third-party information system providers, natural disasters, power loss, telecommunication failures, viruses, fraud, theft, malicious acts or breaches of security. Like many companies, we, and some third parties upon which we rely, have experienced cybersecurity incidents and attacks on information technology networks and systems, products and services in the past but, to date, none have resulted in a material breach or had a material impact on our financial condition, results of operation, or cash-flows. We may experience them in the future, potentially with increasing frequency from increasingly sophisticated cyber threats. In addition, as a result of the COVID-19 pandemic, remote work and remote access to our systems have increased, which may heighten these risks. A successful attack in the future could result in operations failure or breach of security that could lead to disruptions of our business activities, the loss or disclosure of both our and our customers' financial, product and other confidential information and could result in regulatory actions, litigation and have a material adverse effect on our financial condition, results of operation and cash flows and our reputation. We have a response plan in place in the event of a data breach and we have an active programme to maintain and improve data security and address these risks and uncertainties by implementing and improving internal controls, security technologies, insurance programmes, network and data centre resiliency and recovery processes.

*Our business may be adversely impacted by product defects*

Product defects can occur through our own product development, design and manufacturing processes or through our reliance on third parties for product design and manufacturing activities. We may incur various expenses related to product defects, including product warranty costs, product liability and recall or retrofit costs. Whilst we maintain a reserve 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 reserves 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.

# Lochinvar Limited

## Strategic Report (continued) For the Year Ended 31 December 2022

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### Principal Risks and Uncertainties (continued):

#### Regulatory Risk:

*Changes in regulations or standards, such as those associated with climate change, could adversely affect our business*

Our products are subject to a wide variety of statutory, regulatory and industry standards and requirements to, among other items, energy, environmental emissions, labelling and safety. We believe our products are currently efficient, safe and environment-friendly. However, the UK government is adopting laws, regulations and codes in response to climate change that require a transition to non-fossil fuel 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 energy sources as a replacement for gas, or a significant shift in industry standards, could substantially increase costs, capital expenditures and transportation 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 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.

# Lochinvar Limited

## Strategic Report (continued) For the Year Ended 31 December 2022

### Other key performance indicators

	Year ended 31st December		
	2022	2021	2020
Turnover	£15,483,443	£14,362,349	£11,779,320
Cost of sales	-£8,958,543	-£8,581,910	-£6,916,420
Gross profit	£6,524,900	£5,780,439	£4,862,900
Selling, general and administrative	-£4,670,766	-£3,904,269	-£3,785,150
Other operating income	£0	£0	£72,335
Operating profit	£1,854,134	£1,876,170	£1,150,085
Interest receivable and similar income	£752	£111	£0
Profit before tax	£1,854,886	£1,876,281	£1,150,085
Tax on profit	-£351,090	-£346,139	-£223,354
Profit on total comprehensive income for the financial year	£1,503,796	£1,530,142	£926,731

Our sales in 2022 were £15,483,443, £1,121,094 or 7.8% higher than 2021 sales of £14,362,349. Compared to 2021, our sales increase in 2022 was driven by higher Integrated Renewable Solution volumes and inflation related pricing actions.

Our gross profit margin in 2022 of 42.1% increased compared to 40.2% in 2021. The higher gross margin in 2022 was primarily due to selling price increases levied to counter higher material and transport costs.

Selling, general and administrative (SG&A) expenses were £4,670,766 in 2022, £766,497 or 19.63% higher than 2021. The increase in SG&A expense in 2022 was primarily due to higher wages and salaries as we increased headcount in line with the turnover growth and costs associated with the move to larger premises completed in June 2022.

Turnover growth was a result of greater market acceptance of our integrated renewable solutions, which includes our Amicus range of Air Sourced Heat Pumps, with 2022 sales rising to £2,801,784, £909,099 or 48% higher than 2021 sales of £1,892,685.

This report was approved by the board on *September 26, 2023* and signed on its behalf.



**C T Lauber**  
Director



# Lochinvar Limited

## Directors' Report For the Year Ended 31 December 2022

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The directors present their report and the financial statements for the year ended 31 December 2022.

### Principal activity

Lochinvar designs, manufactures and distributes a large range of gas-fired Water Heaters and Boilers, and complementary equipment including indirect and direct storage vessels, electric Water Heaters and a wide range of Integrated Renewable Solutions to the UK Commercial Sector. Our route to market is via specification and specialist distributors or trade contractors place orders for equipment.

### Results and dividends

The profit for the year, after taxation, amounted to £1,503,796 (2021 - £1,530,142).

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 2022 when product shortages were at their worst.

Due to our strong cash position, we have been able to react to supply issues and product shortages quickly and have increased stock purchases and safety stock levels for all of our main product ranges. To protect our rapidly growing Heat Pump business and to counter the current extended lead times from our supplier, we have placed stock orders in excess of £500k and can now offer ex-stock availability on a number of models, which we believe will provide us with a major competitive advantage.

### 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 continuing hostilities in 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 hostilities to directly have a material and adverse effect on our financial condition or results of operation.

### 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.

## Lochinvar Limited

Directors' Report (continued)  
For the Year Ended 31 December 2022

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### 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 *September 26, 2023* and signed on its behalf.



C. T. Lauber  
Director

# **Lochinvar Limited**

## **Directors' Responsibilities Statement For the Year Ended 31 December 2022**

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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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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.

# Lochinvar Limited

## Independent Auditor's Report to the Members of Lochinvar Limited

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### 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 2022 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 2022 which comprise the statement of comprehensive income, the statement of financial position, the 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 Ireland (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

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

# Lochinvar Limited

## Independent Auditor's Report to the Members of Lochinvar Limited (continued)

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### Other information: (continued)

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 have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified 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 Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

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

### *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:

# Lochinvar Limited

## Independent Auditor's Report to the Members of Lochinvar Limited (continued)

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### **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 framework 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 the 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 inappropriate 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.

# Lochinvar Limited

## Independent Auditor's Report to the Members of Lochinvar Limited (continued)

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### 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*

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

Date: 27 September 2023

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 2022

	Note	2022 £	2021 £
Turnover	4	15,483,443	14,362,349
Cost of sales		(8,958,543)	(8,581,910)
<b>Gross profit</b>		<b>6,524,900</b>	<b>5,780,439</b>
Administrative expenses		(4,670,766)	(3,904,269)
<b>Operating profit</b>	5	<b>1,854,134</b>	<b>1,876,170</b>
Interest receivable and similar income		752	111
<b>Profit before tax</b>		<b>1,854,886</b>	<b>1,876,281</b>
Tax on profit	8	(351,090)	(346,139)
<b>Profit and total comprehensive income for the financial year</b>		<b>1,503,796</b>	<b>1,530,142</b>

The results stated above are derived from continuing activities.

The notes on pages 16 to 27 form part of these financial statements.



**Lochinvar Limited**  
Registered number: 03453820

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

	Note	2022 £	2022 £	2021 £	2021 £
<b>Fixed assets</b>					
Tangible assets	10		387,167		122,986
			<u>387,167</u>		<u>122,986</u>
<b>Current assets</b>					
Stocks	11	2,195,758		1,682,766	
Debtors: amounts falling due within one year	12	3,408,577		2,471,742	
Cash at bank and in hand		3,747,299		3,387,411	
		<u>9,351,634</u>		<u>7,541,919</u>	
Creditors: amounts falling due within one year	13	(4,227,064)		(3,695,600)	
<b>Net current assets</b>			<u>5,124,570</u>		<u>3,846,319</u>
<b>Total assets less current liabilities</b>			<u>5,511,737</u>		<u>3,969,305</u>
<b>Provisions for liabilities</b>					
Deferred tax	14		(65,848)		(27,212)
<b>Net assets</b>			<u>5,445,889</u>		<u>3,942,093</u>
<b>Capital and reserves</b>					
Called up share capital	16		400,002		400,002
Profit and loss account	17		5,045,887		3,542,091
<b>Total equity</b>			<u>5,445,889</u>		<u>3,942,093</u>

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

  
C T Lauber  
Director

Date: *September 26, 2023*

The notes on pages 16 to 27 form part of these financial statements.

# Lochinvar Limited

## Statement of Changes in Equity For the Year Ended 31 December 2022

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2022	400,002	3,542,091	3,942,093
<b>Comprehensive income for the year</b>			
Profit for the year	-	1,503,796	1,503,796
<b>Total comprehensive income for the year</b>	-	1,503,796	1,503,796
<b>At 31 December 2022</b>	<b>400,002</b>	<b>5,045,887</b>	<b>5,445,889</b>

## 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
<b>Comprehensive income for the year</b>			
Profit for the year	-	1,530,142	1,530,142
<b>Total comprehensive income for the year</b>	-	1,530,142	1,530,142
Dividends: equity capital	-	(1,100,000)	(1,100,000)
<b>At 31 December 2021</b>	<b>400,002</b>	<b>3,542,091</b>	<b>3,942,093</b>

The notes on pages 16 to 27 form part of these financial statements.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

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### 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 ).

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; and
- 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 2022 and these financial statements may be obtained from PO Box 245008, Milwaukee, Wisconsin, 53224, USA.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

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### 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 short-term economic downturn is set to be shorter and shallower than originally forecast. Whilst the economy still faces headwinds, wholesale gas prices have more than halved over the past six months and inflation having peaked at 11.1% in October 2022 is now expected to fall sharply to 2.9% by the end of 2023.

As far as the construction sector is concerned, Construction buyers have reported a sudden growth spurt in February after two months on decline raising hopes the worst of the economy's storms have passed. The reported surge was the strongest since May 2022, supported by a big rebound in commercial work and steady growth in civil engineering activity. Confidence for the year ahead was also lifted by the lowest supplier delays for two years and a welcome slowdown in input cost inflation. In line with the improving outlook for the construction sector, our growing Air Sourced Heat Pump offering and our increased free stock availability of all of our mainstream product ranges, the directors are confident that our 2023 sales forecast is achievable, given the growth seen in 2022, which was achieved in the face of some very strong headwinds.

We continue to take precautionary measures to reduce the risk of bad debts, including reducing the available credit limits for all susceptible trade, leisure and retail sector companies. Credit checks are performed for all orders and credit limits are set below those recommended by the Credit Agency. To help limit the risk of potential bad debts from the contractor/trade sector, we continue to channel more opportunities via the main Plumbing & Heating Merchants within the UK. As our business evolves and we win larger Heat Pump opportunities from the contractor/trade sector, we have now started to utilise credit insurance to provide additional security.

Supply Chain issues and product shortages remain the largest risk to the company and can impact our ability to meet our financial plan, however, given the disruption seen in 2022, we have taken constructive action to counter this risk by greatly increasing our stock levels of all our main Water Heater and Boiler ranges. In addition we have significantly increased the size of stock orders for Air Sourced Heat Pumps and are now able to offer next day availability on a number of Heat Pumps for the first time, which will greatly improve our competitive position, given the industry wide lack of ex-stock availability due to the recent surge in demand for Heat Pumps throughout Europe.

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.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

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### 2. Accounting policies (continued)

#### 2.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

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.

#### 2.7 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.

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.

#### 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.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

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### 2. Accounting policies (continued)

#### 2.11 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.

#### 2.12 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.

#### 2.13 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.

#### 2.14 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.

#### 2.15 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.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

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### 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.

(iii) Stocks (see note 11)

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 12)

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 13)

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.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

### 4. Turnover

Analysis of turnover by country of destination:

	2022 £	2021 £
United Kingdom	14,900,082	13,858,658
Rest of the world	583,361	503,691
	<u>15,483,443</u>	<u>14,362,349</u>

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

### 5. Operating profit

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

	2022 £	2021 £
Depreciation of tangible fixed assets	59,983	38,229
Exchange differences	100,273	(17,988)
Other operating lease rentals	62,137	63,650
Auditor's remuneration - audit services	47,500	34,650
Auditor's remuneration - non audit services	10,600	9,350
One-off relocation expenses	<u>185,712</u>	<u>-</u>

The one-off relocation expenses relate to expenses incurred in the relocation from Unit 7 to the new Unit 8.

### 6. Employees

The average monthly number of employees, including directors, during the year was 47 (2021 - 44).

Staff costs were as follows:

	2022 £	2021 £
Wages and salaries	2,322,449	2,235,683
Social security costs	270,486	242,183
Cost of defined contribution scheme	86,685	81,400
	<u>2,679,620</u>	<u>2,559,266</u>



# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

### 7. 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 (2021 - none).

### 8. Taxation

	2022 £	2021 £
<b>Corporation tax</b>		
Current tax on profits for the year	312,454	316,081
<b>Total current tax</b>	<b>312,454</b>	<b>316,081</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	29,363	26,211
Effect of tax rate change on opening balance	9,273	3,847
<b>Total deferred tax</b>	<b>38,636</b>	<b>30,058</b>
<b>Taxation on profit on ordinary activities</b>	<b>351,090</b>	<b>346,139</b>

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

### 8. Taxation (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is lower than (2021 - lower than) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 £	2021 £
Profit on ordinary activities before tax	<u>1,854,886</u>	<u>1,876,281</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	352,428	356,493
Effects of:		
Fixed asset differences	(10,618)	508
Expenses not deductible for tax purposes	7	4,900
Adjustments to tax charge in respect of prior period	-	(22,292)
Adjustments to tax charge in respect of prior period - deferred tax	-	6,530
Remeasurement of deferred tax for changes in tax rates	9,273	-
<b>Total tax charge for the year</b>	<u><b>351,090</b></u>	<u><b>346,139</b></u>

#### Factors that may affect future tax charges

The Finance Act 2022 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.

### 9. Dividends

	2022 £	2021 £
Dividends	<u>-</u>	<u>1,100,000</u>

There was an interim dividend paid of £Nil per share (2021 - £2.75)

## Lochinvar Limited

Notes to the Financial Statements  
For the Year Ended 31 December 2022

### 10. Tangible fixed assets

	Computer equipment £	Plant and machinery £	Motor vehicles £	Fixtures, fitting & equipment £	Leasehold property £	Total £
<b>Cost</b>						
At 1 January 2022	98,700	144,768	82,030	121,167	209,764	656,429
Additions	92,897	52,715	-	54,196	124,356	324,164
Disposals	(35,454)	(28,911)	-	(97,938)	(97,238)	(259,541)
Transfers	-	(168,572)	-	(77,425)	245,997	-
At 31 December 2022	156,143	-	82,030	-	482,879	721,052
<b>Depreciation</b>						
At 1 January 2022	98,700	110,502	29,010	119,608	175,623	533,443
Charge for the year	10,270	12,100	13,255	7,644	16,714	59,983
Disposals	(35,454)	(28,911)	-	(97,938)	(97,238)	(259,541)
Transfers	-	(93,691)	-	(29,314)	123,005	-
At 31 December 2022	73,516	-	42,265	-	218,104	333,885
<b>Net book value</b>						
At 31 December 2022	82,627	-	39,765	-	264,775	387,167
At 31 December 2021	-	34,266	53,020	1,559	34,141	122,986

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

### 11. Stocks

	2022 £	2021 £
Finished goods and goods for resale	<u>2,195,758</u>	<u>1,682,766</u>

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

### 12. Debtors: amounts falling due within one year

	2022 £	2021 £
Trade debtors	2,998,736	2,339,235
Other debtors	405,698	-
Prepayments and accrued income	4,143	132,507
	<u>3,408,577</u>	<u>2,471,742</u>

The impairment loss recognised in the profit for the year in respect of bad and doubtful trade debtors was £64,000 (2021 - £61,464).

### 13. Creditors: amounts falling due within one year

	2022 £	2021 £
Trade creditors	781,966	425,100
Amounts owed to group undertakings	1,951,931	2,051,524
Corporation tax	1,532	27,517
Other taxation and social security	619,344	331,299
Other creditors	300,942	120,468
Accruals and deferred income	571,349	739,692
	<u>4,227,064</u>	<u>3,695,600</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

### 14. Deferred taxation

	2022 £
At beginning of year	27,212
Charged to profit or loss	38,636
<b>At end of year</b>	<b>65,848</b>

The provision for deferred taxation is made up as follows:

	2022 £	2021 £
Accelerated capital allowances	66,340	27,212
Short term timing differences	(492)	-

### 15. 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 £86,685 (2021 - £81,400). Contributions amounting to £1,967 (2021 - £Nil) were payable to the fund and are included in creditors.

### 16. Share capital

	2022 £	2021 £
400,002 ordinary shares of £1 each	400,002	400,002

### 17. 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.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2022

### 18. Commitments under operating leases

At 31 December 2022 the company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2022 £	2021 £
Not later than 1 year	217,700	192,485
Later than 1 year and not later than 5 years	800,311	812,294
Later than 5 years	1,886,273	2,082,046
	<u>2,904,284</u>	<u>3,086,825</u>

### 19. 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.

### 20. 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.