Wärtsilä Lyngsø Marine A/S

Lyngsø Allé 3

CVR no. 63053112

Annual report 2019

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

on the 25th day of September 20 20

Mr. Maik Stövhase

chairman of the annual general meeting

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 Lyngsø Marine 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 Financial Statements give a true and fair view of the financial position at 31 December 2019 of the Company and of the results of the Company operations in 2019.

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

Hørsholm, 25th day of September 2020

Executive Board:

Thomas Heldarskard-Winnerskjold (Sep 25, 2020 14:30 GMT+2)

Thomas Heldarskard-Winnerskjold

Board of Directors:

M.Stoevhase (25. September 2020 14:24 GMT+2)

Maik Stövhase

Chairman

Dennis Vagt

Dennis J. H. Vagt

Thomas Heldarskard-Winnerskjold (Sep 25, 2020 14:30 GMT+2)

Thomas Heldarskard-Winnerskjold

pwc

Independent auditor's report

To the shareholders of WÄRTSILÄ LYNGSØ MARINE A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Wärtsilä Lyngsø Marine 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 Lyngsø Marine 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 Responsibilites 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.

Hellerup, 25 September 2020
Pricewaterhousecoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Bo Schou-Jacobsen
State Authorised
Public Accountant
mne28703

Management's review

Company details

Wärtsilä Lyngsø Marine A/S
Lyngsø Allé 3

Telephone:	+4545166200
Website:	www.wartsila.com/lyngsoe.com
CVR no.	63053112
Established:	9 July 1947
Registered office:	Hørsholm
Financial year:	1 January – 31 December

Board of Directors

Maik Stövhase

Dennis Vagt

Thomas Heldarskard-Winnerskjold

Executive Board

Thomas Heldarskard-Winnerskjold

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Annual general meeting

The annual general meeting will be held on 25 September 2020.

Management's review

Financial highlights

DKKm	2019	2018	2017	2016	2015
Revenue	154	179	239	242	200
Gross profit	53	80	76	74	67
Ordinary operating profit/loss	2	34	30	29	22
Profit/loss from financial income and expenses	1	1	-1	-2	1
Profit/loss for the year	0	27	22	21	17
Total assets	111	114	134	142	123
Investment in property plant and equipment	8,855	445	387	523	198
Equity	38	61	58	63	62
Gross margin	34.2%	44.6%	31.7%	30.5%	33.5%
Profit margin	1.0%	19.0%	12.5%	11.9%	11.1%
Return on assets	1.4%	30.4%	22.3%	20.4%	18.0%
Solvency ratio	33.8%	54.5%	42.9%	44.7%	50.1%
Return of equity	0.9%	44.8%	36.8%	33.6%	29.5%
Average number of full-time employees	62	61	59	61	61

Financial ratios are calculated in accordance with the guidelines "Recommendations & Ratios" issued by the Danish Society of Financial Analysts.

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

Profit margin $\frac{\text{Result before financial items x 100}}{\text{Revenue}}$

Return on assets $\frac{\text{Result before financial items x 100}}{\text{Total assets}}$

Solvency ratio $\frac{\text{Stakeholders Equity x 100}}{\text{Total assets}}$

Return on equity $\frac{\text{Net profit of the year x 100}}{\text{Average equity}}$

Management's review

Operating review

Principal activities

The products of Wärtsilä Lyngsø Marine A/S, i.e. advanced marine automation, navigation systems and communication equipment, fit well into the strategic concept of Wärtsilä, and significant synergies exist between the two organisations.

Review of activities and financial status

Wärtsilä Lyngsø Marine A/S is developing, marketing and maintaining automation, navigation and communication solutions for the merchant fleet and the navy.

- Net sales DKK 153,740 thousand in 2019 has decreased by 14% compared to 2018. The result before tax of DKK 762 thousand is lower than expected. However with a difficult market situation we consider the sales satisfactory.

Prospects for the future

The shipbuilding market is being challenged by over capacity and the Ship Yards struggle for obtaining financing.

This situation makes it absolutely necessary for suppliers to the shipbuilding industry to be extremely competitive. Wärtsilä Lyngsø Marine A/S will still be active in the markets in South East Asia where a good profit possibility is expected in the future. Wärtsilä Lyngsø Marine will continue to focus on efficiency and a flexible organisation as well as a product portfolio of high quality, dependability and performance at competitive prices.

The profit before tax for 2020 is expected to be at the level of DKK 3-5 million. The Company's financial position is assessed to be full adequate to secure the Company's market position and the continuing development hereof. Refer to note 16 for further information.

Particular risks

The general risk is related to demand for new vessels on the markets where the company operates and the shipowner's level of maintenance for vessels in use. The low freight rates can on short term delay the maintenance work for vessels in use.

The financial risks are considered to be low due to the equity ratio and the financial resources. The Company is exposed to currency risks particularly in relation to transactions in USD. The company uses derivative financial instruments for hedging of financial risks in connection with operating activities.

Management's review

Operating review

Development in activities and financial position

The Company is part of the Group development activities. To secure the Company's position, the high activity level in the Research and Development Department was maintained.

Events after the balance sheet date

Refer to note 16.

Intellectual capital resources

It is essential for the Company to attract and remain highly skilled employees with the special skills needed for service-, project- and development tasks. With retraining and on job project training the level of skills develop on a current basis. There is generally a high seniority in the Company which secures the necessary skills to be available.

Environmental performance

Large long distance deliveries are primarily forwarded by sea. Air freight is normally only used when delivery by sea is not possible. Apart from long distance deliveries the Company do not have significant environmental activities.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2019	2018
Revenue		153,740	179,447
Changes in stocks of finished goods		6,432	-9,063
Other operating income		3,526	701
Cost of raw materials and consumables		-70,727	-55,422
Other external costs		-40,433	-35,657
Gross profit/loss		52,538	80,006
Staff costs	2	-48,101	-45,892
Depreciation on intangible and tangible fixed assets	7,8	-2,860	-471
Operating profit/loss		1,577	33,643
Financial income	3	872	2,591
Financial expenses	4	-1,687	-1,730
Profit/loss before tax		762	34,504
Tax on profit/loss for the year	5	-319	-7,655
Profit/loss for the year		443	26,849

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2019	2018
ASSETS			
Fixed assets			
Intangible assets			
Software	7	147	223
Property, plant and equipment			
Production equipment and machinery		728	598
Leasehold improvements		152	652
Right of use assets		7,243	0
	8	8,123	1,250
Financial assets			
Deposits	9	585	585
		585	585
Total fixed assets		8,855	2,058
Current assets			
Inventories	10	28,419	22,368
Receivables			
Trade receivables		20,557	18,897
Work in progress	11	2,000	5,131
Receivables from group entities		41,262	57,057
Company tax receivable		2,719	0
Other receivables		1,582	1,645
Deferred tax asset	12	2,398	2,558
Prepayments		3,488	1,914
		74,006	87,202
Total current assets		106,074	109,570
TOTAL ASSETS		111,280	111,628

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2019	2018
EQUITY AND LIABILITIES			
Equity			
Share capital		16,000	16,000
Retained earnings		21,613	21,167
Proposed dividends for the financial year		0	24,000
Total equity		37,613	61,167
Provisions			
Other provisions	13	11,517	8,597
Total provisions		11,517	8,597
Liabilities other than provisions			
Non-current liabilities other than provisions			
Lease obligation		4,857	0
Other payables		1,741	0
Total non-current liabilities other than provisions	14	6,598	
Current liabilities other than provisions			
Current portion of non-current liabilities	14	2,407	0
Trade payables		21,874	11,987
Payables to group entities		5,224	4,464
Prepayments from customers	11	15,080	14,335
Company tax		0	1,490
Other payables		4,874	6,583
Deferred income		6,093	3,005
Total liabilities other than provisions		55,552	41,864
TOTAL EQUITY AND LIABILITIES		111,280	111,628

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Statement of changes in equity

DKK'000	Share capital	Retained earnings	Proposed dividend	Total
Balance at 1 January 2019	16,000	21,167	24,000	61,167
Distributed dividend	0	0	-24,000	-24,000
Change of hedge contracts after tax	0	3	0	3
Profit for the year	0	443	0	443
Balance at 31 December 2019	16,000	21,613	0	37,613

Contributed capital

The contributed capital consists of:

A shares, 16,000 shares of nom. DKK 1,000 each.

Financial statements 1 January – 31 December

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1 Accounting policies

The annual report of Wärtsilä Lyngsø Marine A/S for 2019 has been prepared 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 apply 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 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 short-term leases and leases for low value, 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 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 accouting policies is as follows:

— At 31 December 2019, capitalized lease assets were valued at DKK 7,243 thousand.
— At 31 December 2019, a recognised lease obligation was valued at DKK 7,264 thousand.
— During the financial year, DKK 2,414 thousand was expensed regarding depreciation of the lease agreements.
— Throughout the financial year, DKK 51 thousand was expensed regarding interest on the lease agreements.

Operating leases at 1 January 2019 amounts to DKK 3,960 thousand. Recognised leases under IFRS 16 at 1 January 2019 amounts to DKK 9,657 thousand. Increase of DKK 5,697 thousand is primarily referable to extension option in the lease agreements which the Company expects to execute.

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

With effect from 1 January 2019, the Company has also chosen to apply IFRS 15 *Revenue from contracts with customers* as the basis of interpretation when recognising revenue.

In contrast to the previous bases of interpretation contained in IAS 11/18, IFRS 15 contains one overall and comprehensive model for the recognition of revenue. The fundamental principle in IFRS 15 is that the Company is to recognise revenue so it reflects goods or services provided to customers at the amounts to which the Company is expected to be entitled for the provision of these goods or services.

The implementation of IFRS 15 has had no effect for Wärtsilä Lyngsø Marine A/S

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

The annual financial statement for 2019 is prepared in DKK 1,000.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Wärtsilä Oyj Abp.

Recognition and measurement

Revenues are recognised in the income statement as earned, which includes recognition of value adjustments of financial assets and liabilities measured at fair value or amortised cost. Furthermore, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognized when it is probable that future economic benefits will accrue the enterprise, and the value of the asset can be reliable measured.

Liabilities are recognized when they are probable and future economic benefits will deduct from the Company, and the value of the liability can be reliable measured.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments designated as or qualifying for recognition as a fair value hedge of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as or qualifying for recognition as a hedge of future transactions are recognised as other receivables or other payables and in equity until the realisation of the hedged transactions. If the future transaction results in the recognition of assets or liabilities, amounts that were previously recognised in equity are transferred to the cost of the assets or liabilities. If the future transaction results in income or costs, amounts that were previously recognised in equity are transferred to the income statement for the period when the hedged item affects the income statement.

Income statement

Revenue

The Company will be applying IFRS 15 as its basis of interpretation for the recognition of revenue.

Income from the sale of goods and finished goods, is recognised in revenue when delivery and transfer of risk to the buyer have taken place, and the income may be measured reliably and is expected to be received. The date of transfer of the most significant benefits and risks is determined using standard Incoterms ®2020.

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

For products with a high degree of customisation, revenue is recognised when the control of the identifiable individual performance obligations has been performed in respect of the customer whereby the customer gains control of the asset or the service. Sales remuneration are allocated proportionally to the individual performance obligations in the agreement. When total income and costs attributable to the contract or the stage of completion at the balance sheet date cannot be estimated reliably, revenue is recognised only at costs incurred and only to the extent that the recovery thereof is likely.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Changes in stocks of finished goods

Include development from prior year to current year

Other operating income

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

Costs of raw material and consumables

Costs of raw material and consumable supplies include the expend of raw material and consumable supplies, used to achieve the net turnover of the year.

Other external costs

Other external costs include costs for leased premised, sale, distribution and office expenses etc. Under other external costs are also included development costs.

Staff costs

Personnel costs include wages and salaries and salary related costs.

Depreciations

Depreciations include depreciations of the year of intangible and tangible assets.

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding 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.

Tax on profit/loss for the year

The Company is comprised by the Danish rules on compulsory joint taxation of the Wärtsilä Group's Danish subsidiaries.

On payment of joint taxation contributions, current Danish corporation tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have used the losses to reduce their own taxable profit.

Tax for the year comprises current tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement at the amount attributable to the profit/loss for the year and directly in equity at the amount attributable to entries directly in equity.

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

Balance sheet

Intangible and tangible fixed assets

Intangible and tangible fixed assets are included at purchase price including costs directly attached to the purchase, with deduction of accumulated depreciations. Depreciation is made straight-line over the expected period of use:

Software	5 years
Production equipment and machinery	5 years
Other equipment	5 years
Leasehold investments	10 years

Leases

The Company uses IFRS 16 when measuring and recognizing leases. Leases are recognised at present value of the right of use received and liabilities for the payment obligations entered into for all leases in the balance sheet. Lease payments are discounted at the implicit interest rate underlying the lease to the extent that this can be determined. Otherwise, discounting is at the incremental borrowing rate.

Right-of-use assets are measured at cost, which comprises the following:

- lease liability
- lease payments made at or prior to delivery, less lease incentives received;
- initial direct costs and
- restoration obligations.

Right-of-use assets are depreciated over the term of the lease using the straightline method, normally a depreciation period of 3 - 10 years.

The Company has used the relief options provided for leases of low-value assets and short-term leases (shorter than twelve months) and expense the payments in the income statement according to the straight-line method.

Extension and termination options exist for a number of leases, particularly for real estate. Such contract terms offer the Company the greatest possible flexibility in doing business. In determining lease terms, all facts and circumstances offering economic incentives for exercising extension options or not exercising termination options are taken into account. Changes due to the exercise or non-exercise of such options are considered in determining the lease term only if they are sufficiently probable.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at cost in accordance with the average cost 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.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries as well as indirect production costs. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

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.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and the net realisable value, which corresponds to nominal value less provision for bad debt.

Work in progress

Work in progress is recognized according to the production criteria, where profit is included in the net statement concurrently with delivery of the order when criteria for use of the production criteria is fulfilled. Is criteria for using the production criteria not met then the invoice criteria will be used.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Prepayments

Prepayments include expenses incurred in respect of subsequent financial years, including fair value adjustments of derivative financial instruments with a positive fair value.

Shareholder´s Equity

Dividend is included as an obligation at the time where the General Meeting approves the dividend. Dividend, which is expected paid, is specified as a special post under the statement of changes in Equity.

Provisions

Provisions comprise anticipated costs of warranties. 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 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 are measured at net realisable value and recognised on the basis of the Company's experience with warranties. Provisions expected to be maintained for more than one year from the balance sheet date are discounted at a rate reflecting risk and the due date for payment.

When it is probable that total costs will exceed total income from contract work in progress, the total projected loss on the work is recognised as a provision. The provision is recognised as production costs.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at cost, corresponding to the 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 cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Deferred income

Deferred income comprises payments received regarding income in subsequent years.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Corporate tax and deferred tax liability

The Company is jointly taxed with Group related (directly and indirectly) Danish Companies. The tax effect of the joint assessment with subsidiary is allocated on profitable as well as loss making Danish companies against their taxable income (full allocation with reimbursement regarding tax wise losses). The jointly taxed companies are part of the taxpaying regulation.

Corporate tax of the result of the year, consisting of the actual tax of the year and the deferred tax is included in the profit and loss statement with the part, which can be referred to the yearly result and directly on the equity capital with the part, which can be referred to amounts directly on the equity capital.

Actual tax obligations and outstanding actual tax is included in the balance as accounts receivable where too much tax is paid in advance, and as a debt liability if too little tax is paid in advance.

Deferred tax assets are measured according to the balance oriented debt method of all temporary differences between accounting and taxable value of assets and liabilities.

Deferred tax assets, including the tax value of conveyance justifiable fiscal losses, are measured at the value, at which the asset is expected to be realized, either by settlement in tax of future revenue or by setoff in tax obligations within the same legal tax authority and jurisdiction.

Deferred tax is measured on the basis of the tax rules and rates, current on the balance day's legislation, when the deferred tax is expected to be released as actual tax. Changing of deferred tax due to changes in tax rates is included in the Profit and Loss Account.

Financial statements 1 January – 31 December

Notes

DKK'000	2019	2018
2 Staff costs		
Wages and salaries	43,608	42,336
Pensions	3,654	2,982
Other social security costs	839	574
	48,101	45,892
Average number of full-time employees	62	61

According to Danish Financial Statements Act §98 b, Salary and wages to the Management is omitted, because the information only refers to one member of the Management.

	2019	2018
3 Financial income		
Interest income from group entities	196	965
Other financial income	676	1,626
	872	2,591
4 Financial expenses		
Interest expense to group entities	518	647
Foreign exchange adjustments	1,023	619
Other interest expense	95	464
Interest, lease obligations	51	0
	1,687	1,730
5 Tax on profit/loss for the year		
Current tax for the year	159	6,321
Deferred tax adjustment for the year	88	1,334
Deferred tax adjustment regarding previous periods	72	0
	319	7,655
6 Proposed distribution of profit/loss for the year		
Proposed dividend for the financial year	0	24,000
Retained earnings	443	2,850
	443	26,850

Financial statements 1 January – 31 December

Notes

7 Intangible assets

DKK'000	Other intangible assets	Total
Cost at 1 January 2019	382	382
Additions	0	0
Cost at 31 December 2019	382	382
Depreciations at 1 January 2019	159	159
Depreciations for the year	76	76
Depreciations at 31 December 2019	235	235
Carrying amount at 31 December 2019	147	147

8 Property, plant and equipment

DKK'000	Production equipment and machinery	Leasehold improveme nts	Right of use assets	Total
Cost at 1 January 2019	3,589	1,997	0	5,586
Adjustments due to implementation of IFRS 16	0	0	9,657	9,657
Adjusted cost at 1 January 2019	3,589	1,997	9,657	15,243
Additions	0	0	0	0
Disposals	0	0	0	0
Transfers	280	-280	0	0
Cost at 31 December 2019	3,869	1,717	9,657	15,243
Depreciation at 1 January 2019	2,991	1,345	0	4,336
Depreciation	150	220	2,414	2,784
Depreciation at 31 December 2019	3,141	1,565	2,414	7,120
Carrying amount at 31 December 2019	728	152	7,243	8,123

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DKK'000	2019	2018
9 Deposits		
Cost at 1. January	585	585
Additions	0	0
Cost at 31 December	585	585
10 Inventory		
Manufactured and trading goods	17,359	16,298
Work in progress	11,060	6,070
	28,419	22,368
11 Work in progress		
Work in progress at sales value	5,649	7,275
Payments on account	-3,649	-2,144
	2,000	5,131
12 Deferred tax		
Deferred tax at 1 January	2,558	3,878
Deferred tax adjustment for the year in the income statement	-160	-1,334
Tax on equity transactions	0	14
	2,398	2,558
Deferred tax asset relates to:		
Intangible assets	-32	0
Property, plant and equipment	62	33
Finance leased assets	-3	0
Other receivables, other payables	0	47
Current assets	837	587
Provisions	1,534	1,891
	2,398	2,558

Deferred tax is recognised with 22 % according to the expected future tax rate

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DKK'000	2019	2018
13 Other provisions		
Warranty commitments at 1 January	8,597	15,728
Used during the year	0	-2,530
Provisions for the year	5,700	274
Reversal of provision from 2019	-2,780	-4,875
Other provisions at 31 December	11,517	8,597

14 Non-current liabilities other than provisions

	2019
Lease obligations:	
0-1 years	2,407
1-5 years	4,857
>5 years	0
Other payables:	
0-1 years	0
1-5 years	1,741
>5 years	0
Total non-current liabilities other than provisions	9,005

15 Contingent liabilities

The Company is in group taxation with other Danish companies owned by Wärtsilä Group with Wärtsilä Danmark A/S as the administration company. The Company is jointly and severally liable with other group taxated companies in the payment of corporate taxes and withholding tax on interests, royalties and dividends.

16 Related parties

The ultimate parent company is Wärtsilä Corporation, Hiililaiturinkuja 2, FI-00180 Helsinki, Finland. The consolidated Financial Statements of Wärtsilä Corporation is available on above address or at www.wartsila.com

The Company has according to Danish Financial Statements Act §98 c, pt. 7 not included information regarding intercompany transactions as the transactions have been made on market conditions.

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17 Subsequent events

On 12 March 2020, the Government in Denmark launched a comprehensive nationwide contingency plan against Covid-19. Management considers the outbreak of Covid-19 as a subsequent non- adjusting event. Management has subsequently not identified the need for revaluations of assets and liabilities.

The Company has not used salary compensation from the authorities, as the Company needed the employees at the time of closure to solve the challenges that came with Covid-19.

The Company has in close collaboration with the customers found favorable solutions with Covid-19 taken into considerations.

Many of the Company's customers have indicated that they will continue projects in progress, but there is still a risk that COVID-19 will have negative impacts on the Company's revenue and earnings in 2020. Management is monitoring developments closely and expects revenue for 2020 to come in between DKK 170-175 million and to increase earnings compared to 2019. Naturally, Management will make an effort to recapture any lost revenue later in the year.