Wärtsilä Danmark A/S
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Wärtsilä Danmark A/S

Annual report 2019

The annual report was presented and approved at the Company's annual general meeting

on 10 June 2020

chairman

CVR no. 14 28 17 46

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Wärtsilä Danmark A/S for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Nørresundby, 10 June 2020

Executive Board:

Morten Brandborg

Board of Directors:

Bernd Bertram Chairman	Hans Petter Nesse	Morten Brandborg
Thomas Blake Cocks	John Schel Klausen	

Independent Auditor's Report

To the Shareholders of Wärtsilä Danmark A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Wärtsilä Danmark A/S at 31 December 2019, and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Wärtsilä Danmark A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has 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 and the additional requirements applicable in Denmark 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.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aalborg, 10 June 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Michael Nielsson

Michael Nielsson
State Authorised Public Accountant
mne15151

Management's review

Company details

Wärtsilä Danmark A/S
Kystvejen 100
DK-9400 Nørresundby

Telephone:	+45 99 56 99 56
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Website:	www.wartsila.dk
E-mail:	dkinfo@wartsila.com
CVR no.:	14 28 17 46
Established:	2 July 1990
Registered office:	Aalborg
Financial year:	1 January – 31 December

Board of Directors

Bernd Bertram (Chairman)
Hans Petter Nesse
Morten Brandborg
Thomas Blake Cocks
John Schel Klausen

Executive Board

Morten Brandborg

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Skelagervej 1A
DK-9000 Aalborg

Management's review

Financial highlights

DKK'000	2019**	2018*	2017	2016	2015
Key figures					
Revenue	301,951	290,380	289,465	287,838	361,948
Gross profit	82,291	76,388	72,349	71,620	72,541
Ordinary operating profit	13,088	8,216	9,142	7,827	9,753
Profit/loss from financial income and expenses	-475	299	-588	-209	945
Profit before tax	12,613	8,515	8,554	7,618	10,698
Profit for the year	12,185	8,895	8,452	7,712	9,992
Non-current assets	10,658	1,814	1,827	2,339	2,138
Investment in property, plant and equipment	13,408	794	248	916	58
Current assets	132,648	117,923	122,196	96,217	124,049
Total assets	143,306	119,737	124,020	98,556	126,187
Share capital	500	500	500	500	500
Equity	30,687	27,502	20,404	19,952	22,240
Provisions	73	3,936	19,130	16,249	13,431
Current liabilities other than provisions	103,620	88,299	89,759	64,712	90,516
Operating margin	4.3%	2.8%	3.2%	2.7%	2.7%
Return on invested capital	10.0%	6.8%	8.3%	7.0%	6.5%
Gross margin	27.3%	26.3%	25.0%	24.9%	20.0%
Current ratio	125.4%	133.6%	136.1%	148.7%	137.0%
Solvency ratio	21.4%	23.0%	16.5%	20.7%	17.6%
Return on equity	41.9%	37.1%	41.9%	36.6%	57.9%
Average number of full-time employees	77	75	74	75	76

*Comparative figures for 2015-2017 have not been restated in accordance with the Company's changed accounting policies on recognition of income
**Comparative figures for 2015-2018 have not been restated in accordance with the Company's changed accounting policies on leasing

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations & Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Operating margin $$\frac{\text{Operating profit/loss x 100}}{\text{Revenue}}$$

Return on invested capital $$\frac{\text{Operating profit/loss x 100}}{\text{Average invested capital}}$$

Gross margin $$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$$

Current ratio $$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$$

Solvency ratio $$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at year end}}$$

Return on equity $$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$$

Management's review

Operating review

Principal activities of the Company

Wärtsilä Corporation

Wärtsilä is a global leader in complete lifecycle power solutions for the marine and energy markets. By emphasising technological innovation and total efficiency, Wärtsilä maximizes the environmental and economic performance of vessels and power plant across the world.

In 2019, Wärtsilä's net sales totalled EUR 5,170 million. The Company employs 18,795 people at operations around the world. The Wärtsilä Corporation is headquartered in Helsinki, Finland and is listed on the NASDAQ OMX Helsinki, Finland.

The Wärtsilä Group's main activities include Marine Solutions, Energy Solutions and Services. Wärtsilä delivers turnkey engine room solutions as well as shafts, propellers and control systems for both commercial vessels in the merchant fleet as well as for offshore units, including both mobile and stationary units.

The Wärtsilä Group delivers power plant for decentralised energy production, which includes both electricity as well as heating depending on customer demand. The Wärtsilä facilities are able to produce within a range from a few hundred kW up to several hundred mW, either as turnkey projects or component delivery of natural gas, diesel oil, heavy oil or a mixture thereof as fuel.

Wärtsilä Danmark A/S

The main activities of Wärtsilä Danmark A/S, owned by Wärtsilä Corporation, are sale and service of a comprehensive portfolio of products and solutions for the maritime industry, the offshore industry, and the power plant market. Field Service activities are performed on-site, either by field service engineers employed by Wärtsilä Danmark A/S or by other world-wide Wärtsilä service entities.

Wärtsilä Danmark A/S makes use of the global Wärtsilä network of workshop and competence centres for machining, re-conditioning, calibration and programming jobs when required as part of specific service jobs.

Wärtsilä Danmark A/S takes advantage of modern and well-functioning inventory of spare parts available 24x7x365 via the global consolidation and logistic centres, ensuring prompt delivery of spare parts globally.

Wärtsilä Danmark A/S' head office is located at Kystvejen 100 in Nørresundby with approximately 66 employees and an office in Copenhagen with 11 employees, bringing the total number of employees to 77.

Wärtsilä Lyngsø Marine A/S located in Hørsholm, Wärtsilä Puregas Solution A/S located in Kolding and Wärtsilä Danmark A/S are all separate companies.

Management's review

Operating review

Development in activities and financial position

Operating results (EBIT) came in at DKK 13,088 thousand as against DKK 8,216 thousand in 2018.

The Board of Directors is of the opinion that the Company's ability to report positive normalised results is satisfactory, and results increased more than expected last year due to higher net sales.

The balance sheet total amounts to DKK 143,306 thousand, of which equity accounted for DKK 30,687 thousand corresponding to a solvency ratio of 21.4%. Wärtsilä Danmark A/S holds sufficient liquidity to carry out its activities and operations based on the 2019 budget.

Profit/loss for the year and the balance sheet total are affected by the fact that the Company has changed its interpretation of leases to which the Company is the lessee from IAS 17 to IFRS 16.

In the income statement, EBITDA and EBIT for 2019 are affected, whereas profit/loss for the year remains substantially unchanged. This is due to the depreciation of the right-of-use assets and interest expenses from the lease liability being substantially equal to operating lease costs previously recognised in the income statement.

EBITDA was affected by DKK 3,278 thousand and EBIT by DKK 217 thousand. In 2019, the effect on the Company's liabilities represented DKK 9,626 thousand.

Omission of restatement of comparative figures

The comparative figures for 2015–2018 have not been restated. The comparative figures for these years have been stated in accordance with IAS 17.

Outlook for 2020

Wärtsilä Danmark A/S is expecting a stable business for 2020. The launch of new services will be an opportunity to expand the customer reach and to create a sustainable business in an overall volatile business environment.

Events after the balance sheet date

For Wärtsilä Danmark A/S, the financial impact of the COVID-19 situation has turned out not to be significant for the first five months of year 2020. Order intake has continued on a satisfactory level and thereby no governmental supporting packages have been necessary. Wärtsilä Danmark A/S is unaware of the impact for the remaining part of year 2020 of the Corona situation, and therefore expected results for 2020 cannot be estimated. See note 16.

Management's review

Operating review

Particular risks

Financial risks

The activities of Wärtsilä Danmark A/S involve the use of financial instruments for trade receivables and payables both in Danish kroner and foreign currencies as well as balances with group entities, credit institutions and banks. It is company policy not to engage actively in speculation in financial risks. Wärtsilä Danmark A/S financial management solely aims at managing financial risks already assumed.

Currency risks

Wärtsilä Danmark A/S occasionally hedges currency risks while taking projected future cash flows into consideration. Any hedging is made via forward exchange contracts. Currency transactions are not entered into for speculative purposes. No hedges were used for 2019.

International sales activities are primarily settled in DKK, EUR and USD. Suppliers are primarily paid in DKK, EUR and USD. Foreign exchange fluctuations are deemed not to significantly affect Wärtsilä Danmark A/S' results.

Credit risks

Wärtsilä Danmark A/S strives to limit credit risks by means of effective credit management or credit insurance or alternative collateral, when deemed necessary. As part of Group agreement, the Company has transferred receivables to factoring company.

IT risks

Wärtsilä Danmark A/S is to comply with the IT policy of Wärtsilä Group. The interrelationship to Wärtsilä Group in relation to SAP, email, internet and intranet is run via a closed network.

Environment

Wärtsilä Danmark A/S has maintained its certifications at Det Norske Veritas (DNV Managing Risk) according to DS/EN ISO 14001 (environment) as well DS/EN OHSAS 18001 (working environment).

Management's review

Operating review

Intellectual capital and organisation

Employees and their insight as well as knowledge are important resources to Wärtsilä Danmark A/S. Committed and qualified employees are vital to the further development of Wärtsilä Danmark A/S. Consequently, development, education and empowerment are given a high priority. Wärtsilä Danmark A/S constantly strives to attract and retain current and new employees.

Quality

Wärtsilä Danmark A/S has maintained its certifications at Det Norske Veritas (DNV Managing Risk) to DS/EN ISO 9001 (quality).

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2019	2018
Revenue		301,951	290,380
Other operating income		9,205	8,264
External costs		-228,865	-222,256
Gross profit		82,291	76,388
Staff costs	2	-65,198	-67,365
Depreciation of non-current assets		-4,005	-807
Ordinary operating profit		13,088	8,216
Financial income	3	99	846
Financial expenses	4	-574	-547
Profit before tax		12,613	8,515
Tax on profit for the year	5	-428	380
Profit for the year	6	12,185	8,895

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2019	2018
ASSETS			
Non-current assets			
Plant and equipment	7		
Buildings		7,589	0
Plant and machinery		0	0
Fixtures and fittings, tools and equipment		2,908	1,138
Leasehold improvements		161	676
		10,658	1,814
Total non-current assets		10,658	1,814
Current assets			
Inventories			
Raw materials and consumables		1,603	2,222
Prepayments for goods		3,457	2,491
		5,060	4,713
Receivables			
Trade receivables	8	52,630	52,387
Contract work in progress		22,416	10,213
Amounts owed by group entities		21,199	19,846
Other receivables		10,022	3,644
Prepayments	9	1,383	1,401
Tax receivables		1,335	397
Deferred tax asset	10	2,092	1,951
		111,077	89,839
Cash at bank and in hand		16,511	23,371
Total current assets		132,648	117,923
TOTAL ASSETS		143,306	119,737

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2019	2018
EQUITY AND LIABILTIES			
Equity			
Share capital	11	500	500
Retained earnings		18,187	18,002
Proposed dividends for the financial year		12,000	9,000
Total equity		30,687	27,502
Provisions	12		
Other provisions		73	3,936
Total provisions		73	3,936
Liabilities other than provisions			
Non-current liabilities other than provisions	13		
Lease obligations		6,725	0
Other payables		2,201	0
Total non-current liabilities other than provisions		8,926	0
Current liabilities other than provisions			
Leasing obligations		2,901	0
Debt to credit institutions		22,861	14,060
Trade payables		3,523	2,609
Amounts owed to group entities		51,242	42,090
Other payables		9,084	18,776
Accrued income		2,234	0
Prepayments received from customers		11,775	10,764
		103,620	88,299
Total liabilities other than provisions		112,546	88,299
TOTAL EQUITY AND LIABILITIES		143,306	119,737
Contractual obligations, contingencies, etc.	14		
Related party disclosures and ownership	15		
Events after the balance sheet date	16		

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Proposed divi-dends	Total
Equity at 1 January 2019	500	18,002	9,000	27,502
Distributed dividends	0	0	-9,000	-9,000
Profit for the year	0	185	12,000	12,185
Equity at 31 December 2019	500	18,187	12,000	30,687

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Wärtsilä Danmark A/S for 2019 has been presented in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

Changes in accounting policies

With effect from 1 January 2019, the Company has chosen to use IFRS 16 Leases as the basis of interpretation for recognising and measurement of leases to which the Company is the lessee.

Consequently, with effect from 1 January 2019, the Company recognises all finance and operating leases in the balance sheet as a right-of-use asset and a lease liability except from:

- Short-term leases with a maximum lease term of 12 months
- Leases for low-value assets.

For such leases, lease payments are recognised on a straight-line basis in the income statement over the lease term.

When changing its basis of interpretation, the Company has used the lessee accounting model under IFRS 16 from 1 January 2019 without the restatement of comparative figures. The Company has applied the following practical expedients for right-of-use assets and lease liabilities previously accounted for as operating leases:

- Applied a single discount rate to a portfolio of leased assets with reasonably similar characteristics.
- Not recognised leases for which the lease term ends within 12 months from the date of transition.
- Excluded initial direct costs from the measurement of the right-use-assets at 1 January 2019.
- At 1 January 2019, the right-of-use asset is measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments.
- Not applied the new lease definition to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.
- On 1 January 2019, not separated non-lease components from lease components, but considered them a single lease component.

The effect of this change in accounting policies is as follows:

- At 31 December 2019, capitalised lease assets were valued at DKK 9,601 thousand.
- At 31 December 2019, a recognised lease obligation was valued at DKK 9,626 thousand.
- During the financial year, DKK 3,184 thousand was expensed regarding depreciation of the lease agreements.
- Throughout the financial year, DKK 60 thousand was expensed regarding interest on lease agreements.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Apart from the above, the accounting policies used in preparation of the financial statements are consistent with those applied last year.

Cash flow

Pursuant to Section 86 (4) of the Danish Financial Statements Act, a cash flow statement has not been prepared.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have taken place and provided that the income can be reliably measured and is expected to be received.

Sale of services are recognised in the income statement after completion due to uncertainties related to estimation of sales value.

A contract is broken down by individual transactions when the fair value of the individual sales transactions may be reliably measured, and the individual sales transactions are of separate value to the buyer. Sales transactions are deemed to be of a separate value to the buyer when the transaction is individually identifiable and usually sold individually. The contract price is broken down by the individual sales transactions in accordance with the relative current cost method.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

The separate sales transactions are recognised as revenue when complying with the criteria applying to the sale of goods and services.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Construction contracts under which highly customised products are delivered are recognised as revenue by reference to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (the percentage-of-completion method). When the income from a construction contract cannot be estimated reliably, revenue is recognised only corresponding to costs incurred to the extent that it is probable that they will recovered.

Other operating income

Other operating income comprises items secondary to the activities of the Company, including gains on disposal of plant and equipment.

External costs

External costs comprise costs related to distribution, sales, advertising, administration, lease expenses, bad debts, etc.

Staff costs

Staff costs comprise salaries and wages, including holiday allowance, pension and other social security costs, etc. to the Company's employees.

Financial income and expenses

Financial income and expenses comprises interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Tax on profit/loss for the year

Wärtsilä Danmark A/S is jointly taxed with its Danish affiliated entities. Current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income (full absorption with refunds for tax losses). The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current tax for the year and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Plant and equipment

Plant and machinery, fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, energy consumption, staff and depreciation of machinery used.

Where individual components of an item of plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life.

The estimated useful lives are as follows:

Plant and machinery	5-10 years
Fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	5 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Accounting policies for leased assets and lease liabilities

When entering into a contract, the Company assesses whether the contract is a lease or contains a lease component. A lease is defined as a contract or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When an assessing whether a contract contains a lease component, it must be considered whether, during the period of use, the lessee has the right to substantially all economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

The Company recognises a right-of-use asset and a lease liability at the commencement date.

The Company leases cars including a service component in the payments to the lessor. This service is separated from the lease payment when measuring the lease liability. If the Company is unable to reliably separate lease components and non-lease components, it is considered a single lease component.

Lease liabilities recognised as "Credit institutions and interest-bearing liabilities" are initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

The lease payments consist of fixed and variable lease payments that depend on an index or a rate, guaranteed residual values, purchase options and extension options if the Company is reasonably certain to exercise the option and termination penalties if the lease term reflects the Company exercising an option to terminate the lease. The lease liability is subsequently adjusted as follows if:

- The value of the index or rate on which the lease payments are based is changed.
- The exercise of options is changed in order to extend or terminate the lease due to significant events or a significant change in circumstances within the Company's control.
- The lease term is changed if the option is exercised in order to extend or terminate the lease.
- Estimated residual value guarantee is changed.
- The contract is renegotiated or modified.

Any subsequent adjustment of the future lease liability is recognised as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is DKK 0, a negative adjustment to the right-of-use asset is, however, recognised in the income statement.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

The right-of-use asset is initially measured at cost comprising amount of initial measurement of the lease liability plus any initial direct costs and any estimated costs of dismantling and removal of the asset at the end of the lease term which the Company is under an obligation to incur and any prepaid lease payments and less any lease incentives received.

The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the right-of-use asset.

Short-term leases with a maximum lease term of 12 months and leases for low-value assets are not recognised in the balance sheet.

Impairment of non-current assets

The carrying amount of plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or group of assets after the end of the useful life.

Inventories

Inventories are measured at cost in accordance with the weighted average costing method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made based on an individual assessment.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of projected cash flows, including realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Contract work in progress

Construction contracts are measured at the selling price of the work performed. The selling price is measured by reference to the stage of completion at the balance sheet date and total expected income from the contract.

When the selling price of a construction contract cannot be measured reliably, the selling price is measured at the lower of costs incurred and net realisable value.

Individual construction contracts are recognised in the balance sheet under either receivables or payables. Net assets are determined as the sum of construction contracts where the selling price of the work performed exceeds progress billings. Net liabilities are determined as the sum of construction contracts where progress billings exceeds the selling price.

Prepayments from customers are recognised under liabilities.

Selling costs and costs incurred in securing contracts are recognised in the income statement when incurred.

Prepayments, assets

Prepayments comprise costs incurred concerning subsequent financial years.

Equity - dividends

The expected dividend payment for the year is disclosed as a separate item under equity.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Provisions

Provisions comprise anticipated costs related to warranties, onerous contracts etc. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at net realisable value or fair value if the obligation is expected to be settled in the distant future.

Warranties comprise obligations to make good any defects within the warranty period. Provisions for warranties are measured and recognised on the basis of past experience.

If it is likely that total costs will exceed total income from contract work in progress and service contracts, a provision is made for the total loss anticipated on the contract. The provision is recognised as costs in the income statement.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Corporation tax and deferred tax

In its capacity as the administrative company, Wärtsilä Danmark A/S is liable to the tax authorities for its Danish group entities' corporation taxes as well as the payment of join taxation contribution by the group entities.

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where different tax rules can be applied to determine the tax base, deferred tax is measured based on Management's planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised at the expected value of their; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Financial statements 1 January – 31 December

Notes

DKK'000	2019	2018
2 Staff costs		
Wages and salaries	54,895	57,097
Pensions	7,274	7,506
Other social security costs	2,646	2,325
Other staff costs	383	437
	65,198	67,365
Average number of employees	77	75

Remuneration of the Company's Management and Board of Directors is not disclosed pursuant to section 98b(3)(ii) of the Danish Financial Statements Act.

	2019	2018
3 Financial income		
Interest income from group entities	14	45
Other financial income	85	801
	99	846
4 Financial expenses		
Interest expense to group entities	23	4
Other financial expenses	551	543
	574	547
5 Tax on profit for the year		
Tax on profit for the year	428	-380
Specified as follow		
Current tax for the year	568	25
Adjustment of deferred tax	-141	2,125
Adjustment of tax from prior years	1	-498
	428	1,652
Adjustments of deferred tax related to IFRS 15 equity adjustment	0	-2,032
	428	-380

Financial statements 1 January – 31 December

Notes

DKK'000	2019	2018
6 Proposed profit appropriation		
Distributed dividends	12,000	9,000
Retained earnings	185	-105
	12,185	8,895

7 Plant and equipment

DKK'000	Buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Leasehold improve-ments	Total
Cost at 1 January 2019	0	85	6,027	2,576	8,688
IFRS 16	9,486	0	3,857	0	13,343
Additions during the year	0	0	65	0	65
Disposals during the year	0	0	-741	0	-741
Cost at 31 December 2019	9,486	85	9,208	2,576	21,355
Impairment losses and depreciation at 1 January 2019	0	85	4,889	1,900	6,874
Depreciation	1,897	0	1,594	515	4,006
Disposals	0	0	-183	0	-183
Impairment losses and depreciation at 31 December 2019	1,897	85	6,300	2,415	10,697
Carrying amount at 31 December 2019	7,589	0	2,908	161	10,658
Hereof capitalised under IFRS 16	7,589	0	2,012	0	9,601

8 Trade receivables

As part of Group agreement, the Company had transferred receivables to factoring company at an amount of DKK 22.9 million at 31 December 2019 (2018: DKK 14.1 million). As Wärtsilä Danmark A/S bears the risk if customers default on the debt, trade receivables are presented including those transferred to factoring.

Financial statements 1 January – 31 December

Notes

DKK'000		2019	2018
9	**Prepayments**		
	Prepaid rent	1,245	1,284
	Prepaid insurance	138	117
		1,383	1,401
10	**Deferred tax asset**		
	Deferred tax at 1 January	1,951	4,076
	Deferred tax adjustment (expense)	0	-93
	Deferred tax adjustment through equity	141	-2,032
	Deferred tax at 31 December	2,092	1,951
	Deferred tax relates to :		
	Intangible assets	9	9
	Plant and equipment	871	1,076
	Provisions	1,212	866
		2,092	1,951

Deferred tax asset related to tax losses amounts to DKK 4.1 million. Based on uncertainty related to future projected earnings for the coming years and the inability to use the tax losses in the joint taxation, Management has considered it fair not to recognise the asset.

11 **Share capital**

The Company's share capital totals DKK 500 thousand, distributed on shares of DKK 1 thousand each.

12 **Provisions**

DKK'000	2019	2018
Provisions at 1 January	3,936	13,857
Equity adjustment due to IFRS 15 transition	0	-9,376
Provisions for the year, net	-3,863	-545
Provisions at 31 December	73	3,936

As per 31 December 2019, provisions solely relate to onerous contracts.

Financial statements 1 January – 31 December

Notes

13 Non-current liabilities other than provision

DKK'000	2019	2018
Leasing obligations:		
1-5 years	6,725	0
>5 years	0	0
Other payables:		
1-5 years	2,201	0
>5 years	0	0
Total non-current liabilities other than provisions	8,926	0

14 Contractual obligations, contingencies, etc.

Leasehold and guarantees

The Company had contingent liabilities of DKK 240 thousand at 31 December 2019 regarding leased premises, which only falls due if the Company vacates the property before 31 December 2023.

The Company has provided performance and payments guarantees of DKK 2.854 thousand.

The Company has provided other general guarantees relating to products and services delivered.

Joint taxation

The Company is jointly taxed with Wärtsilä Lyngsø Marine A/S and Wärtsilä Puregas Solutions A/S. Together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties. Any subsequent correction of the taxable joint taxation income or withholding taxes might increase the Company's liability.

Financial statements 1 January – 31 December

Notes

15 Related party disclosures and ownership

The following shareholders are registered in the Company's register of shareholders as holding a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

Wärtsilä Corporation
John Stenbergin ranta 2
Postbox 196
00531 Helsinki
Finland
www.wartsila.com

Related parties also comprise the Board of directors, the Executive Board and group entities within the Wärtsilä Group.

Related party transactions

The Company has no transactions that are not carried out on an arm's length basis in accordance with section 98c(7) of the Danish Financial Statements Act.

16 Events after the balance sheet date

No events, including the COVID-19 situation, have occurred after the balance sheet date to this date that would materially impact the assessment and evaluation of this annual report.