

Finning (UK) Ltd

Annual report and financial statements

For the year ended 31 December 2022

Company Registration No. 00367090



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Officers and professional advisers

Directors

S Chapman
T Ferwerda
M Hogg
K N Shandro (Appointed 26 January 2022)

Company Secretary

M Hogg

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Auditor

Deloitte LLP
Statutory Auditor
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Strategic report For the year ended 31 December 2022

Principal activity

The company heading the Finning (UK) Ltd group is a private company limited by shares and is registered in the United Kingdom (company registration number; 00367090) at the registered address; Watling Street, Bridgtown, Cannock, Staffordshire, WS11 8LL.

The principal activity of the group's operations is the supply of Caterpillar machines and engines, Perkins engines, Trimble equipment and the provision of parts and after-sales service. The group has dealership agreements with numerous equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. Distribution and servicing of Caterpillar products account for the major portion of the group's operations. The Finning group is the only authorised dealer in the United Kingdom and Republic of Ireland for these products. Finning has a strong relationship with Caterpillar Inc. that has been ongoing since 1933. The group is a wholly-owned subsidiary of Finning International Inc., a company incorporated in Canada, which is considered by the directors to be the ultimate holding company and controlling party.

Strategic framework

Finning's customer-centric growth strategy is based on three pillars – Develop, Perform, and Innovate – which provide a strong foundation for the group's five Global Strategic Priorities:

- Customer Centricity – be our customers' trusted partner by providing consistent and innovative services that add value to their business;
- Lean & Agile Global Finning – maintain relentless focus on productivity, efficiency, and our customers' total cost of equipment ownership;
- Global Supply Chain – transform our globally-leveraged supply chain to enhance the omni-channel customer experience while increasing working capital efficiencies and generating free cash flow;
- Digital Enterprise – advance the use of technology to improve our customers' experience, enable data driven decisions, and reduce cost to serve; and,
- Growth & Diversification – achieve profitable and capital efficient growth.

The strategic priorities are supported through the following *three strategic pillars*:

Develop – build a safe, talented and inclusive team.

Perform – operate efficient, consistently and with agility.

Innovate – lead with new ideas, processes and solutions.

Our purpose

We believe in partnering and innovating to build and power a better world.

Our vision

Leveraging our global expertise and insight, we are a trusted partner in transforming our customers' performance.

Our values

We are trusted: We act ethically and honour our commitments.

We are collaborative: We build diverse and respectful partnerships.

We are innovative: We look for new and better ways to serve our customers.

We are passionate: We are driven to safely deliver results.

Strategic Focus Areas

Finning continue to identify focus areas to support our strategy: to capture growth in mining and construction industries through market leadership and to improve performance through transforming service, accelerating supply chain capabilities and lowering the cost to serve. Our decisions about capital investments and allocation of resources are focused on initiatives that we believe best align with our Global Strategic Priorities and our strategic areas of focus.

Strategic report (continued) For the year ended 31 December 2022

Strategic framework (continued)

Sustainability

Sustainability is an integral part of our business and is woven through our strategy and operations. We live our values every day, and they guide our behaviour in every interaction we have. Living our values means that how we do things is just as important as what we do.

Our approach to sustainability is closely aligned with our purpose and covers all of our material sustainability topics. In 2022, we conducted a gap analysis of our sustainability practices to make sure they align with our peers, and with internationally recognized guidelines and best practices. Based on the gap analysis, we defined metrics and focus areas for the next five years. The full 2022 Sustainability Report, including the five-year roadmap and performance summary, can be found in the sustainability section of the Finning International Inc. website at www.finning.com. Further details of the group's sustainability practices and objectives are outlined in the Directors' report.

Business review

Group performance

The directors are pleased to present the group results for 2022 that show strong performance following on from previous difficult years with the COVID-19 pandemic and subsequent economic pressures in the UK.

Revenue was higher than last year driven by higher customer demand in the Equipment Solutions segment. The group also had an increase in the levels of trading driven by an increase in Power Systems project deliveries and improved new equipment sales.

Gross profit increased from 2021 to 2022, and gross profit as a percentage of revenue increased 0.9% in 2022 compared to 2021. Gross profit percentage was impacted positively by the product mix between product and equipment revenues.

In 2022, the group generated total revenues of £755,579,000 (2021: £590,460,000), all of which related to continuing operations. The group generated an operating profit for the year of £40,073,000 (2021: £25,728,000), all of which related to continuing operations.

Equipment Solutions

The Equipment Solutions operating segment experienced an increase in revenues in the year to £590,042,000 (2021: £442,218,000) as a result of higher customer demand. The Equipment Solutions operating segment saw an increase in operating profit to £60,434,000 (2021: £43,092,000) in line with the increasing activity levels.

The outlook for the Equipment Solutions operating segment remains positive. New equipment order backlog remains high and will continue to provide sustainable revenues into 2023. The group remains committed to revolutionising its service offering through technological advancements and improved customer experience. The group further continues to explore used equipment markets and increase the sales presence in the domestic markets.

Power Systems

The Power Systems operating segment showed continued growth in long term projects within the electric and stand-by power segment and experienced an increase in revenue to £172,730,000 (2021: £148,867,000). The group continues to efficiently execute long term projects in the diesel and gas markets. There was an increase in operating profit to £22,197,000 (2021: £18,928,000) in line with the higher revenue levels.

The 2022 results reflect the continued success of the group in the Power Systems segment. The project delivery plan and risk-management practices are now embedded into the business' day to day operations. The group expects to further benefit from the development of its key markets in the year and will continue to grow its existing relationships. The group's outlook for the electric power capacity market remains strong with high order backlog and it intends to further improve its project delivery practices in order to remain well placed to secure further opportunities as they arise.

Strategic report (continued) For the year ended 31 December 2022

Business review (continued)

Key Performance Measures

The group introduced practices to ensure optimal working capital efficiency and invested capital turns. This has continued to be further emphasised after the onset of the COVID-19 pandemic and the need to reduce costs and maximise working capital efficiency. The focus on supply chain management and inventory levels resulted in a significant improvement in the group's utilisation of existing inventory whilst ensuring sufficient levels are on hand to meet demand. The group has seen a decrease of inventory turns to 5.72 (2021: 6.21) driven by higher inventory balances by year end in comparison to prior year. The increase in inventory levels from prior year (2021:£77m) was largely impacted by the need to meet increased demand in 2023.

The group has seen debtor days similar to prior year of 28 days (2021: 29 days), mainly impacted by increased revenue which had early collections from customers hence improving debtors days. The bad debt provision increased from prior year to reflect the uncertainty following on from economic pressures, however the directors remain confident in collecting outstanding balances.

The group continues to monitor creditor days and ensure payments to suppliers remain within pre-agreed terms. Creditors has seen a decrease in creditor days to 21 days (2021: 29 days) from the prior year.

During the year the group generated net cash inflow from operating activities of £44,709,000 (2021: inflow £25,171,000), and free cash flow inflow (see definition below) of £28,055,000 (2021: inflow £11,293,000). This has been mainly driven by the group's drive to manage working capital. The directors consider the efficient application of capital to be as important as delivering improved profitability.

The directors have continued to optimise working capital after the pandemic to preserve the return on invested capital (ROIC). Reported ROIC has increased to 19.98% (2021: 12.11%). The directors also measure ROIC excluding retirement benefit surplus (Pension) which has increased to 28.48% (2021: 25.16%).

During the year the group paid dividends of £2.6m (2021: £34,447,000) to its parent company, Finning Holdings. Consequently, Finning International Inc. pledged its continuing support to the group through the ability to call on the ultimate group's CAD\$1.3 billion global credit facility to meet liquidity needs. The directors are confident in the ability of the business to continue to deliver positive cash flows from operations through the effective management of the group's working capital.

Key performance indicators

The group is focused on building shareholder value by improving ROIC. With safety and talent management as the foundation, management is executing on the following operational priorities: customer & market leadership; supply chain optimisation; service excellence; and asset utilisation.

These priorities are linked directly to improving operating profit performance and capital efficiency.

The business uses return on invested capital (ROIC) and operating profit margin as key measures of performance. Adjusted return on invested capital and inventory turns as they are monitored by the business and used in decision making

The key performance indicators on continuing operations are as follows:

	2022	2021	
Operating profit (£'000s)	40,073	25,728	Defined per the income statement. It is used by management as it excludes items that are not considered to be indicative of operational and financial trends to provide a better overall understanding of the group's underlying business performance.

Strategic report (continued)
For the year ended 31 December 2022

Key performance indicators (continued)

	2022	2021	
Operating profit %	5.30%	4.36%	Defined as operating profit for the last twelve months divided by revenue for the last twelve months. Management uses operating profit margin as an indication of the profitability of the revenue growth for the group.
Invested capital (£'000s)	200,578	212,499	Defined as total assets less total liabilities, excluding net debt at the year-end position. Net debt is calculated as short-term debt and long-term debt, net of cash. Management uses invested capital as a measure of the total cash investment made in the group.
Inventory turns (times)	5.72	6.21	Defined as cost of sales for the last twelve months divided by inventory at the year-end position. The number of times the group's inventory is sold and replaced over a period and is used by management as a measure of asset utilization.
Working capital to sales ratio	9.29	10.94	Working capital is defined as total current assets (excluding cash and cash equivalents) less total current liabilities (excluding short-term debt and current portion of long-term debt). The working capital to net revenue ratio is calculated as working capital, divided by revenue for the last twelve months. Management uses this KPI to assess the group's efficiency in its use of working capital to generate net revenue.
Free cash flow (£'000s)	28,055	11,293	Cash flow provided by or used in operating activities less net additions to property, plant, and equipment and intangible assets. Management uses Free Cash Flow to assess cash operating performance and the ability to raise and service debt.
Invested capital turnover (times)	3.77	2.78	Defined as revenue for the last twelve months divided by invested capital as defined above. Used by management as a measure of efficiency in the use of the group's invested capital.
Return on invested capital (%)	19.98%	12.11%	Defined as operating profit for the last twelve months divided by invested capital as defined below, expressed as a percentage. Management views ROIC as a useful measure for supporting investment and resource allocation decisions, as it adjusts for certain items that may affect comparability between certain competitors.
Pension adjusted return on invested capital (%)	28.48%	25.16%	Defined as operating profit for the last twelve months divided by invested capital as defined below less the year-end pension asset, expressed as a percentage. Management use pension adjusted ROIC to exclude the significant pension asset which is not considered to be indicative of operational and financial trends to provide a better overall understanding of the group's underlying business performance.

The key performance indicators in the year are indicative of the comments made within the business review. The strength of the group's balance sheet has enabled an improvement in key working capital metrics and sustained the group's ability to generate cash from operations.

Strategic report (continued) For the year ended 31 December 2022

Results

The group's profit for the year after taxation was £32,009,000 (2021: £19,323,000) all of which related to continuing operations.

The group is in a strong financial position, with access to capital, including the CAD\$1.3 billion global credit facility held by Finning International Inc. which is committed through to December 2024, as well as a balanced debt maturity profile and capacity to increase capital availability. In April 2020, the group secured an additional CAD\$0.5 billion on the global credit facility for a period of two years and has substantially the same terms as the existing CAD\$1.3 billion facility. The group also has access to other overdraft and short-term borrowing facilities within the UK up to £30 million.

The group also has £25,000,000 of short-term debt in the form of Eurobonds which is due for repayment in May 2023, however this was paid in February 2023, and a new intercompany loan of £25,000,000 has been obtained from Finning Finance Limited, with a maturity date of 5 years from the closing date (February 27th 2028).

Principal risks and uncertainties

The group is exposed to market financial and operating risks in the normal course of business activities. The group has adopted an Enterprise Risk Management ("ERM") approach in identifying, prioritising, and evaluating risks. The ERM framework assists the group in managing business activities and risks across the organisation to assist the group in achieving its strategic objectives. The identified risks include:

Market risks

Competitive pressure is a continuing risk for the group, which could result in losing sales to key customers. The group competes with a large number of equipment vendors with operations in this country. The group manages this risk by ensuring a first class customer service offering and differentiating its service delivery.

Financial risks

The group's activities expose it to a number of financial risks including foreign exchange risk, credit risk, pension liability risk and liquidity risk.

Foreign exchange risk

The group's activities expose it to limited risk of changes in foreign currency exchange rates. As part of normal operating activities, the group maximises natural hedges to minimise exchange rate exposure on significant foreign currency transactions relating to sales and purchases. It is the group's policy to reduce this exposure through the use of forward currency contracts, when appropriate.

Credit risk

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

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

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Customers are subject to credit checks and appropriate credit limits are set accordingly to reduce credit risk.

Strategic report (continued)
For the year ended 31 December 2022

Principal risks and uncertainties (continued)

Pension liability risk

The group provides pension arrangements to employees through a pension scheme with a defined contribution section and a defined benefit section. The defined benefit section of the scheme is closed to new members and has ceased future accruals to existing members since 6 April 2012. The group contribution to the defined benefit section of the scheme is agreed with the Trustee of the scheme and is based on the latest actuarial valuation.

The group's retirement benefit surplus under IAS19 'Employment Benefits' reflected on the balance sheet for the current year is £59,855,000 (2021: £110,233,000), as a result of the decrease in the discount rate assumption relative to the outperformance of assets.

The defined benefit liabilities are calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit or reduction in the surplus. The defined benefit section invests in various asset categories including primarily equities, fixed income, and real estate. These investments, in aggregate, are expected to outperform corporate bonds in the long-term but may result in volatility in the shorter-term.

The funding valuation of the Scheme was carried out by a qualified actuary as at 31 December 2020 and showed a surplus of £18.0 million. The company agreed to pay contributions of £2.805 million in 2022 and £3.375 million in 2023.

A decrease of 0.25% in the discount rate and 0.25% increase in the retail price inflation would impact the defined benefit obligation at 31 December 2022 by the amounts shown below:

	Change in assumption	Increase in defined benefit obligation
		£'000
Discount rate	-0.25	8,491
Retail price inflation	+0.25	6,004
Life expectancy	+1	10,959

A 0.25% movement in the discount rate and in the retail price inflation as outlined above would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all variables are unchanged.

Financial risks (continued)

Capital structure and liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the group uses a mixture of long-term and short-term debt finance. The group uses local facilities for daily operations and also has the ability to call on the ultimate group's CAD\$1.3bn facility to meet liquidity needs.

Share based payments risk

The group is exposed to fluctuations in the share price of the parent company, Finning International Inc., in respect of the outstanding share options, share appreciation rights, DSU-B, PSU and RSU share awards made to the group's employees.

Operating risk

The majority of the group's business involves the distribution and servicing of Caterpillar products. As such, the group's business is highly dependent on the continued market acceptance of these products. The group believes that Caterpillar has a solid reputation as a manufacturer, with excellent brand recognition and customer support and high market shares in many of the markets they serve. The group works with Caterpillar to develop new products for the UK market and further enhance the reputation as a premium solution provider.

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, among other matters, to: the likely consequences of any decision in the long term; the

Strategic report (continued) For the year ended 31 December 2022

interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the company.

The directors give careful consideration to the factors set out above in discharging their duties under section 172. The stakeholders we consider in this regard are the people who work for us, the people and companies who work with us, own us, and live in the societies we serve. The Board of Directors recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values and operate the business in a sustainable way.

Our purpose, vision and values establish authorities, capabilities and appropriate incentives for empowered and agile decision-making across our portfolio of risks identified by the ERM framework along with localised risks specific to business decisions. The group maintains robust processes to adequately capture business risks to facilitate the decision making process, the greatest example of which is the power systems project governance framework introduced in 2017.

The Directors made certain key decisions in 2022. The Board of Directors approved £2.6m dividends to be paid to Finning Holdings during 2022. The primary driver for this decision was to provide funds for the ultimate parent company to re-invest into global initiatives for the betterment of its regions. The Board of Directors liaised with all necessary stakeholders prior to the declaration and any concerns raised as a result were appropriately addressed and resolved.

Stakeholder engagement

The Board is committed to effective engagement with all of its stakeholders. Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of its engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to have regard to these, as appropriate, in its decision making. However, the Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all stakeholders.

The Board regularly receives reports from management on issues concerning customers, the environment, communities, suppliers, employees, regulators, governments and investors, which it takes into account in its discussions and in its decision making process under section 172. The Board undertakes training to further develop its understanding of key issues impacting its stakeholders, such as crisis management, health & safety and inclusion & diversity. In addition to this, the Board seeks to understand the interests and views of the group's stakeholders by engaging with them directly as appropriate. Some of the ways in which the Board has engaged directly with stakeholders over the year are shown below.

Employees

Refer to Employee engagement section of the Directors' report.

Customers

In addition to the Board receiving updates from senior management on the Group's interaction with customers, members of the Board regularly meet customers. Additionally, events were held with key customers in various countries during 2021. The group uses the information gleaned from these interactions to develop ways to better serve its customers in the future.

Suppliers

The group's largest supplier is Caterpillar Inc. Finning has a strong relationship with Caterpillar Inc. that has been ongoing since 1933 and has developed year on year. In recent years the relationship has continued to foster innovation to better serve our customer needs. The group's strategic priorities are closely tied to those of Caterpillar Inc. which further aids this strong working relationship.

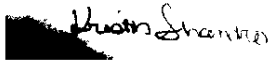
The group also holds relationships with various other suppliers. To help manage and monitor our supply chain, new suppliers onboarded to the group's systems are required to complete due diligence questionnaires, which include questions on human rights, labour, environment and anti-corruption. This onboarding process ensures that the group works with reliable, reputable suppliers providing the basis for long-term, prosperous relationships. The group continues to monitor creditor days and ensure payments to suppliers remain within pre-agreed terms, the group has seen a decrease in creditor days to 21 days (2021: 29 days).

Strategic report (continued)
For the year ended 31 December 2022

Finning International Inc.

The group is a wholly-owned subsidiary of Finning International Inc., listed on the Toronto Stock Exchange. The group's Global Strategic Priorities as referenced in the Strategic framework are shared across its respective regions in Canada, South America and the United Kingdom and Ireland. This shared framework enables the group to leverage its global expertise and resources to develop solutions which improve the effectiveness and efficiency of its operations whilst better serving its customers.

Approved by the Board of Directors and signed on behalf of the Board.



K N Shandro
Director
31 May 2023

Directors' report For the year ended 31 December 2022

The directors present their annual report on the affairs of the group together with the audited consolidated financial statements and independent auditor's report for the year ended 31 December 2022.

Directors

The directors who served during the year and subsequently were as follows:

S Chapman
M Hogg
T Ferwerda
K N Shandro

Directors' indemnities

During the year the group has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report. This provision also relates to the group's direct and indirect subsidiaries.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review and the Principal Risks and Uncertainties in the strategic report. In addition, the group's exposures to risks including credit, market and liquidity are set out on pages 7 to 9.

As highlighted in notes 19 and 21 to the financial statements, the group meets its day to day working capital requirements through finance from group companies and global credit and overdraft facilities.

In addition to bank overdraft facilities, Finning also has facilities available from its ultimate parent company. The group will adopt the funding mix which is most appropriate to the circumstances taking into consideration interest cost and overall group debt exposure. The group continues to monitor its facilities covenants in relation to provision of annual financial statements, indebtedness, disposal of assets, amalgamation without prior written consent with the lenders as well as ensuring insurance on all its properties in line with good business practice.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within its available facilities.

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Dividends

Dividends of £2.6m (£0.06 per share) were paid during the year to Finning Holdings (2021: £34,446,500, £0.75 per share). The Directors do not propose any further dividends for the year (2021: nil).

Environmental, health and safety

Health and safety is a key strategic focus across the Finning International group, which has been fully embraced by the company. The philosophy of "Zero Injuries" has been adopted to raise awareness and provide all employees with the knowledge and skills necessary to create a safe working environment. The company aims to ensure all employees come to work and go home safe, and that everyone is empowered to stay safe and also to look out for the safety of colleagues.

The business seeks to record all hazards, near-misses and incidents to monitor safety throughout the organisation, and uses this information to develop a better understanding of the risks within the work environment and develop ways to reduce and mitigate such risk wherever possible. Regular communications are sent to all employees to promote the importance of health and safety in the workplace. This is further reinforced by Local Action Teams, formed of employee representatives who regularly undertake reviews of their working environment.

The culture of health and safety is well embedded within the company, and management take regular action to maintain the focus on safety and prevent complacency causing a deterioration in safety performance.

Directors' report (continued) For the year ended 31 December 2022

Environmental, health and safety (continued)

The GSC is responsible for developing and implementing our sustainability roadmap which identifies sustainability priorities and sets out medium- and long-term goals and objectives. The sustainability report is released each year with the 2022 Sustainability Report available in the sustainability section of the Finning International Inc. website at www.finning.com.

Our current roadmap identifies five focus areas. :

- **PEOPLE** - Ensure safe, inclusive, and respectful workplaces for all employees and contractors.
- **ENVIRONMENT** - Reduce greenhouse gas emissions from our facilities and fleet, manage waste, and prevent spills
- **CUSTOMERS** Offer products and solutions that help customers improve their safety, environmental performance, and business productivity
- **COMMUNITIES** Partner with organizations that support STEM education and programming for women and girls, Indigenous, at-risk and other under-served communities.
- **GOVERNANCE, ETHICS & CYBERSECURITY** Ensure effective controls are in place to prevent unlawful or unethical behaviours, support and protect employees who speak up, and protect both Finning's and our customers' digital information.

Streamlined Energy and Carbon Reporting (SECR)

The UK Government's Streamlined Energy and Carbon Reporting (SECR) policy was implemented on 1 April 2019, this was the Company's first time adoption of disclosures on energy and carbon. The table below represents the group's energy use and associated greenhouse gas (GHG) emissions from electricity and fuel in the UK for the year ended 31 December 2022

UK Greenhouse gas emissions and energy use data for the period 1 January to 31 December	2022	2021
Scope 1 emissions in metric tonnes CO₂e		
Gas consumption	1,732	2,195
Owned transport	4,217	5,220
Total scope 1	5,949	7,415
Scope 2 emission in metric tonnes CO₂e		
Purchased electricity	884	887
Scope 3 emission in metric tonnes CO₂e		
Business travel in employee owned vehicles	18	10
Total gross emissions in metric tonnes CO ₂ e	6,851	8,312
Intensity ratio Tonnes CO ₂ e per exposure hours*	2.22	2.29

* measure in line with sustainability report.

Year on year energy consumption decreases are largely driven by continued fitting of LED lighting and PIR sensors around more branches.

Directors' report (continued)
For the year ended 31 December 2022

Streamlined Energy and Carbon Reporting (SECR) (continued)

Quantification and reporting methodology

We have followed the 2019 HM Government Environmental Reporting Guidelines. We have used the GHG Reporting Protocol – Corporate Standard and have used the 2020 UK Government's Conversion Factors for Company Reporting.

We have used the following data sources for the report for the:

- Energy and Fuel Data – Energy supplier billing data;
- Transport Data – Company mileage expense claims and estimated mileage for leased vans.

Intensity measurement

The chosen intensity measurement ratio is total gross emissions in metric tonnes CO₂e per total revenue (thousands).

Measures taken to improve energy efficiency

As mentioned above, the 2022 Sustainability Report recognises climate change as a serious global challenge and sets out key metrics committing the global group to monitor, manage and reduce GHG emission and energy consumption related to our operations. Examples of measures taken in 2022 include:

- switch to hydrogenated vegetable oil (HVO) in the workshop heaters in Glasgow facility as well as in certain service vehicles at Cannock facility;
- engaging with waste contractors in the UK to track types and volumes of waste generated and recycle and to calculate associated CO₂ reductions.
- continue to work on plastic packaging reduction at the national distribution centre

Employee engagement

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

The company considered the impact on employee interests regularly during the year, including in relation to diversity and inclusion activities, and employee engagement matters. All employees are invited to participate annually in the 'Employee Engagement Survey' to provide feedback on a range of matters. The results of the survey are aggregated at all management levels throughout the business and are shared with all employees. Management use the results of the survey in collaboration with employee representatives to identify ways of improving engagement and developing talent throughout the company. The company uses the employee engagement scores as a measure of performance for any employee engagement initiatives taken during the year.

The company actively encourages employee engagement in the company's strategic objectives and performance, through regular employee communications such as the Directors' all employee calls, all employees are invited to join the company share incentive scheme to encourage their engagement, vested interest and ownership in overall Finning performance.

Where business decisions are likely to have an impact on the group's employees, the decisions are communicated initially to the individuals directly affected to assimilate feedback and amend the decision where required. Once any decisions impacting employees are finalised the group follows up with communications to all employees through weekly emails and quarterly departmental and company wide conferences.

The company maintains a Code of Conduct which employees are required to acknowledge and sign each year. The Code of Conduct covers a wide range of topics which focus on the company's underlying principles on responsibilities, ethical decision making, reporting violations and ethical conduct and business guidelines.

In 2022, Finning UK&I received accreditation as a Disability Confident employer. Disability Confident is a U.K. government program focused on getting persons with disabilities into employment and supporting them at work. This accreditation means Finning UK&I will commit to providing opportunities for disabled employees, and will work to attract, recruit, retain and develop disabled people. So far, this program has been successful with several permanent placements.

**Directors' report (continued)
For the year ended 31 December 2022**

Business relationships

The group's key stakeholders and its associated relationships are set out in the Strategic report on pages 2 to 10.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion prospects of disabled persons should, as far as possible, be identical to those of other employees.

Financial instruments

Refer to note 26 for details of financial instruments. The risk management policies of the parent company are consistent with those of the group.

Matters covered in the Strategic report

The business review, including key performance indicators and principal risks and uncertainties are disclosed within the Strategic report.

Auditor

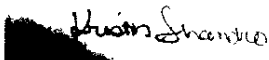
Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the group's auditor is unaware; and
- (2) the director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as the auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and authorised for issue on 31 May 2023 .



K N Shandro
Director
31 May 2023
Watling Street, Bridgtown, Cannock, Staffordshire, WS11 8L

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 group financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standard Board (IASB) and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework. 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 the parent company 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;
- state *whether applicable UK Accounting Standards have been followed*, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- *make an assessment of the company's ability to continue as a going concern.*

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.

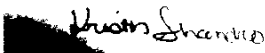
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

This responsibility statement was approved by the board of directors on 31 May 2023 and is signed on its behalf by:



K N Shandro
Director
31 May 2023

Independent auditor's report to the members of Finning (UK) Ltd (continued)

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Finning (UK) Ltd (the 'parent company') and its subsidiaries (the 'group') give a *true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022* and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the statement of accounting policies; and
- the related notes.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (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 are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Directors' responsibilities statement

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.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Assessment of accuracy of forecasts, including our assessment of the historical accuracy of forecasts prepared by management; assessment of key assumptions, such as expected recovery of the market in 2022 and availability of cash facilities;
- Assessment of the business model and medium-term risks facing the entity;
- Inspection of a copy of the contract supporting the existence of arrangements of open credit lines that the company is able to draw cash from;
- Review of headroom in the forecasts, including an analysis of the historic cash position and forecasted free cash flows;
- Assessment of working capital, which included comparison of forecasts to 2022 working capital profile;
- Assessment of the likely impact of the current market conditions on the entity;
- Review of the going concern disclosures in the financial statements.

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 group's and parent 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in 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

Directors' responsibilities statement

statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 group's and the parent 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 group or the parent 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.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's business sector.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

Directors' responsibilities statement

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licence.

We discussed among the audit engagement team including relevant internal specialists such as tax, pensions and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the 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 group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

Directors' responsibilities statement

- the parent company 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.

We have nothing to report in respect of these matters.

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:



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Peter Gallimore (Senior statutory auditor)

For and on behalf of Deloitte LLP

Birmingham, United Kingdom

31 May 2023

Finning (UK) Ltd

Consolidated income statement
For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Revenue	1, 2	755,579	590,460
Cost of sales		(621,791)	(479,813)
Gross margin		133,788	110,647
Other operating income		590	501
Distribution costs		(6,780)	(5,471)
Administrative expense		(55,716)	(55,170)
Other operating expenses		(31,809)	(24,779)
Total selling, general and administration expenses		(93,715)	(84,919)
Operating profit		40,073	25,728
Finance income	5	150	61
Finance costs	6	(144)	(1,442)
Profit on ordinary activities before tax		40,079	24,347
Tax expense on profit on ordinary activities	7	(8,082)	(5,024)
Profit for the year from continuing operations		31,997	19,323

The group's results for the year above are wholly attributable to the owners of the parent company.

Consolidated statement of comprehensive income
For the year ended 31 December 2022

	2022	2021
	£'000	£'000
Profit for the year	<u>31,997</u>	<u>19,323</u>
Items that will not be reclassified subsequently to profit or loss		
Actuarial (loss) / gain on defined benefit pension schemes (note 23)	(54,668)	28,383
Tax relating to components of other comprehensive income not reclassified		
UK deferred tax attributable to actuarial (loss) / gain (note 7)	<u>13,667</u>	<u>(12,149)</u>
	<u>(41,001)</u>	<u>16,234</u>
Other comprehensive (expense) / income for the year net of tax	<u>(41,001)</u>	<u>16,234</u>
Total comprehensive (expense) / income for the year	<u><u>(9,004)</u></u>	<u><u>35,557</u></u>

Consolidated statement of financial position
As at 31 December 2022

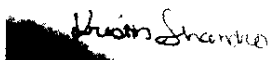
	Notes	2022 £'000	2021 £'000
Non-current assets			
Goodwill	9	9,585	9,585
Retirement benefit surplus	23	59,855	110,233
Other intangible assets	10	3,820	4,764
Property, plant and equipment	11	61,696	59,746
Right-of-use assets	12	10,405	17,500
Finance lease receivables	15	263	561
Trade and other receivables	17	15,442	10,365
		<u>161,066</u>	<u>212,754</u>
Current assets			
Inventories	14	108,669	77,275
Finance Lease Receivables	15	256	328
Trade and other receivables	17	114,690	105,162
Cash and cash equivalents	27	28,140	12,161
Current tax assets		-	192
		<u>251,755</u>	<u>195,118</u>
Total assets		<u>412,821</u>	<u>407,872</u>
Current liabilities			
Trade and other payables	19	(139,951)	(116,217)
Short-term lease liability	20	(6,382)	(10,559)
Borrowings	21	(25,239)	(143)
Provisions for liabilities	22	(12,801)	(8,539)
Deferred income		(9,607)	(5,846)
Current tax Liability		(1,720)	-
		<u>(195,700)</u>	<u>(141,304)</u>
Net current assets		<u>56,055</u>	<u>53,814</u>
Non-current liabilities			
Borrowings	21	(297)	(25,674)
Deferred tax liabilities	7	(15,878)	(28,080)
Long-term provisions for liabilities	22	(1,181)	(1,919)
Deferred revenue		(14,378)	(9,364)
Lease liabilities	20	(9,756)	(14,347)
Liability for share based payments		(589)	(502)
		<u>(42,079)</u>	<u>(79,886)</u>
Total liabilities		<u>(237,779)</u>	<u>(221,190)</u>
Net assets		<u>175,042</u>	<u>186,682</u>

Consolidated statement of financial position (continued)
As at 31 December 2022

	Notes	2022 £'000	2021 £'000
Equity			
Share capital	24	45,882	45,882
Retained earnings	25	129,160	140,800
		<u>175,042</u>	<u>186,682</u>
Equity attributable to owners of the company		<u>175,042</u>	<u>186,682</u>

These financial statements were approved by the Board of Directors and authorised for issue on 31 May 2023.

They were signed on its behalf by:



K N Shandro
 Director
 31 May 2023

Parent company statement of financial position
As at 31 December 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Goodwill	35	232	232
Retirement benefit surplus	23	59,855	110,233
Other intangible assets	36	3,818	4,759
Property, plant and equipment	37	55,086	54,314
Right-of-use assets	38	10,343	17,438
Investments	39	20,229	20,229
Finance lease receivables	15	262	561
Trade and other receivables	43	14,233	10,366
		<u>164,058</u>	<u>218,132</u>
Current assets			
Inventories	41	96,269	66,948
Finance Lease receivables	15	256	328
Trade and other receivables	43	108,556	100,620
Cash and cash equivalents		29,196	9,606
Current tax asset		-	447
		<u>234,277</u>	<u>177,949</u>
Total assets		<u><u>398,335</u></u>	<u><u>396,081</u></u>
Current liabilities			
Trade and other payables	45	(142,352)	(115,534)
Short-term lease liabilities	46	(6,339)	(10,516)
Borrowings	47	(25,240)	(143)
Provisions for liabilities	48	(12,700)	(8,437)
Deferred revenue		(9,588)	(5,838)
Current tax liability		(688)	-
		<u>(196,907)</u>	<u>(140,468)</u>
Net current assets		<u>37,370</u>	<u>37,481</u>
Non-current liabilities			
Borrowings	47	(297)	(25,674)
Deferred tax liabilities	40	(16,012)	(28,604)
Long term provisions for liabilities	48	(1,181)	(1,919)
Deferred revenue		(14,378)	(9,364)
Lease liabilities	46	(9,736)	(14,327)
Liability for share based payments		(589)	(502)
		<u>(42,193)</u>	<u>(80,390)</u>
Total liabilities		<u><u>(239,100)</u></u>	<u><u>(220,858)</u></u>
Net assets		<u><u>159,235</u></u>	<u><u>175,223</u></u>

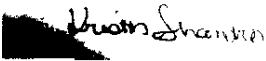
Parent company statement of financial position (continued)
As at 31 December 2022

	Notes	2022 £'000	2021 £'000
Equity			
Share capital	24	45,882	45,882
Retained earnings	49	113,353	129,341
		<u>159,235</u>	<u>175,223</u>
Equity attributable to owners of the company		<u>159,235</u>	<u>175,223</u>

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company. The profit for the financial year dealt with in the financial statements of the parent company was £27,649,000 (2021: £15,741,000) and OCI for the year was £(41,001,000) (2021: £16,234,000).

These financial statements were approved by the Board of Directors and authorised for issue on 31 May 2023.

They were signed on its behalf by:



K N Shandro
 Director
 31 May 2023

Consolidated statement of changes in equity

	Share capital £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2021	45,882	139,690	185,572
Profit for the year	-	19,323	19,323
Other comprehensive income	-	16,234	16,234
Total comprehensive income for the year	-	35,557	35,557
Dividends (note 8)	-	(34,447)	(34,447)
Balance at 31 December 2021	45,882	140,800	186,682
Profit for the year		31,997	31,997
Other comprehensive expense		(41,001)	(41,001)
Total comprehensive expense for the year		(9,004)	(9,004)
Dividends (note 8)		(2,636)	(2,636)
Balance at 31 December 2022	45,882	129,160	175,042

Consolidated statement of cash flows
For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
OPERATING ACTIVITIES			
Profit for the period		31,997	19,323
Adjustments for:			
Net finance costs	5,6	(6)	1,381
Income tax charge	7	8,082	5,024
Depreciation of property, plant and equipment	11	10,670	10,541
Depreciation of right-of-use assets	12	7,501	8,977
Amortisation of intangible assets	10	1,343	1,335
Gain on disposal of property, plant and equipment	3	(11)	22
Share based payments expense		1,642	1,684
Increase in provisions		14,500	8,185
Adjustment for pension operating costs	23	947	831
Effect of currency translation		(392)	57
Operating cash flows before movements in working capital		76,273	57,360
(Increase) / Decrease in inventories		(29,408)	(10,134)
(Increase) / Decrease in receivables		(14,648)	(12,990)
Increase / (Decrease) in payables		18,418	(4,687)
Cash generated by operations		50,635	29,549
Income taxes paid		(4,242)	(1,900)
Interest paid		(1,684)	(2,478)
Net cash from operating activities		44,709	25,171
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(16,397)	(13,216)
Purchases of intangible assets		(397)	(891)
Proceeds on disposal of property, plant and equipment		140	229
Interest received		115	17
Acquisition of subsidiary		-	(5,307)
Net cash from investing activities		(16,539)	(19,168)
FINANCING ACTIVITIES			
Repayment of borrowings		(327)	(261)
New borrowings		-	-
Repayment of lease liabilities		(8,672)	(10,689)
Dividends paid	8	(2,636)	(34,447)
Net cash used in financing activities		(11,635)	(45,397)
Cash and cash equivalents at beginning of the year	27	12,161	51,588
Movement in cash and cash equivalents during the year		16,535	(39,394)
Effect of foreign exchange rate changes		(556)	(33)
Cash and cash equivalents at end of the year	27	28,140	12,161

Parent company statement of changes in equity

	Share capital £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2021	45,882	131,813	177,695
Profit for the year	-	15,741	15,741
Other comprehensive income	-	16,234	16,234
Total comprehensive income for the year	-	31,975	31,975
Dividends (note 8)	-	(34,447)	(34,447)
Balance at 31 December 2021	45,882	129,341	175,223
Profit for the year	-	27,649	27,649
Other comprehensive expense	-	(41,001)	(41,001)
Total comprehensive expense for the year	-	(13,352)	(13,352)
Dividends (note 8)	-	(2,636)	(2,636)
Balance at 31 December 2022	45,882	113,353	159,235

Notes to the consolidated financial statements For the year ended 31 December 2022

General information

Finning (UK) Ltd (the company) is a privately owned company limited by shares, incorporated in the United Kingdom under the Companies Act. Its parent and ultimate holding company is Finning International Inc. The address of its registered office and principal place of business is Watling Street, Bridgetown, Cannock, Staffordshire, England, WS11 8LL. The principal activities of the company and its subsidiaries (the group) are described in the Strategic report. These financial statements are presented in Pounds Sterling.

Statement of accounting policies

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB). The consolidated financial statements have been prepared in accordance with the accounting policies presented below and are based on the IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective as of 31 December 2022. The company meets the definition of a qualifying entity under FRS100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The company financial statements which form part of these financial statements have therefore been prepared in accordance with FRS 101 'Reduced Disclosure framework', as issued by the Financial Reporting Council, and there were no objections by the shareholders of the company to this being applied. The policies set out below were consistently applied to all the periods presented unless otherwise noted.

These Financial Statements were prepared under the historical cost basis (liabilities for share-based payment arrangements that are in line with IFRS 2 and defined benefit pension obligations, which have been measured at fair value). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. The preparation of these financial statements requires the use of certain accounting estimates and requires management to exercise judgement in applying the company's accounting policies. The areas where assumptions, estimates and judgements are significant to the consolidated financial statements are disclosed below.

The significant accounting policies used in these financial statements are as follows:

(a) Principles of consolidation

The Financial Statements include the accounts of Finning (UK) Ltd, which includes Finning (UK) Ltd's wholly owned subsidiaries. Subsidiaries are those entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from the investee's activities, generally accompanying a shareholding that confers more than half of the voting rights. For interests acquired or disposed of during the year, the results of operations are included in the consolidated statements of income from, or up to, the date of the transaction, respectively.

The consolidated financial statements incorporate the financial statements of the company and entities (including structured entities) controlled by the company and its subsidiaries. Control is achieved when the company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Notes to the consolidated financial statements (continued) For the year ended 31 December 2022

Statement of accounting policies (continued)

(a) Principles of consolidation (continued)

When the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power, including:

- the size of the company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the company gains control until the date when the company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the company.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

(b) Going concern

As disclosed in the directors' report the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and as such the going concern basis has been adopted in preparing the annual report and financial statements. Refer to the strategic report and directors' report on pages 2 to 14 for details of key judgements applied in supporting the group's going concern assumption.

(c) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) for the consolidated financial statements and FRS 101 'Reduced Disclosure framework' for the company financial statements requires management to make judgements, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from those judgements, estimates, and assumptions.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Defined benefit pension plans

The company has a defined benefit pension plan that provides pension and other benefits to its employees. Actuarial valuations are based on assumptions which include employee turnover, salary escalation rates, mortality rates, discount rates, and expected rate of return on retirement plan assets. Judgement is exercised in setting these assumptions. These assumptions impact the measurement of the retirement benefit obligation, the pension expense and the actuarial gains and losses recognised in other comprehensive income. The sensitivity of defined benefit pension plans to fluctuations in discount rate, inflation and life expectancy has been disclosed in note 23.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022**Statement of accounting policies (continued)****(c) Critical accounting judgements and key sources of estimation uncertainty (continued)****Key sources of estimation uncertainty (continued)**Recognition – contracts with customers recognised over time

Where the outcome of a contract with a customer recognised over time can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date, measured primarily based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Significant estimation assumptions are required to estimate total contract costs which are recognised as expenses in the period in which they are incurred. It is not practical to disclose the sensitivity of contracts due to fluctuations in contract values and total contract costs. The carrying value of the amounts that would be affected by such sensitivities are disclosed in note 16.

Critical judgements in applying accounting policies

There are no critical judgements, apart from those involving estimations, that the directors have made in the process of applying the group's accounting policies

(d) Foreign currency translation

These Financial Statements are presented in pounds sterling, which is the functional currency of the parent company. Transactions undertaken in foreign currencies are translated into pounds sterling at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated into pounds sterling as follows:

- Monetary assets and liabilities are translated at exchange rates in effect at the statement of financial position dates or at forward rates to the extent that related currency contracts are in place, and non-monetary items are translated at historical exchange rates; and
- Foreign exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary items designated as hedges, in which case the gain or loss is deferred and accounted for in conjunction with the hedged item.

(e) Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are stated at the lower of cost and net realisable value. Cost is determined on a specific item basis for on-hand equipment, and on a first in first out basis for parts and supplies. The cost of inventories includes all costs of purchase, conversion costs, and other costs incurred in bringing inventories to their existing location and condition. In the case of internal service work in progress on equipment, cost includes an appropriate share of overhead costs based on normal operating capacity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Provision for inventory obsolescence

The group makes estimates of the provision required to reflect obsolescence of inventory. These provisions are determined on a specific item basis for equipment, and on the basis of age, redundancy, and inventory levels for parts and supplies. Due to the movements in the used equipment market, it is impractical to determine the sensitivity of inventory obsolescence to such changes. The carrying amounts of the assets to which the provisions relate are disclosed in note 14.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

Statement of accounting policies (continued)

(f) Income taxes

The balance sheet method of tax allocation is used in accounting for income taxes. Under this method, the carry forward of unused tax losses and unused tax credits and the temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the statement of financial position are used to calculate deferred tax assets or liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the carry forward of unused tax losses, unused tax credits, and the deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the asset is realised or the liability is settled based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognised in income and/or equity in the period that the change becomes substantively enacted.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed using tax rates enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its tax assets and liabilities on a net basis.

UK corporation tax is provided at amounts to be paid (or recorded) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The group is part of a United Kingdom group and accordingly may use the statutory provisions whereby current taxable profits and corporation tax liabilities can be offset by current tax losses arising in other group undertakings.

(g) Rental equipment and right-of-use rental equipment

Rental equipment is available for short and medium term rentals and is recorded at cost, net of accumulated depreciation and impairment losses. Cost is determined on a specific item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line basis over 3-8 years. Rental assets that become available for sale after being removed from rental fleets are transferred to inventory.

Finance assets on the consolidated statement of financial position include equipment leased to customers on long-term financing leases. Depreciation of equipment leased to customers is provided in equal monthly amounts over the terms of the individual leases after recognising the estimated residual value of each unit at the end of each lease.

Depreciation for rental equipment and equipment leased to customers is recorded in the consolidated income statement.

Asset lives and residual values

Rental fleet is depreciated to its estimated residual value over its estimated useful life. Depreciation expense is sensitive to the estimated service lives determined for each type of rental asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs. Any impairment to the actual lives and residual lives of the rental fleet could result in a material change to the depreciation expense. The carrying value of the rental fleet equipment is disclosed in notes 11 and 12 for owned and right-of-use assets respectively.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

Statement of accounting policies (continued)

(h) Property, plant and equipment and right-of-use assets (ROU)

Property, plant and equipment and ROU are recorded at cost, net of accumulated depreciation and accumulated impairment losses. Depreciation of property, plant and equipment and ROU is recorded in the consolidated income statement. Depreciation commences when the asset becomes available for use and ceases when the asset is derecognised or classified as held for sale. Where significant components of an asset have different useful lives, depreciation is calculated on each separate part.

All classes of property, plant, and equipment and ROU are depreciated over their estimated useful lives to their estimated residual value on a straight-line basis using the following annual rates:

Freehold land & buildings	2% - 10% per annum
Long leasehold land & buildings	2% – 10% per annum, ensuring that assets are not depreciated over longer than the lease term
Equipment and fixtures & fittings	12.5% - 25% per annum
Motor vehicles (included within equipment)	25% per annum
IT equipment	20% - 33.33% per annum
Rental equipment	11.25% straight line for the first 8 years then held at 10% residual value

Property, plant, and equipment held under ROU are depreciated over the term of the relevant lease.

(i) Revaluation of properties

The group had previously taken advantage of the transitional provisions of Financial Reporting Standard No.15 “Tangible Fixed Assets” and retained the book amounts of certain freehold properties which were revalued prior to the implementation of that standard. The properties were last revalued in 1988 and the valuations have not subsequently been updated. On transition to IFRS these revaluations were reversed retrospectively through application of the cost model in IAS16, except for certain revaluations that took place prior to the initial acquisition of certain companies within Finning. For the pre-acquisition revaluation the group has elected under IFRS 1, *First time adoption*, to use the previous GAAP revaluation (previously revalued under UK GAAP in 1980) as deemed cost at the date of revaluation.

(j) Intangible assets

Intangible assets with indefinite lives are not amortised. Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives. Intangible assets, such as software, customer lists, and similar assets, are amortised over the periods during which they are expected to generate benefits, which do not exceed ten years. Amortisation is recorded in selling, general, and administrative expenses in the consolidated statement of income.

(k) Goodwill

Goodwill represents the excess of the acquisition date fair value of consideration transferred over the fair value of the identifiable net assets acquired. Goodwill is not amortised but is reviewed for impairment at least annually.

This is applicable to business combinations completed on or after 1 January 2011.

(l) Asset impairment

Goodwill and intangible assets with indefinite lives or those which are not yet available for use are subject to an annual assessment for impairment unless events or changes in circumstances indicate that their value may not be fully recoverable, in which case the assessment is done at that time. Tangible assets and intangible assets with finite lives are subject to assessment for impairment whenever there is an indicator that they may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the group’s cash generating units expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes and is not higher than an operating segment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

Statement of accounting policies (continued)

(l) Asset impairment (continued)

recognised immediately in the consolidated statement of income. Impairment reversals are recognised immediately in net income when the recoverable amount of an asset increases above the impaired net book value, not to exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. Impairment losses recognised for goodwill are never reversed.

(m) Leases

At inception of a contract, the group assesses whether the contract is or contains a lease.

The group as lessor

Revenue from equipment rentals and operating leases is presented as equipment rental revenue and in accordance with the terms of the relevant agreement with the customer, either recognized evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used.

The group as lessee

At the commencement of the lease, the group recognizes a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The right-of-use asset at inception includes the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is recorded in selling, general, and administrative expenses for all assets except leases of rental equipment, where depreciation is recorded in cost of sales in the consolidated statement of net income. Depreciation is recorded on a straight-line basis over the shorter of the term of the lease or the estimated useful life of the underlying asset, commencing when the asset becomes available for use.

Right-of-use assets are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for a right-of-use asset, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

The lease liability is initially measured at the present value of the remaining lease payments that have not been paid at the commencement date, discounted by using the group's incremental borrowing rate unless the rate implicit in the lease is readily determinable.

Lease payments over the estimated lease term included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and,
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

(m) Leases

The group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term changes or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate,
- The lease payments change due to a change in an index, rate, or expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; or,
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

Statement of accounting policies (continued)

(m) Leases (continued)

The right-of-use asset is presented separately to property, plant, and equipment and the lease liability is presented within accounts payable and accruals (current portion) and long-term lease liabilities (non-current portion) on the statement of financial position.

Short-term leases and leases of low-value assets

The group has elected not to recognize right-of-use assets and lease liabilities for leases that have a term of 12 months or less and leases of low-value assets. The group recognizes these lease payments as an expense on a straight-line basis over the lease term.

Sale and leaseback transactions

If a sale and leaseback transaction results in the recognition of a lease, any excess of sale proceeds over the carrying amount is deferred and amortised over the lease term. The asset is capitalised at its sale price and depreciation is charged in accordance with the policy stated above. Rentals payable to the lessor are apportioned between the finance charge and a reduction in the outstanding obligation for future amounts payable. The total finance charge is allocated to accounting periods during the lease term so as to produce a reasonable approximation of a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Leases

The group is required to make judgments in determining the lease term. Management considers all facts and circumstances, including economic incentives to exercise an extension option and its asset management strategy. Extension options are only included in the lease term if the lease is reasonably certain to be extended. Most of the group's extension options relate to lease of properties in the group's operations and are evaluated based on management's long-term facility strategy.

(n) Decommissioning, restoration and similar liabilities

The group recognises its legal and constructive obligation for the decommissioning of certain tangible long-lived assets. The provision is measured based on the net present value of management's best estimate of the expenditures that will be made. The discount rate used to discount the decommissioning liability is determined with reference to the specific risks associated with the underlying assets. The associated decommissioning costs are capitalised as part of the carrying amount of the long-lived asset and then amortised over the estimated useful life. The increase in the net present value of the provision for the expected decommissioning cost is included in finance costs. Subsequent changes in the estimate of costs relating to the decommissioning of long lived assets are capitalised as part of the cost of the item and depreciated prospectively over the remaining life of the item to which the costs relate. A gain or loss may be incurred upon settlement of the liability.

(o) Revenue recognition

Revenue is recognised when or as the group transfers control of goods or services to a customer at the amount to which the group expects to be entitled.

Revenue is recognised when control of the goods is transferred to the customer at a point-in-time for the following revenue streams:

- Revenue from sales of new and used equipment (except for complex power and energy systems) is recognised when control passes to the customer, which is generally at the time of shipment of the equipment to the customer or when commissioning of equipment is complete. Revenue is recorded at the estimated amount of consideration to which the group expects to be entitled, including any non-cash consideration when used equipment is accepted for trade-in value.
- Revenue from sales of parts inventory is recognised when control of the part is transferred to the customer, which is generally upon shipment to the customer or when the customer collects their purchase from one of the group's locations. Revenue from the sales of parts inventory is initially recorded at the estimated amount of consideration to which the group expects to be entitled. If applicable, management recognises an obligation for items such as refunds, incentives, and discounts with a corresponding reduction in product support revenue. The value of the obligation is estimated based on the terms of the contract, customary business practices, and historical experience.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

Statement of accounting policies (continued)

(o) Revenue recognition (continued)

Revenue is recognised in a manner that best reflects the group's performance over-time for the following revenue streams:

- Revenue from sales of complex power and energy systems involving the design, installation, and assembly of power and energy systems is estimated as the amount of consideration to which the group expects to be entitled. Revenue is recognised on a percentage of completion basis proportionate to the work that has been completed and is based on associated costs incurred.
- For sale of parts through servicing of equipment, revenue is recognised as the service work is performed based on parts list price and standard billing labour rates. Product support is also offered to customers in the form of long-term contracts. For these contracts, revenue is recognised on a basis proportionate to the service work that has been performed based on associated costs incurred. For certain long-term product support contracts where flat-rate labour or a monthly subscription service is provided, the group recognises revenue for labour on a straight-line basis. Revenue from product support under long-term contracts is estimated based on the number and types of services expected to be performed using the pricing terms set out in the contract.

Revenue from equipment rentals and operating leases is presented as equipment rental revenue:

- Revenue from equipment rentals and operating leases is recognised in accordance with the terms of the relevant agreement with the customer, either recognised evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used.

Periodically, revenue from customers under long-term contracts may be recognised in advance of billing the customer. To the extent the group has a right to receive consideration for the good or service transferred to the customer, the group recognises a contract asset. Similarly, amounts may be received from customers under long-term contracts in advance of the work being performed and the group recognises a contract liability. These amounts are recorded on the consolidated statement of financial position as contract assets and contract liabilities, respectively.

If it is expected that the unavoidable costs required to satisfy the remaining performance obligations of a revenue contract will exceed its expected economic benefits, the group recognises an onerous provision with a corresponding loss in the consolidated statement of net income.

A number of the group's sales agreements contain "buy-back" arrangements that may be exercised at the option of the customer within specified periods in the future. Where there is an economic incentive for the customer to exercise their option, revenue and costs are deferred and recognised over the buy-back period. The full value of the potential liability is recognised immediately together with an equivalent inventory balance. The inventory balance is re-assessed on an on-going basis and the value is impaired where indications are such that the market value of the item will be lower than the agreed buyback price.

Revenue recognition – repurchase guarantees

Guaranteed residual values are periodically given on repurchase commitments with customers. The likelihood of the repurchase commitments being exercised is assessed at the inception of the contract to determine whether significant risks and rewards have been transferred to the customer and if revenue should be recognised. The likelihood of the repurchase guarantees being exercised, and quantification of the possible loss, if any, on resale of the equipment is assessed at the inception of the contract and at each reporting period thereafter. Significant assumptions are made in estimating residual values. These are assessed based on past experience and take into account expected future market conditions and projected disposal values. It is not practical to determine the sensitivity of such transactions due to fluctuations in the underlying market value of the equipment. The carrying value of the current obligation and maximum potential exposure are disclosed in note 30.

(p) Share-based payments

The group has share option plans and other share-based compensation plans for directors and certain eligible employees including cash and equity settled schemes, as well as a scheme where the employee has a choice of settlement in either cash

Notes to the consolidated financial statements (continued) For the year ended 31 December 2022

Statement of accounting policies (continued)

(p) Share-based payments (continued)

or shares. Share-based awards are measured at fair value, excluding the effect of non-market based vesting conditions. Fair value is measured by using the Black-Scholes model.

For equity settled share-based payments, fair value is determined on the grant date of the share option and recorded over the vesting period, based on the group's estimate of options that will vest, with a corresponding increase in intragroup payable.

When share options are exercised, the proceeds received by the ultimate group, together with any related amount recorded in contributed surplus, are credited to the ultimate group share capital. Contributed surplus is made up of the fair value of share options.

Cash settled share-based compensation plans are recognised as a liability. Compensation expense which arises from fluctuations in the fair value of the group's cash settled share-based compensation plans (net of hedging instruments) is recognised in selling, general, and administrative expense in the consolidated statement of income with the corresponding liability recorded on the statement of financial position in long-term obligations.

Total Shareholder Return Performance Share Units are measured at fair value using the Black-Scholes model and all other cash-settled share-based awards are measured at fair value using the period-end closing share price. Cash settled share-based compensation plans are recognised as a liability. Compensation expense which arises from fluctuations in the fair value of the group's cash settled share-based compensation plans (net of hedging instruments) is recognised in selling, general, and administrative expense in the consolidated statement of income with the corresponding liability recorded on the statement of financial position in long-term obligations.

(q) Employee future benefits

The group and its subsidiaries offer a number of benefit plans that provide pension and other benefits to many of its employees in the U.K. These plans include defined benefit and defined contribution plans.

Defined benefit plans: The cost of pensions and other retirement benefits is determined by independent actuaries using the projected unit credit method prorated on service and management's best estimates of assumptions including the salary escalation rate and the use of a discount rate based on high quality corporate bond yields.

Administration costs (net of employee contributions) and net interest costs are recognised as a charge to operating profit and finance costs, respectively, in the consolidated income statement. Net interest cost is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full directly in other comprehensive income in the period in which they occur.

The amount recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation. Any asset is limited to the unrecognised past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

Defined contribution plans: The cost of pension benefits includes the current service cost, which comprise the actual contributions made and accrued by the company during the year. These contributions are based on a fixed percentage of member earnings for the year and are charged to the consolidated statement of income as they become due. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the consolidated statement of financial position.

(r) Government grants

Furlough grants claimed to cover employee costs who have been furloughed during the pandemic are recognised in the Consolidated Statement of Comprehensive Income in the same period in which the related expense occurred. Related costs and income have been included in administrative expenses.

Notes to the consolidated financial statements (continued) For the year ended 31 December 2022

Statement of accounting policies (continued)

(s) Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operations meeting the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is represented as if the operation has been discontinued from the start of the comparative year.

(t) Financial instruments and hedges

Financial assets and financial liabilities

Classification

The group and company has made the following classification of its financial assets and financial liabilities:

Accounts receivable, instalment and other notes receivable, and supplier claims receivable are classified as Financial assets measured at amortised cost. They are measured at amortised cost using the effective interest method. Short-term and long-term debt and accounts payable are classified as "other financial liabilities". They are measured at amortised cost using the effective interest method. Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability (except those classified as fair value through profit or loss "FVTPL") are included in the carrying amount of the financial asset or financial liability, and are amortised to finance income or finance charges using the effective interest method.

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Included within the allowance account is a provision for lifetime expected credit losses (ECL). The group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a calculation based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Fair value of cash and cash equivalents, is estimated at its carrying amount where the cash is repayable on demand.

Derivatives

All derivative instruments are recorded on the consolidated statement of financial position at fair value.

Hedges

Gains and losses relating to forward foreign exchange contracts that are not designated as hedges for accounting purposes are recorded in selling, general, and administrative expenses.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2022

Statement of accounting policies (continued)

(u) Amendments to Standards and New Accounting Standard

In the current year, the group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022 (except as noted below). Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements except to that noted below.

The group has adopted the following new accounting standard and interpretation:

- Amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*, collectively named 'Interest Rate Benchmark Reform – Phase 2' (effective January 1, 2021). The amendments provide relief for modifications of financial contracts and leases and the discontinuation of hedge accounting required solely by Interest Rate Benchmark Reform. The amendments include a practical expedient to apply the change in the basis for determining the contractual cash flows prospectively by revising the effective interest rate. A similar practical expedient is also provided for modifications of the cash flows of lease liabilities. In relation to hedge accounting, the amendments introduce an exception to the existing requirements so that changes in the formal designation of a hedge accounting relationship that are needed to reflect the changes required by Interest Rate Benchmark Reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship. These amendments did not impact the Company's consolidated financial statements.
- Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (effective January 1, 2022) clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling the contract. The amendments apply to contracts existing at the date when the amendments are first applied. On adoption of this amendment, there will be no impact to the groups's consolidated financial statements.

(v) New and revised IFRSs in issue but not yet effective

As at the date of authorisation of these financial statements, the group has not applied the following new standards and amendments to standards that have been issued but are not yet effective.

- IFRS 17, *Insurance Contracts* (effective January 1, 2023) replaces IFRS 4, *Insurance Contracts*, and establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts. The amendments apply to contracts existing at the date when the amendments are first applied. Management is currently assessing the impact of these amendments.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2023):
 - Clarify the presentation of liabilities in the consolidated statement of financial position. The classification of liabilities as current or non-current is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer or accelerate settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of these amendments.
 - Require entities to disclose their material accounting policy information rather than significant accounting policy information. The amendments provide guidance on how an entity can identify material accounting policy information and clarify that information may be material because of its nature, even if the related amounts are immaterial. Management will review and update the group's financial statements to disclose material accounting policy information as appropriate when the amendments become effective.
- Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (effective January 1, 2023) introduce a definition of 'accounting estimates' and clarify the difference between changes in accounting policies and changes in accounting estimates. These amendments will impact changes in accounting policies and changes in accounting estimates made after these amendments are adopted by the group.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

Statement of accounting policies (continued)

(v) New and revised IFRSs in issue but not yet effective (continued)

- Amendments to IAS 12, *Income Taxes* (effective January 1, 2023) clarify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability. Management is currently assessing the impact of these amendments.
- Amendments to IFRS 16, *Leases* (effective January 1, 2024) explain how an entity accounts for a sale and leaseback after the transaction date. The amendments clarify how a seller-lessee should subsequently measure lease liabilities and when it is appropriate to record a gain or loss on these transactions. The amendments apply to all sale and leaseback transactions entered since the effective date of IFRS 16 (January 1, 2019) and the effective date of this amendment. These amendments are not expected to have any impact on the group's financial statements at this time because from January 1, 2019 to December 31, 2022 the group did not enter into any sale and leaseback transactions. However, management will consider these amendments in the accounting treatment of future sale and leaseback transactions.

(w) Company exemptions taken

As permitted by FRS 101, exemptions from applying the following requirements have been adopted for the company disclosures (full consolidated disclosures as required by IFRS have been included in consolidated elements of these financial statements)

- a) IFRS 7 'Financial Instruments: Disclosures'
- b) IAS 1 'Presentation of Financial Statements' paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136
- c) IAS 1 'Presentation of Financial Statements' paragraph 38 (requirement to present comparative information) in respect of
 - i. IAS 1 'Presentation of Financial Statements' paragraph 79 (a) (iv)
 - ii. IAS 16 'Property, Plant and Equipment' paragraph 73(e)
 - iii. IAS 38 'Intangible Assets' paragraph 118 (e) and
 - iv. IAS 40 'Investment Property' paragraph 76 and 79 (d)
- d) IAS 7 'Statement of Cash flows'
- e) IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraph 30 and 31
- f) IAS 24 'Related Party Disclosures' paragraph 17 and 18 (a)
- g) IFRS 2 'Share-Based Payments' paragraphs 45(b) and 46 to 52
- h) IAS 36 'Impairment of assets' paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e)
- i) IFRS 3 'Business Combinations' paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67
- j) IFRS 13 'Share-Based Payments' paragraphs 45(b) and 46 to 52
- k) IFRS 15 'Revenue from Contracts with Customers' the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129
- l) IFRS 16 'Leases' paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 9

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

1 Revenue - group

An analysis of the group's revenue and other income is as follows:

	2022	2021
	£'000	£'000
Sale of goods	708,245	536,748
Revenue from construction contracts	28,987	29,864
Equipment leasing income	18,347	23,848
Revenue	<u>755,579</u>	<u>590,460</u>
Timing of revenue recognition		
Point in time	586,181	430,251
Over time	144,613	136,361
Equipment leasing income	24,785	23,848
Revenue	<u>755,579</u>	<u>590,460</u>

2 Operating segments – group

Information reported to the group's executives for the purposes of resource allocation and assessment of segment performance is focused on strategic business units that offer different products and services. They are managed separately because each business has differing commercial, technological and marketing strategies.

The group has two reportable segments: equipment solutions and power systems. The equipment solutions segment supplies and hires Caterpillar heavy and general construction equipment, and provides after-sales services, under dealership agreements. The power systems segment provides Caterpillar, MaK and Perkins Sabre Power and Energy Systems to marine, power generation, industrial and OEM customers.

All turnover and net assets originate from the United Kingdom. All non-current assets other than financial instruments, deferred tax assets, and post-employment benefit assets are located in the UK.

Turnover by destination

	2022	2021
	£'000	£'000
United Kingdom	711,734	562,405
Ireland	21,972	14,399
Rest of Europe	13,769	8,581
Middle East and Asia	2,183	1,743
Africa	102	110
Other	5,819	3,222
	<u>755,579</u>	<u>590,460</u>

No single customer contributed 10% or more to the group's revenue in either 2022 or 2021.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

2 Operating segments – group (continued)

The reportable operating segments are as follows:

For the year ended 31 December 2022 (£'000)	Equipment Solutions	Power Systems	Other	Total
Revenue				
Point in time	479,104	114,248	(7,170)	586,182
Over time	91,101	53,536	(24)	144,613
Equipment leasing income	19,838	4,947	-	24,785
	590,043	172,730	(7,194)	755,579
Operating costs	(529,609)	(150,547)	(35,350)	(715,506)
Operating profit / (loss)	60,434	22,183	(42,543)	40,073
Finance income	43	107	-	150
Finance charges	(580)	(100)	536	(144)
Profit / (loss) on ordinary activities before taxation	59,897	22,189	(42,007)	40,079
Depreciation and amortisation	(14,972)	(559)	(4,093)	(19,624)
Short-term lease rentals	-	-	(1,094)	(1,094)
For the year ended 31 December 2021 (£'000)				
Revenue				
Point in time	340,487	90,378	(614)	430,251
Over time	83,027	53,346	(12)	136,361
Equipment leasing income	18,704	5,143	1	23,848
	442,218	148,867	(625)	590,460
Operating costs	(399,126)	(129,939)	(35,667)	(564,732)
Operating profit / (loss)	43,092	18,928	(36,292)	25,728
Finance income	44	17	-	61
Finance charges	(532)	(91)	(819)	(1,442)
Profit / (loss) on ordinary activities before taxation	42,604	18,854	(37,111)	24,347
Depreciation and amortisation	(15,889)	(1,589)	(3,375)	(20,853)
Short-term lease rentals	-	-	(1,419)	(1,419)

The Other operating segment largely relates to head office costs and intercompany revenue eliminations.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

2 Operating segments – group (continued)

The accounting policies of the reportable segments are the same as the group's accounting policies.

Profit or loss on ordinary activities before taxation for each segment represents the profit earned by each segment after allocation of certain central administration costs and taxation. This is the measure presented to the group's executives for the purpose of resource allocation and assessment of segmental performance, and the split of revenue above into operating segments is also considered by management to be the split by similar products and services.

Segmental analysis of the net assets by reporting segment are not regularly provided to the chief operating decision maker and have therefore not been disclosed.

3 Profit on ordinary activities before taxation - group

Profit on ordinary activities before taxation is stated after charging/(crediting)

	2022	2021
	£'000	£'000
Depreciation of owned assets		
- rental equipment	7,823	6,139
- other	2,847	2,768
Depreciation of assets held under finance leases		
- rental equipment	1,478	1,634
- other	-	-
Depreciation of right-of-use assets		
- buildings	618	414
- vehicles	2,681	3,157
- plant & equipment	250	241
- rental equipment	3,952	5,165
Gain on disposal of tangible fixed assets	(11)	22
Amortisation of intangible assets	1,345	1,335
Loss allowance on trade receivables	733	(86)
Short-term leases		
- plant and machinery	110	81
- other	984	1,338
Staff costs (note 4)	91,574	83,032
Net foreign exchange loss	501	56
Government grants (Furlough)	-	(177)
	<u> </u>	<u> </u>

Government grants largely relate to the UK Government Job Retention Scheme.

The analysis of auditor's remuneration is as follows:

	2022	2021
	£'000	£'000
Fees payable to the company's auditor for the audit of the company's annual consolidated financial statements	456	310
Fees payable to the company's auditor for other services to the group – the audit of the company's subsidiaries pursuant to legislation	-	70
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Fees payable to the group's auditors and their associates in respect of associated pension schemes	12	10
	<u> </u>	<u> </u>

Non-audit services provided by the company's auditor during the year amounted to £10,700 (2021: £43,000).

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

4 Staff costs – group

The average monthly number of employees (including executive directors) was:

	2022	2021
	Number	Number
Sales and administration	753	738
Production and engineering	736	667
	<u>1,489</u>	<u>1,405</u>

Their aggregate remuneration comprised:

	2022	2021
	£'000	£'000
Wages and salaries	77,004	69,820
Social security costs	8,051	6,930
Other pension costs (note 23)	4,876	4,598
Share-based payments	1,642	1,684
	<u>91,574</u>	<u>83,032</u>

Staff costs include amounts charged to operating profit and finance costs associated with the defined benefit retirement scheme.

Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	2022	2021
	£'000	£'000
Short-term employee benefits	1,041	897
Post-employment benefits	-	22
Share-based payments	583	104
	<u>1,624</u>	<u>1,023</u>

Three directors (2021: three) exercised options to purchase shares in Finning International Inc. during the year.

Pensions

The number of directors who were members of pension schemes was as follows:

	2022	2021
	Number	Number
Defined contribution scheme	3	3
Defined benefit schemes	1	1
	<u>4</u>	<u>4</u>

The defined benefit pension scheme which forms part of the above remuneration figures closed on 6 April 2012.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

4 Staff costs – group (continued)

Highest-paid director

The above amounts for remuneration include the following in respect of the highest-paid director:

	2022	2021
	£'000	£'000
Emoluments and long-term incentive schemes	<u>784</u>	<u>392</u>

Share-based payments

The group has share schemes over shares of the ultimate parent. The group had five (2021: six) share schemes in operation during the year, two of which are settled in shares (SIPs and stock options), two of which are cash-settled (PSUs and RSUs) and one where the scheme may be settled in cash or shares at the option of the employee (DSU-Bs). All share schemes in operation are in relation to the shares of the ultimate parent company, Finning International Inc. Finning International Inc. makes awards to employees of the group for stock options, PSUs, RSUs and DSUs. The group awards the share appreciation rights and the free matching shares under the share incentive plan.

The following table sets out the awards and options granted during 2022:

	Share Incentive Plan	Stock Options	PSUs	RSUs	DSUs
Number of shares/options awarded in 2022	<u>45,406</u>	<u>35,168</u>	<u>31,080</u>	<u>24,621</u>	<u>-</u>

The vesting of all awards or options is generally conditional upon participants remaining in the employment of a participating company during the vesting period.

The liabilities for the group's share schemes are held by its ultimate parent Finning International Inc.. Liabilities are settled in accordance with the vesting and exercise rules at the prevailing exchange rate.

The closing and average Canadian Dollar exchange rates for the year ended 31 December 2022 were £1 = CAD\$1.6322 (2021: CAD\$1.7132) and £1 = CAD\$1.6562 (2021: CAD\$1.7246), respectively.

Share Incentive Plan (SIP)

The Share Incentive Plan is an all employee share scheme subject to a 3 month service qualification period. Employees are able to save up to the lower of £150 per month and 10% of salary to purchase shares. The group provides one free matching share for every three partnership shares purchased by the employee. The group awards dividend accrued shares in respect of the free matching shares in relation to the time held in trust on behalf of the employees. The free matching shares are awarded to employees on a month by month basis as they purchase partnership shares and vest immediately. The scheme runs indefinitely until the employee cancels the scheme or leaves the group. The group retains the right to discontinue or vary the scheme. There is no performance condition for this scheme and the scheme is settled in shares.

Stock Options

Finning International Inc. has one stock option plan for certain employees and directors with vesting occurring over a three-year period and transactions being equity settled. The exercise price of each option is based on the weighted average trading price of the common shares of Finning International Inc. on the date prior to the grant. Under the 2005 Stock Option Plan, Finning International Inc. may issue up to 7.5 million common shares pursuant to the exercise of stock options. It is Finning International Inc.'s practice to grant and price stock options only when it is felt that all material information has been disclosed to the market.

The cost of all stock options granted is determined using the fair value-based method of accounting for stock options. This method of accounting uses an option-pricing model to determine the fair value of stock options granted which is amortised over the vesting period.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

4 Staff costs – group (continued)

Share-based payments (continued)

Stock Options (continued)

Details of the share option plans were as follows:

	2022	2022	2021	2021
	Number of	Weighted	Number of	Weighted average
	options	average	options	exercise price
	thousands	exercise price	thousands	exercise price
		CAD\$		CAD\$
Options outstanding at 1 January	238	25.97	285	24.02
Granted	35	24.93	36	33.11
Exercised	(33)	26.15	(83)	25.67
Cancelled	-	-	-	-
Lapsed	-	-	-	-
Options outstanding at 31 December	<u>240</u>	26.15	<u>238</u>	25.97
Options exercisable at 31 December	157	24.57	139	25.33
Range of option prices		17.75-34.02		17.75-33.68

The following tables set out weighted average information about how the fair value of each option grant was calculated using the Black-Scholes model:

	2022	2021
Weighted average share price	CAD\$34.00	CAD\$33.11
Option price	CAD\$8.00	CAD\$6.70
Expected dividend yield	3.07%	3.18%
Risk free interest rate	2.81%	0.98%
Expected volatility (i)	31.73%	31.37%
Expected life (years)	5.11	5.2

(i) Expected volatility is based on historical share price volatility of TSX:FTT shares.

The fair value of the matching Share Incentive Plan shares is equal to the share price on the date of grant as there is no option price to be paid and employees are entitled to dividend accrued shares. Hence the assumptions set out above are not relevant to this scheme.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

4 Staff costs – group (continued)

Share-based payments (continued)

Stock Options (continued)

Summarised information about options outstanding at 31 December 2022 is as follows:

	Options outstanding	
Option prices CAD\$ (i):	Number outstanding thousands	Weighted average remaining contract life years
21.83	20	0.36
26.79	29	1.37
33.68	19	2.37
33.63	2	2.37
32.03	4	2.62
22.31	36	3.37
22.3	0.1	3.37
17.75	57	4.37
17.84	2	4.37
33.11	34	5.39
33.09	2	5.39
34.02	30	6.38
33.9	5	6.38
	<hr/>	
	240	
	<hr/> <hr/>	

Other share-based payments plans

Exec DSU

Executive Deferred Share Unit (Exec DSU) Plan Under the Exec DSU Plan, executives of the Company may elect to have all or a portion of their annual bonus issued in the form of deferred share units and be awarded deferred share units as approved by the Board of Directors. The Exec DSU Plan utilizes notional units that become fully vested at the time of issuance or in accordance with terms set at the time of grant. Vested deferred share units are redeemable for cash before December 15th of the year following the year in which cessation of employment with the Company occurred. Only vested units accumulate dividend equivalents in the form of additional deferred share units based on the dividends paid on the Company's common shares.

DSU-Bs

Under the DSU-B Plan, executives of the Company may be awarded deferred share units as approved by the Board of Directors. The DSU-B Plan utilizes notional units that become vested in accordance with terms set at the time of grant. Vested deferred share units are redeemable for cash or for common shares of the Company for a period of 30 days following cessation of employment with the Company, or before December 31st of the year following the year of retirement, death, or disability. Deferred share units expire if they have not vested within five years from the grantdate. Only vested units accumulate dividend equivalents in the form of additional deferred share units based on the dividends paid on the Company's common shares. No units have been awarded under the DSU-B plan since 2005.

As at 31 December 2022 and 31 December 2021 all outstanding DSU-B units had vested.

PSUs

Under the PSU Plan, executives of the Company may be awarded performance share units as approved by the Board of Directors. This plan utilizes notional units that vest upon achieving future specified performance levels. All units accumulate dividend equivalents in the form of additional performance share units based on the dividends paid on the Company's common shares. All units, including accumulated dividend equivalents, are redeemed upon vesting.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

4 Staff costs – group (continued)

Share-based payments (continued)

Other share-based payments plans (continued)

RSUs

Under the RSU Plan, the Scheme utilises notional units that may become vested in accordance with terms set at the time of grant. All units accumulate dividend equivalents in the form of additional units based on the dividends paid on the company's common shares.

Restricted share units that have vested are redeemable in cash based on the five-day volume-weighted average trading price of the company's common shares at the end of the three-year period.

Details of the DSU, PSU, and RSU plans were as follows:

For the year ended 31 December 2022	DSU	PSU	RSU	Total
Units, 000's				
Outstanding, beginning of year	25	128	83	236
Additions	1	48	24	73
Exercised	-	(31)	(30)	(61)
Cancelled/forfeited	-	(8)	(5)	(13)
Outstanding, end of year	26	137	72	235
Vested, beginning of year	25	31	-	56
Vested during the year	1	69	29	99
Exercised	-	(31)	(29)	(61)
Vested end of year	26	69	-	95
Liability (CAD\$'000)				
Balance, beginning of year	791	2,649	1,388	4,828
Expensed	68	1,895	1,063	3,026
Exercised	-	(995)	(985)	(1,980)
Cancelled	-	(149)	(85)	(234)
Balance, end of year	859	3,400	1,381	5,640

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

4 Staff costs – group (continued)

Share-based payments (continued)

Other share-based payments plans (continued)

For the year ended 31 December 2021	DSU	PSU	RSU	Total
Units, 000's				
Outstanding, beginning of year	23	97	76	196
Additions	2	53	24	79
Exercised		(17)	(13)	(30)
Cancelled/forfeited	-	(5)	(4)	9
	<u>25</u>	<u>128</u>	<u>83</u>	<u>236</u>
Outstanding, end of year	25	128	83	236
Vested, beginning of year	23	17	-	40
Vested during the year	2	31	13	46
Exercised	-	(17)	(13)	(30)
	<u>25</u>	<u>31</u>	<u>-</u>	<u>56</u>
Vested end of year	25	31	-	56
Liability (CAD\$'000)				
Balance, beginning of year	405	1,330	732	2,467
Expensed	386	1,879	1,159	3,424
Exercised	-	(466)	(453)	(919)
Cancelled	-	(94)	(50)	(144)
	<u>791</u>	<u>2,649</u>	<u>1,388</u>	<u>4,828</u>
Balance, end of year	791	2,649	1,388	4,828

The fair value of the DSUs, ROIC PSUs, and RSUs outstanding as at 31 December 2022 has been estimated using the period-end closing share price of CAD\$33.66 (2021: CAD\$31.88).

The ultimate holding company manages the DSU scheme and only recharges Finning (UK) Ltd the relevant credit or expense on exercise of the DSUs. Exec DSUs are treated the same as RSUs and PSUs.

Exercises of DSU schemes resulted in a credit of £nil (2021: £ nil) from the ultimate holding company.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

4 Staff costs – group (continued)

Share-based payments (continued)

Other share-based payments plans (continued)

The impact of the share based payment plans on the group's consolidated financial statements was as follows:

	2022	2021
	£'000	£'000
Consolidated income statement		
DSU	23	77
PSU	1,006	923
RSU	499	570
	<u>1,528</u>	<u>1,570</u>
Expense on liability settled schemes	114	114
	<u>1,642</u>	<u>1,684</u>

	2022	2021
	£'000	£'000
Consolidated statement of financial position		
Carrying amount of liabilities	610	603

The total intrinsic value of liabilities for which the participating employees' rights to cash had vested at 31 December 2022 amounted to £2.1 million (2021: £1 million).

5 Finance income - group

	2022	2021
	£'000	£'000
Financial instruments measured at amortised cost:		
Interest receivable and similar income	150	61
	<u>150</u>	<u>61</u>

6 Finance charges – group

	2022	2021
	£'000	£'000
<i>Interest payable and similar charges</i>		
Bank loans and overdrafts	184	330
Loans from group undertakings	638	638
Interest on obligations under finance leases	909	1,572
Net interest on pension scheme (note 23)	(1,587)	(1,098)
	<u>144</u>	<u>1,442</u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

7 Tax on profit on ordinary activities - group

The tax charge comprises:

	2022	2021
	£'000	£'000
Current tax		
Current UK corporation tax at 19.00% (2021: 19.00%)	6,928	3,537
Adjustments in respect of prior years	(312)	283
	<u>6,616</u>	<u>3,820</u>
Deferred tax		
Origination and reversal of timing differences	766	1,436
Effect of change in tax rates	242	(17)
Adjustments in respect of prior years	457	(215)
	<u>1,465</u>	<u>1,204</u>
Tax on profit on ordinary activities	<u><u>8,082</u></u>	<u><u>5,024</u></u>

Factors affecting the total tax charge for the year

The tax assessed for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK 19.00% (2021:19.00%). The differences are explained below:

	2022	2021
	£'000	£'000
Profit on ordinary activities before tax	<u>40,091</u>	<u>24,347</u>
Tax at 19.00% thereon (2021: 19.00%)	7,617	4,626
Effect of:		
Expenses not deductible for tax purposes	277	348
Effect of tax rate reduction	242	(17)
Adjustments to tax charge in respect of previous periods	(52)	67
	<u><u>8,082</u></u>	<u><u>5,024</u></u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

7 Tax on profit on ordinary activities – group (continued)

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

	2022	2021
	£'000	£'000
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Defined benefit pension scheme actuarial loss / (gain)	(10,387)	(5,393)
Rate change effect on cumulative loss / (gain)	(3,280)	(6,756)
	<u>(13,667)</u>	<u>(12,149)</u>
 Total income tax recognised in other comprehensive income	 <u>(13,667)</u>	 <u>(12,149)</u>

Deferred taxation

Deferred taxation provided is as follows:

	2022	2021
	£'000	£'000
Accelerated tax depreciation	(2,286)	(1,648)
Other timing difference	1,327	1,127
Deferred tax liability related to pension scheme	(14,964)	(27,558)
	<u>(15,923)</u>	<u>(28,080)</u>
 Deferred tax liability	 <u>(15,923)</u>	 <u>(28,080)</u>
	2022	2021
	£'000	£'000
At 1 January	(28,080)	(15,194)
Charged to the profit and loss account	(1,465)	(1,204)
Effect of tax rate reduction	3,280	(6,773)
Deferred tax on pension costs	10,387	(5,393)
Other Movement (reclass)	(44)	484
	<u>(15,923)</u>	<u>(28,080)</u>
At 31 December	<u>(15,923)</u>	<u>(28,080)</u>

At the balance sheet date, the group has unused tax losses of £nil (2021: £nil) available for offset against future profits.

The headline UK statutory corporation tax rate for the year ended 31 December 2022 was 19%. Legislation introduced in the Finance Bill 2021 will maintain the 19% corporation tax rate for the period to 31 March 2023.

The headline rate of corporation tax will then be increased to 25% from 1 April 2023.

Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Accordingly, with enactment of the Finance Act 2021 on 10 June 2021 the deferred tax balances have been recognised at the 25% rate.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

8 Dividends – group and company

	2022	2021
	£'000	£'000
Amounts recognised as distributions to equity holders in the year ended 31 December 2022 of £0.06 per share (2021: £0.75)	<u>2,636</u>	<u>34,447</u>

9 Goodwill – group

	£'000
Cost	
At 1 January 2021	9,354
Additions	<u>231</u>
At 31 December 2021	9,585
Additions	<u>-</u>
At 31 December 2022	<u>9,585</u>

For impairment purposes, goodwill has been allocated to the following cash-generating units (CGUs): Equipment Solutions (£9.2 million) and Power Systems (£0.4 million).

The recoverable amount of all cash generating units and groups of cash generating units are determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets which employ the following key assumptions: future cash flows and growth projections, associated economic risk assumptions and estimates of achieving key operating metrics and drivers, and the weighted average cost of capital (WACC) rates.

The cash flow projection key assumptions are based upon the company's financial budgets, which span a three-year period and are discounted using post-tax WACC rate of 8.8% (2021: 8.5%). For 2022 annual impairment testing valuation purposes, the cash flows subsequent to the three-year projection period are extrapolated using a growth rate of 2.2% (2021: 1.9%). This growth rate is based on estimated long-term real gross domestic product and inflation (where appropriate) in the markets in which the company operates.

Sensitivity testing was conducted as part of the 2022 annual impairment test, including stress testing the weighted average cost of capital with all other assumptions being held constant. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any other cash generating unit or group of cash generating units to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to adversely differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the company could potentially experience future material impairment charges in respect of the intangibles with indefinite lives and goodwill.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

10 Other intangible assets – group

	Customer Contracts £'000	Distribution Network £'000	Order Backlog £'000	Software £'000	Total £'000
Cost					
At 1 January 2021	847	1,568	123	9,442	11,980
Additions	-	-	-	870	870
Disposals	-	-	-	(174)	(174)
At 31 December 2021	847	1,568	123	10,138	12,676
Additions	-	-	-	405	405
Disposals	-	-	-	(6)	(6)
At 31 December 2022	847	1,568	123	10,537	12,676
Amortisation					
At 1 January 2021	847	-	123	5,607	6,577
Charge for the year	-	-	-	1,335	1,335
At 31 December 2021	847	-	123	6,942	7,912
Charge for the year	-	-	-	1,343	1,343
At 31 December 2022	847	-	123	8,285	9,255
Net book value					
At 31 December 2022		1,568		2,252	3,820
At 31 December 2021	-	1,568		3,196	4,764
At 1 January 2021	-	1,568	-	3,835	5,403

Details regarding what comprise the major intangible assets classes are set out below.

Customer contracts were obtained on the acquisition of Sitech Technology Solutions Limited (formerly known as Reaction One Limited) in 2014 and are now fully written down.

A distribution network from the Bucyrus acquisition, which is considered to have an infinite life and so is not amortised, relates to the company's ability to distribute Bucyrus. This asset has future economic benefits as long as the company is able to distribute Bucyrus product. The company expects to use the distribution network as long as there is customer demand and Caterpillar continues to manufacture Bucyrus product. The company's distribution agreement for existing Caterpillar product has been in place, uninterrupted, for over 75 years, therefore Bucyrus distribution network is deemed to have an infinite life.

An order backlog from the Bucyrus acquisition which was amortised over the period in which the orders were fulfilled; and software which is amortised over a period of 5 years.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

11 Property, plant and equipment – group

	Freehold land and buildings £'000	Long Leasehold land and buildings £'000	Equipment, fixtures and fittings and IT equipment £'000	Rental Equipment £'000	Total £'000
Cost or valuation					
At 1 January 2021	29,463	4,063	28,164	59,333	121,023
Additions	219	213	1,983	10,289	12,704
Acquisition of subsidiary	-	31	135	3,575	3,741
Disposals	(1)	(73)	(3,342)	(368)	(3,784)
Transfers to inventory	-	-	-	(7,147)	(7,147)
Transfers between asset classes	-	-	-	-	-
At 31 December 2021	29,681	4,234	26,940	65,682	126,537
Additions	748	361	3,460	11,726	16,295
Disposals	-	-	(62)	(385)	(447)
Transfers to inventory	-	-	(150)	(6,150)	(6,300)
At 31 December 2022	30,429	4,595	30,188	70,873	136,085
Depreciation					
At 1 January 2021	12,013	2,270	23,273	26,427	63,983
Charge for the year	850	193	1,725	7,773	10,541
Disposals	-	(52)	(3,217)	(312)	(3,581)
Transfers to inventory	-	-	-	(4,152)	(4,152)
At 31 December 2021	12,863	2,411	21,781	29,736	66,791
Charge for the year	569	163	2,115	7,823	10,670
Disposals	-	-	(62)	(260)	(322)
Transfers to inventory	8	141	(8)	(2,892)	(2,751)
At 31 December 2022	13,440	2,715	23,826	34,407	74,388
Net book value					
At 31 December 2022	16,989	1,880	6,362	36,466	61,697
At 31 December 2021	16,818	1,823	5,159	35,946	59,746
At 1 January 2021	17,450	1,793	4,891	32,906	57,040

The rental equipment is hired to third parties under short-term rental agreements. Transfers to inventory comprise rental equipment removed from the rental fleet and transferred to used equipment inventory held for resale.

Included within rental assets above are assets that were historically held under finance leases under IAS 17 with a net book value as at 31 December 2022 of £8,329,000 (2021: £8,889,000). Included in Long leasehold land and buildings are assets held under finance leases with a net book value of £1,657,000 (2021: £1,795,000).

Freehold land of £5,072,000 (2021: £5,072,000) included in the above is not being depreciated.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

11 Property, plant and equipment – group (continued)

Freehold land and buildings are shown at professional valuations with subsequent additions and disposals at cost as shown below:-

	2022	2021
	£'000	£'000
As professionally valued on an existing use basis	2,247	2,247
At cost	29,879	27,434
	<u>32,126</u>	<u>29,681</u>

The freehold land and buildings at the group's registered office were revalued during 1980 by Webster & Co., chartered surveyors. This revaluation has been incorporated in the financial statements in accordance with the policy described in the accounting policies.

All other tangible fixed assets are shown at cost.

	2022	2021
	£'000	£'000
The original cost, and depreciation based on cost, of land and buildings included at valuation above, is as shown below:		
Original cost	2,203	2,203
Depreciation based on cost	(2,186)	(2,136)
Net book value at 31 December	<u>17</u>	<u>67</u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

12 Leases (the group as a lessee) – group

Right-of-use assets

	Right-of-use Buildings £'000	Right-of-use Vehicles £'000	Right-of-use Plant & Equipment £'000	Right-of-use Rental Equipment £'000	Total £'000
Cost or valuation					
At 1 January 2021	5,841	11,807	1,176	20,347	39,171
Additions	327	398	628	1,224	2,577
Disposals	-	(15)	-	(159)	(174)
Lease remeasurement	(381)	-	-	-	(381)
At 31 December 2021	5,787	12,190	1,804	21,412	41,193
Additions	-	402	-	401	803
Disposals	(379)	-	-	(148)	(527)
At 31 December 2022	5,408	12,592	1,804	21,665	41,469
Depreciation					
At 1 January 2021	2,302	4,954	368	7,589	15,213
Charge for the year	414	3,157	241	5,165	8,977
Disposals	-	(16)	-	(481)	(497)
At 31 December 2021	2,716	8,095	609	12,273	23,693
Charge for the year	618	2,681	250	3,952	7,501
Disposals	-	-	-	(130)	(130)
At 31 December 2022	3,334	10,776	859	16,095	31,064
Net book value					
At 31 December 2022	2,074	1,816	945	5,570	10,405
At 31 December 2021	3,071	4,095	1,195	9,139	17,500
At 1 January 2021	3,539	6,853	808	12,758	23,958

The maturity analysis of lease liabilities is presented in note 20.

13 Subsidiaries - group

A list of all investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 39 to the company separate financial statements. All subsidiaries share the same year end as Finning (UK) Ltd and are all 100% (2021: 100%) owned and so are consolidated in all presented financial years.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

14 Inventories – group

	2022	2021
	£'000	£'000
Work-in-progress	11,822	7,865
Finished goods and goods for resale	96,846	69,410
	<u>108,669</u>	<u>77,275</u>

There is no material difference between the balance sheet value of inventory and their replacement cost.

For the year ended 31 December 2022 on-hand equipment, parts, supplies and internal work in progress recognised as an expense amounted to £554,017,000 (2021: £419,101,000). For the year ended 31 December 2022, the write-down of inventories amounted to £1,435,000 (2021: £1,697,000).

15 Finance lease receivables – group and company

	Minimum lease payments	
	2022	2021
	£'000	£'000
Amounts receivable under finance leases:		
Year 1	304	405
Year 2	304	304
Year 3	-	304
Year 4	-	-
Year 5	-	-
	<u>608</u>	<u>1,012</u>
Less: unearned finance income	(90)	(124)
Present value of minimum lease payments receivable	<u>518</u>	<u>888</u>
Analysed as:		
Current finance lease receivables	256	327
Non-current finance lease receivables	262	561
	<u>518</u>	<u>888</u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

15 Finance lease receivables – group and company (continued)

The group enters into finance leasing arrangements for certain items of power systems equipment. The average term of finance leases entered into is 20 years.

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted approximates 7.86% per annum (2021: 7.86%).

Finance lease receivable balances are secured over the equipment leased.

The directors of the group estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due and taking into account the historical default experience and the future prospects of the industries in which the lessees operate, together with the value of collateral held over these finance lease receivables.

The loss allowance recognised on finance lease receivables in the year is £nil (2021: £nil).

The fair value of the finance lease receivables as at 31 December 2022 is estimated to be £518,000 (2021: £888,000).

16 Contract assets – group

	2022 £'000	2021 £'000
Contracts in progress at the balance sheet date:		
Power systems projects	1,161	961
Long term support contracts	13,386	12,599
Service work-in-progress	12,672	10,690
	<u>27,219</u>	<u>24,250</u>

Invoices for sales of power systems projects are issued in accordance with milestone payments agreed within each sales contract with the customer. Invoices for sales of parts and labour when servicing equipment under long-term support contracts are issued in accordance with the billing arrangement over the contract term. Invoices for sales of parts and labour when servicing equipment not under long-term contracts are issued when the work is complete. The group recognises unbilled service work in progress for sales of complex power and energy systems and sales of parts and labour when servicing equipment when revenue recognition criteria are met, and the group has the right to receive amounts from customers but invoices have not yet been issued.

All contract assets are due within 1 year.

Impairment losses of £nil (2021: £nil) have been recognised on contract assets during the year.

The directors of the group always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the group's key markets. None of the amounts due from customers at the end of the reporting period is past due.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under construction contracts.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

17 Trade and other receivables - group

	2022	2021
	£'000	£'000
Amounts falling due within one year:		
Amounts receivable for the sale of goods	67,623	58,363
Loss provision	(1,185)	(1,024)
	<hr/>	<hr/>
Net trade receivables	66,438	57,339
Contract assets (note 16)	27,219	24,240
Amounts owed by group undertakings	795	11,680
Other receivables	18,534	10,837
Prepayments and accrued income	1,704	1,066
	<hr/>	<hr/>
	114,690	105,162
	<hr/>	<hr/>
Amounts falling due after one year:		
Amounts owed by group undertakings	8,576	7,312
Other receivables	6,866	3,053
	<hr/>	<hr/>
	15,442	10,365
	<hr/>	<hr/>

Trade receivables disclosed above are classified as financial assets measured at amortised cost.

No interest is charged on the receivables.

The directors of the group always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the group's key markets. There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers.

The group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities. The group has recognised a loss provision of 100% against all receivables where official notification has been received that the counterparty has gone into liquidation or administration, where an amount is disputed and greater than 90 days from invoice date and a loss provision based on historical experience.

There was no exposure to individually impaired trade receivables due from companies which have been placed in liquidation (2021: £nil) requiring a loss provision to be recognised.

The group measures the lifetime ECL based on historical experience by taking historical trade receivables write offs as a percentage of revenue. The percentage is applied consistently to all aging categories of trade receivables. Included within the loss provision is a lifetime ECL of £579,000 (2021: £88,000).

Before accepting any new customer, the group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed periodically. Of the trade receivables balance at the year end, there are no customers who represent more than 5 per cent of the total balance of trade receivables. The debtor days as at 31 December 2022 was 28 days (2021: 31 days).

The group does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have legal right of offset against any amounts owed by the group to the counterparty.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

17 Trade and other receivables – group (continued)

Movement in the loss provision

	2022	2021
	£'000	£'000
Balance at the beginning of the year	(1,024)	(1,221)
Amounts provided for during the year as uncollectable	(743)	397
Amounts utilised against write-offs in the period	581	(200)
	<u>(1,185)</u>	<u>(1,024)</u>

In determining the recoverability of a trade receivable, the group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

The recoverability of a trade receivable the group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

The following table details the risk profile of trade receivables based on the group's provisioning policy.

Trade receivables – days past due							
31 December 2022	Not past due	< 30	31-60	61-90	91-120	>120	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross carrying amount	45,928	16,599	7,982	1,981	(1,014)	(3,853)	67,624
Specific provisions	(3)	(13)	(50)	(88)	(6)	(208)	(369)
Disputed invoice provision	-	-	-	(27)	(27)	(184)	(238)
Loss provision based on historical experience	(393)	(142)	(68)	(17)	8	33	(579)
Loss provision							<u>(1,185)</u>

Trade receivables – days past due							
31 December 2021	Not past due	< 30	31-60	61-90	91-120	>120	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross carrying amount	30,737	16,974	6,011	1,928	851	1,861	58,363
Specific provisions	(31)	-	(13)	(35)	(33)	(399)	(511)
Disputed invoice provision	-	-	-	(13)	(51)	(361)	(425)
Loss provision based on historical experience	(3)	(1)	(3)	(9)	(26)	(46)	(88)
Loss provision							<u>(1,024)</u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

18 Contract liabilities - group

	2022	2021
	£'000	£'000
Contracts in progress at the balance sheet date:		
Power systems projects	9,690	4,209
Long term support contracts	26,606	26,044
	<u>36,296</u>	<u>30,253</u>

The group recognises deferred revenue when cash has been collected from the customer but control of the goods or services has not yet been transferred to the customer. Contract liabilities are recorded in respect of deferred revenue on sales of parts and labour when servicing equipment and power system projects. Cash is typically collected as the customer is billed while revenue is deferred and recognised evenly over the term of the contract, which can extend beyond one year. The majority of revenue related to long-term product support contracts is recognised within one year of collecting cash from the customer. All other streams of revenue are recognised within one year of recording deferred revenue. Revenue recognized in 2022 from carried forward contract liabilities is estimated at £12.2m.

Contract liabilities on power systems projects and long term support contracts can vary year on year depending on the value of progress billings relative to the value of work performed on the contract.

19 Trade and other payables - group

	2022	2021
	£'000	£'000
Amounts falling due within one year – group		
Trade payables	43,147	45,273
Contract liabilities (note 18)	36,296	30,253
Amounts owed to group undertakings	14,870	13,217
Other taxation and social security	19,322	9,874
Accruals	26,316	17,600
	<u>139,951</u>	<u>116,217</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 21 days (2021: 29 days). For most suppliers no interest is charged on the trade payables for the first days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20 Lease liabilities – group

	2022	2021
	£'000	£'000
Maturity analysis:		
Year 1	7,828	11,670
Year 2	4,420	5,562
Year 3	3,158	3,841
Year 4	1,734	2,732
Year 5	999	1,467
Onwards	3,693	4,811
	<u>21,832</u>	<u>30,083</u>
Less: future finance charges	(5,693)	(5,177)
Present value of lease obligations	<u>16,139</u>	<u>24,906</u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

Analysed as:

Current obligations under finance lease	6,383	10,559
Non-current obligations under finance lease	9,756	14,347
	<u>16,139</u>	<u>24,906</u>

It is the group's policy to lease certain items of its property, plant and equipment under finance leases. The average lease term is 4 years (2021: 4.2 years). For the year ended 31 December 2022, the average effective borrowing rate was 3.76% (2021: 3.62%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The fair value of the group's lease obligations is approximately equal to their carrying amount.

The group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 12.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

21 Borrowings - group

	2022	2021
	£'000	£'000
Unsecured borrowings at amortised cost		
Other loans	537	817
Amounts owed to group undertakings	25,000	25,000
	<u>25,537</u>	<u>25,817</u>
Total borrowings		
Amount due for settlement within 12 months	25,240	143
	<u>297</u>	<u>25,674</u>
Amount due for settlement after 12 months	<u>297</u>	<u>25,674</u>

On 1 June 2010 £25,000,000 of a Eurobond issue was assigned to Finning (UK) Ltd. In December 2020, the bonds were further extended to be redeemed in May 2023, carrying an interest rate of 2.55%, payable quarterly.

The Eurobond is fully subscribed by a company which is a subsidiary of Finning International Inc. The amount outstanding at the year end is £25,000,000 (2021: £25,000,000). Post year end on 27th February Finning UK Limited has paid the Eurobond.

At 31 December 2022 £nil (2021: £nil) was drawn down on the global credit facility. This is a facility of CAD\$1.3 billion held by the ultimate group of Finning Holdings. The facility carried an interest rate of LIBOR+1.25% as at 31 December 2022 (2021: 1.25%). In December 2019, Finning International Inc. completed a four-year extension to its CAD\$1.3 billion global operating credit facility, extending the maturity date to December 2024 from the previous maturity in October 2020.

Finning International Inc. have a maximum Net Debt to Invested Capital level pursuant to a covenant within its syndicated bank credit facility.

The group has one other unsecured loan totalling £537,000 (2021: £817,000). This loan commenced in November 2010. The loan carries an interest rate of 6.8% and will be repaid in full by January 2025. Repayments are being made on a monthly basis.

The group holds a £20,000,000 rolling uncommitted overdraft facility with HSBC. The facility covers the Finning Holdings group's various bank accounts denominated in GBP, EUR, USD and DKK and is guaranteed across the Finning Holding's group through counter indemnity. The overdraft carries a range of interest rates chargeable at 0.40% above the base rate in the account currency's local jurisdiction.

The group also holds a £10,000,000 rolling short term uncommitted money market facility with HSBC. Interest is charged at the Bank of England base rate plus 1.25%. No amounts were drawn on this facility at 31 December 2022 (2021: £nil).

Borrowings are repayable as follows:

	2022	2021
	£'000	£'000
Loans and overdrafts		
On demand or within one year	240	143
Between one and five years	297	674
Over five years	-	-
	<u>537</u>	<u>817</u>
Amounts owed to group undertakings		
On demand or within one year	25,000	-
Between one and five years	-	25,000
	<u>25,000</u>	<u>25,000</u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

22 Provisions for liabilities – group

	2022	2021
	£'000	£'000
Provisions for dilapidations	879	825
Warranty provisions	10,863	6,477
Provision for buybacks	936	1,324
Provision for product support	1,305	1,832
	<u>13,982</u>	<u>10,458</u>
Current	12,801	8,539
Non-current	1,181	1,919
	<u>13,982</u>	<u>10,458</u>

	Dilapidations	Warranty	Buybacks
	£'000	£'000	£'000
At 1 January 2022	825	6,477	1,324
Additional provision in year	96	15,288	838
Utilised during the year	(43)	(8,797)	-
Released during the year	-	(2,104)	(1,225)
At 31 December 2022	<u>879</u>	<u>10,863</u>	<u>936</u>

	Product support	Total
	£'000	£'000
At 1 January 2022	1,832	10,458
Additional provision in year	384	16,606
Utilised during the year	(561)	(9,401)
Released during the year	(352)	(3,681)
At 31 December 2022	<u>1,303</u>	<u>13,982</u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

22 Provisions for liabilities – group (continued)

The provision for dilapidations is a provision to make good any repairs on properties rented under operating leases and is expected to be utilised at the expiry of each lease, with the longest lease expiring in 2078.

Warranty provisions on equipment sales are expected to be utilised over the lives of the given warranty periods. This is expected to be utilised within a year.

The buyback provision relates to certain sales agreements that contain “buyback” arrangements that may be exercised at the option of the customer within specified periods in the future, with the longest period being December 2023. This is utilised when an option is exercised or expired.

Provisions for product support are those for product support claims and are recognised over the given product support periods. This is expected to be utilised within a year.

The restructuring provision relates to redundancy costs incurred as part of a group reorganisation undertaken during the year. This is expected to be utilised within a year.

23 Retirement benefit obligations – group and company

Analysis of income statement charge for the group:

	2022	2021
	£'000	£'000
Defined benefit	1,210	(267)
Defined contribution	3,553	4,782
Stakeholder	114	83
	<u>4.876</u>	<u>4,598</u>

The company sponsors a funded defined benefit pension scheme for qualifying UK employees. The Scheme is administered by a separate board of Trustees which is legally separate from the company. The Trustees are composed of representatives of the employer and employees, plus an independent trustee. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Under the Scheme, employees are entitled to annual pensions on retirement at age 65 of one-sixtieth or one-eightieth of final pensionable salary for each year of service depending on the level of membership. Benefits are also payable on death and following other events such as ill health retirement. There are special provisions for certain ‘Executive’ members. The Scheme ceased future accrual on 6 April 2012.

No other post-retirement benefits are provided to these employees.

The defined benefit obligation includes benefits for current employees, former employees and current pensioners.

Broadly, about 42% are attributable to non-pensioners and 58% to current pensioners.

The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is approximately 15 years.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

23 Retirement benefit obligations – group and company (continued)

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme was carried out by a qualified actuary as at 31 December 2020 and showed a surplus of £18M. The company agreed to continue paying contributions of £2,805,000 in 2022 and £3,375,000 in 2023. In addition the Company will meet the cost of any levies payable to the Pension Protection Fund.

Risks associated with the Scheme

The Scheme exposes the group to a number of risks, the most significant of which are:

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

Asset volatility

The DBO is calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets such as equities, which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Inflation risk

The majority of the Scheme's DBO is linked to inflation, and higher inflation leads to a higher DBO (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation).

Life expectancy

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Risk Management

The Scheme uses cash, gilts and corporate bonds as matching assets. Matching assets are used to protect the Scheme against changes in bond yields and inflation risk. The remaining assets are used as growth assets.

The Trustees insure certain benefits payable on death before retirement.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

23 Retirement benefit obligations – group and company (continued)

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

	2022	2021
	% pa	% pa
RPI Inflation	3.0	3.0
CPI Inflation	2.5	2.5
Rate of general long-term increase in salaries	n/a	n/a
Rate of increase to pensions in payment pre 1 February 2006	2.9	3.0
Rate of increase to pensions in payment post 31 January 2006	2.0	2.2
Discount rate for scheme liabilities	4.8	2.0
Expected rate of return on assets	n/a	n/a

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 21.8 years (2021: 21.7 years) if they are male and for a further 23.6 years (2021: 23.5 years) if they are female.

The Schemes assets are invested in Pooled Investment Vehicles. The underlying assets of the pooled investment vehicles are invested in the following asset classes (all assets have a quoted market value in an active market):

	Value at 31	Value at 31
	December	December
	2022	2021
	£000	£000
Equities	-	39,747
Gilts	110,411	214,835
Corporate bonds	80,592	100,508
Multi-Asset Credit	82,737	103,977
Property	-	-
Other (cash/net current assets)	19,183	9,208
Total	<u>292,923</u>	<u>468,275</u>

The amounts recognised on the balance sheet are set out below:

Reconciliation of funded status to balance sheet

	2022	2021
	£000	£000
Fair value of scheme assets	292,923	468,275
Present value of funded defined benefit obligations	(233,068)	(358,042)
Asset recognised on the balance sheet	<u>59,855</u>	<u>110,233</u>

When determining the adjustment in respect of the minimum funding requirement, it has been assumed that the company would be entitled to a refund from the Scheme of any surplus arising in the Scheme in future. This reflects the provisions of the Scheme documentation.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

23 Retirement benefit obligations – group and company (continued)

The amounts recognised in comprehensive income are set out below:

Analysis of profit and loss charge and other comprehensive income

	2022	2021
	£'000	£'000
Administration expenses	947	831
Past service cost	-	-
Interest on net defined benefit asset	(2,224)	(1,098)
	<u>(1,277)</u>	<u>(267)</u>
Components of defined benefit costs recognised in profit and loss		
Remeasurements in OCI:		
Return on scheme assets (in excess of) /below that recognised in net interest	171,380	(9,259)
Actuarial (gains) due to changes in financial assumptions	(130,932)	(17,458)
Actuarial losses due to liability experience	14,220	1,901
Actuarial (gains)/losses due to changes in demographic assumptions	-	(3,567)
	<u>54,668</u>	<u>(28,383)</u>
Total amount recognised in OCI		
Total amount recognised in profit and loss and OCI	<u>53,391</u>	<u>(28,650)</u>

Changes to the present value of the defined benefit obligation during the year

	2022	2021
	£'000	£'000
Opening defined benefit obligation	358,042	389,544
Interest cost	7,018	5,330
Actuarial (gains) on scheme liabilities arising from changes in financial assumptions	(130,932)	(17,458)
Actuarial losses on scheme liabilities arising from experience	14,220	1,901
Actuarial (gains)/losses on scheme liabilities arising from changes in demographic assumptions	-	(3,567)
Other remeasurement (gains)/losses	-	-
Net benefits paid out	(15,280)	(17,708)
Past service cost	-	-
	<u>233,068</u>	<u>358,042</u>
Closing defined benefit obligation		

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

23 Retirement benefit obligations – group and company (continued)

Changes to the fair value of scheme assets during the year

	2022	2021
	£'000	£'000
Opening fair value of scheme assets	468,275	465,627
Interest income on scheme assets	9,242	6,428
Remeasurement (losses) / gains on scheme assets	(171,380)	9,259
Contributions by the employer	3,013	5,500
Net benefits paid out	(15,280)	(17,708)
Administration costs	(947)	(831)
	<u>292,923</u>	<u>468,275</u>

Actual return on scheme assets

	2022	2021
	£'000	£'000
Interest income on scheme assets	9,242	6,428
Remeasurement (loss)/gain on scheme assets	(171,380)	9,259
	<u>(162,138)</u>	<u>15,687</u>

Analysis of amounts recognised in other comprehensive income

	2022	2021
	£'000	£'000
Total remeasurement (losses) / gain	<u>(54,668)</u>	<u>28,383</u>

History of experience gains and losses

	2022	2021
	£'000	£'000
Experience (losses)/gain on scheme assets	(171,380)	9,259
Experience losses on scheme liabilities	<u>14,220</u>	<u>1,901</u>

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

23 Retirement benefit obligations – group and company (continued)

Sensitivity and key assumptions

Discount rates are determined based on high quality corporate bonds at the measured date, 31 December 2022 and 2021. The accrued defined benefit pension obligation and expense are sensitive to changes in the discount rate, among other assumptions. At the end of the most recent calendar year, the weighted average duration of the obligation is 19 years. A decrease of 0.25% in the discount rate and 0.25% increase in the retail price inflation would impact the defined benefit obligation by the amounts shown below:

	Change in assumption	Increase in defined benefit obligation £'000
Discount rate	(0.25%)	8,491
Retail price inflation	+0.25%	6,004
Life expectancy	+1	10,959

A 0.25% movement in the discount rate and in the retail price inflation as outlined above would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all variables are unchanged.

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

24 Share capital – group and company

Allotted, authorised, called up and fully-paid ordinary shares of £1 each
At 31 December 2021, and 31 December 2022

Number of shares	£'000
45,882,002	45,882

25 Retained earnings – group

	Retained Earnings £'000	Total £'000
At 1 January 2022	140,800	140,800
Retained profit for the year	31,997	31,997
Actuarial loss net of deferred taxation	(41,001)	(41,001)
Dividends paid	(2,636)	(2,636)
At 31 December 2022	129,160	129,160

Dividends of £2,636,000 were paid during the year (2021: £34,447,000).

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

26 Financial instruments – group

The group is exposed to market, credit, liquidity, and other risks in the normal course of their business activities. This note presents information about the group's exposure to credit, liquidity, and market risks and the group's objectives, policies, and processes for managing these risks.

Capital risk management

The group manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The group's overall strategy remains unchanged from 2017.

The capital structure of the group consists of net debt, which includes the loans and intercompany balances disclosed in notes 17 and 19, less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 24 and 25. The group uses local facilities for daily operations and also has the ability to call on the ultimate group's CAD\$1.3bn facility to meet liquidity needs.

The group is required to manage its capital risk by its ultimate parent undertaking to ensure it is able to continue as a going concern whilst maximising the return to shareholders.

The group is required by its ultimate parent company to maintain an earnings before interest, tax, depreciation and amortisation ("EBITDA") to adjusted net assets (excluding retirement benefit obligations) ratio of no less than 1:8. The group is not subject to any externally imposed capital requirements.

	2022	2021
	£'000	£'000
Operating profit	40,071	25,728
Depreciation and amortisation	12,123	20,853
EBITDA	<u>52,194</u>	<u>46,581</u>
Net assets	175,027	186,682
Less retirement benefit surplus (note 23)	<u>(59,855)</u>	<u>(110,233)</u>
Adjusted net assets	<u>115,172</u>	<u>76,449</u>
Ratio	<u>1:2.2</u>	<u>1:1.64</u>

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instruments are disclosed in the Statement of Accounting Policies.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

26 Financial instruments – group (continued)

Categories of financial instruments

	2022	2021
	Book Value	Book Value
	£'000	£'000
Financial assets		
Cash and Cash Equivalents	28,140	12,161
Financial assets at amortised cost	128,942	115,349
Total financial assets	<u>157,082</u>	<u>127,510</u>
Financial liabilities		
Amortised cost	<u>(126,945)</u>	<u>(128,136)</u>
Total financial liabilities measured at amortised cost	<u>(126,945)</u>	<u>(128,136)</u>
Total financial instruments	<u>30,137</u>	<u>(626)</u>

At the reporting date there are no loans and receivables designated at FVTPL. The carrying amount reflected above represents the group's maximum exposure to credit risk for such loans and receivables.

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults, as well as credit insurance cover being in place.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade and other receivables. Credit ratings for all of the group's financial assets are not applicable.

The carrying amount of the financial assets recorded in the financial statements represents the group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Further information with regards to credit risk has been outlined within note 17.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

26 Financial instruments – group (continued)

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations.

The following are the contractual maturities of non-derivative financial liabilities. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying amount on the consolidated balance sheet. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay and exclude upfront fees.

31 December 2022	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Non-derivative financial liabilities							
Non-interest bearing	-	81,296	3,680	8	302	-	85,286
Lease liability	3.77	572	1,057	4,755	9,756	-	16,140
Fixed interest rate instruments	6.60	1,688	21	42	192	-	1,943
Total non-derivative financial liabilities		83,556	4,758	4,805	10,250	-	94,201
31 December 2021							
31 December 2021	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Non-derivative financial liabilities							
Non-interest bearing	-	63,504	12,797	18	1,094	-	77,413
Finance lease liability	3.62	1,016	1,753	7,887	14,275	-	24,931
Fixed interest rate instruments	6.61	5	8	34	25,746	-	25,793
Total non-derivative financial liabilities		64,525	14,558	7,939	41,115	-	128,137

See note 21 for details regarding the above loans and borrowings.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

26 Financial instruments – group (continued)

The following are the contractual maturities of non-derivative financial assets. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying amount on the consolidated balance sheet. The tables below have been drawn up based on the undiscounted contractual maturities of financial assets. The inclusion of information on non-derivative financial assets is necessary to understand the group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

31 December 2022	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Non-derivative financial assets							
Non-interest bearing	-	116,247	8,832	(3,520)	6,866	-	128,425
Variable interest rate instruments	0.42	28,162	66	168	262	-	28,658
Total non-derivative financial assets		116,371	36,993	(3,455)	168	-	157,083

31 December 2021	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Non-derivative financial assets							
Non-interest bearing	-	100,454	8,594	2,359	3,053	-	114,460
Variable interest rate instruments	0.93	12,181	119	189	561	-	13,050
Total non-derivative financial assets		112,635	8,713	2,548	3,614	-	127,510

Exposure to foreign exchange risk

The currencies of the group's financial instruments were as follows:

31 December 2022	USD £'000	GBP £'000	EUR £'000	Total £'000
Cash and cash equivalents	775	26,150	1,215	28,140
Financial assets at amortised cost	(119)	128,417	644	128,942
Amortised cost	(649)	(123,705)	(2,590)	(126,944)
Net balance sheet exposure	7	30,862	(731)	30,138

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

26 Financial instruments – group (continued)

31 December 2021	USD £'000	GBP £'000	EUR £'000	Total £'000
Cash and cash equivalents	(1,161)	10,934	2,387	12,160
Financial assets at amortised cost	371	114,606	372	115,349
Amortised cost	(441)	(123,746)	(3,948)	(128,135)
Net balance sheet exposure	(1,231)	1,794	(1,189)	(626)

The group is mainly exposed to US dollar and Euros.

The following table details the group's profit or loss and other equity after a 5% increase and decrease in Sterling against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items in the statement of financial position and adjusts their translation at the period end for a 5% change in foreign currency rates. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

If the £ strengthens/weakens by 5% against the USD and Euro, and all other variables were held constant, the following figures would have been presented as profit for the year:

£ strengthens by 5%	USD impact		EUR impact	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Profit for the year	(1)	59	35	57

£ weakens by 5%	USD impact		EUR impact	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Profit for the year	1	(65)	(193)	(63)

Fluctuations in foreign currency would have no impact of the amounts presented within other comprehensive income or other reserves.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

26 Financial instruments – group (continued)

Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of financial instruments.

The group is exposed to changes in interest rates on its interest bearing financial assets including cash and cash equivalents and instalment and other notes receivable. The short term nature of investments included in cash and cash equivalents limits the impact to fluctuations in fair value, but interest income earned will be impacted.

The group is exposed to changes in interest rates on its interest bearing financial liabilities including short and long term debt. The group's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity of in excess of five years. Floating rate debt, due to its short term nature, exposes the group to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change.

The fair value of the group's fixed rate debt obligations fluctuate with changes in interest rates, but absent early settlement, related cash flows do not change. The group does not measure any fixed rate long-term debt at fair value. The group is exposed to future interest rates upon refinancing of any debt prior to or at maturity.

The group manages its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio.

The sensitivity analyses below have been determined based on the exposure of interest rates for derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to management personnel and represents management's assessment of the reasonable possible change in interest rates.

If the interest rates had been 1% higher/lower and all other variables were held constant the following figures would have been presented as profit for the year:

	2022		2021	
	+1%	-1%	+1%	-1%
	£'000	£'000	£'000	£'000
Profit for the year	32,317	31,677	19,516	19,130

Fair values

Financial instruments measured at fair value are grouped into three levels based on the degree to which fair value is observable:

Level 1 – quoted prices in active markets for identical securities

Level 2 – significant observable inputs other than quoted prices included in Level 1

Level 3 – significant unobservable inputs

The group's only financial instruments measured at fair value are derivative instruments. All of the derivative instruments are measured at fair value using Level 2 inputs. The group did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2022, and 2021.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

27 Notes to the cash flow statement - group

Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash and bank balances	28,140	12,161

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

The table below details changes in the group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

	1 January	Financing	Disposals	Other	31 December
	2022	cash flows		changes	2022
	£'000	£'000	£'000	£'000	£'000
Borrowings (note 21)	25,817	(327)	-	46	25,536
Lease liabilities (note 20)	24,906	(8,652)	-	115	16,139
	<u>50,723</u>	<u>(8,979)</u>	<u>-</u>	<u>161</u>	<u>50,723</u>
	1 January	Financing	Disposals	Other	31 December
	2021	cash flows		changes	2021
	£'000	£'000	£'000	£'000	£'000
Borrowings (note 21)	26,015	(261)	-	63	25,817
Lease liabilities (note 20)	33,587	(12,115)	-	3,434	24,906
	<u>59,602</u>	<u>(12,376)</u>	<u>-</u>	<u>3,497</u>	<u>50,723</u>

Other changes include opening balance adjustments, interest accruals and payments.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

28 Operating lease arrangements – group

The group as lessor

At the balance sheet date, the group had contracted with lessees for the following operating lease payments:

	2022	2021
	£'000	£'000
Year 1	1,094	1,419
Year 2	-	396
Year 3	-	107
Year 4	-	18
Year 5	-	-
	<u>1,094</u>	<u>4,115</u>

Operating lease receivables represent amounts payable to the group in relation to equipment rentals. Leases are negotiated for an average term of 1 year.

29 Financial commitments – group and company

a) Capital commitments

Neither the group nor the company had any capital commitments at either year end.

b) Contingent liabilities

Due to the size and nature of the company's trade, various legal matters arise from time to time. Those pending at the balance sheet date are unsupported and the company believes without merit. It is the current opinion of management, that these matters will not have a material effect on the company's consolidated financial position or results of operations.

c) Overdrafts and other liabilities

The group has guaranteed overdrafts and other liabilities of certain other companies within the Finning (UK) Ltd group amounting to £nil as at 31 December 2022 (2021:£nil).

**Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022****30 Guarantees and indemnifications – group and company**

The group enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at 31 December 2022, the total estimated value of these contracts outstanding is £35,073,000 (2021: £37,138,000) coming due at periods ranging from 2023 to 2027. The group's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. The total amount recognised as a provision against these contracts is £977,000 (2021: £960,000).

The group enters into contracts with rights of return, in certain circumstances, for the trade-in of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at 31 December 2022, the total estimated value of these contracts outstanding is £nil (2021: £2,488,000). The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the trade-in amount. As at 31 December 2022, the group had no liability recorded for this guarantee (2021: £nil).

The group has issued certain guarantees to Caterpillar Finance to guarantee, on a pro-rata basis, certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at 31 December 2022, the maximum potential amount of future payments that the group could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, is £281,000 (2021: £221,000) covering various periods up to 2025. As at 31 December 2022, the group had no liability recorded for this guarantee (2021: £nil).

The group has also issued guarantees for certain equipment sold to Caterpillar Finance to guarantee their residual values. The guarantees would be enforceable in the event that the market value of the equipment at the time of its ultimate disposal is below the residual value guarantee issued by the company. As at 31 December 2022 the maximum potential amount of future payments that the company could be required to make under the guarantees is £76,000 (2021: £347,000) covering periods up to 2024. As at 31 December 2022 the company recognised a liability of £nil for these guarantees (2021: £42,000).

In connection with the sale of the Materials Handling Division in 2006, the group provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the group would be required to make the annual lease payments of approximately £nil (2021: £528,000) to the end of the lease term in November 2022. As at 31 December 2022, the group had no liability recorded for this guarantee (2021: £nil).

The company entered into a guarantee to guarantee the payments of deferment duty to HMRC Deferment Office. As at 31 December 2022 the maximum potential amount of future payments that the company could be required to make under the guarantees is £60,000 (2021: £60,000).

The company entered into an advanced payment bond guarantee for non-delivery of project to customer specifications. As at 31 December 2022 the maximum potential amount of future payments that the company could be required to make under the guarantees is £nil (2021: £1,792,000)

In the normal course of operations, the group has several long-term maintenance and repair contracts with various customers which contain cost per hour guarantees.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022

31 Related party transactions - group

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the group and its associates are discussed below.

Trading transactions

During the year, the group entered into the following trading transactions with related parties who are not members of the group:

	Sales of goods to related parties		Purchases of goods from related parties	
	2022 £'000	2021 £'000	2021 £'000	2021 £'000
Finning Power Rental LP	-	-	-	-
Finning (Ireland) Ltd	18,407	12,357	(2,028)	(2,175)
Finning International Inc	-	-	(7,021)	(7,453)
Finning Tractor Finance Ltd	-	-	(638)	(638)
Finning Power Solutions Inc.	2	2	-	-
Finning Chile S.A	-	-	-	-
Finning Canada	-	-	-	-

Transactions with Finning International Inc. relate to recharges which occurred during the year for costs incurred on behalf of the other party; charges incurred in relation to the share based payment schemes administered by Finning International Inc; and charges for intangible asset development.

The transactions of £638,000 (2021: £638,000) represent the annual interest payments in relation to the £25,000,000 (2021: £25,000,000) Eurobond loan, subscribed by Finning Tractor Finance Limited and held by Finning (UK) Ltd.

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties		Amounts owed to related parties	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Diperk (UK) Ltd	1,988	1,988	-	-
Finning Power Rental LP	-	-	-	-
Finning Canada	11	-	(136)	(37)
Finning Services Limited	1,549	-	-	-
Hydraquip Hose and Hydraulics Limited	1	-	-	-
Finning Holdings Ltd	5,024	5,324	(11,591)	(11,897)
Finning (Ireland) Ltd	423	11,621	(1,124)	(642)
Finning Chile S.A	-	59	-	-
Finning International Inc.	376	-	(2,018)	(641)
Finning Tractor Finance Ltd	-	-	(25,000)	(25,000)
	<u>9,371</u>	<u>18,992</u>	<u>(39,869)</u>	<u>(38,217)</u>

**Notes to the consolidated financial statements (continued)
For the year ended 31 December 2022**

31 Related party transactions – group (continued)

In 2022, Finning Services a newly created company in Finning acquired Hydraquip Hose and Hydraulics Limited as well as Hoses Direct Limited. The amounts above are recorded in trade receivables at year end, and relate to normal trading activity on an arm's length basis and recharges for various costs incurred on behalf of Finning Power Rental LP. However, Finning Power Rental LP was acquired by the company in the year and is now a wholly owned subsidiary (see note 39).

The remaining related party transactions are all with companies in the group headed by the ultimate controlling party, Finning International Inc..

Sale of goods and purchases of goods to and from related parties are made on arm's length basis.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

No expense has been recognised in the year for a loss provision in respect of the amounts owed by related parties.

The £25,000,000 balance at year end (2021: £25,000,000) between Finning (UK) Ltd and Finning Tractor Finance Limited represents the Eurobond loan and related interest owed subscribed by Finning Tractor Finance Limited, held by Finning (UK) Ltd.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out in note 4 in aggregate for each of the categories specified in IAS24 Related Party Disclosure. Further information about the remuneration of individual directors is also provided in the directors' remuneration disclosure note 4.

Notes to the parent company financial statements For the year ended 31 December 2022

32 Significant accounting policies - company

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the company separate financial statements and disclosures which form part of these financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure framework', as issued by the Financial Reporting Council. The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in the consolidated financial statements notes.

Investment in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

33 Operating profit - company

The auditor's remuneration for audit and other services is disclosed in note 3 to the consolidated financial statements.

34 Staff costs - company

The company has share schemes over shares of the ultimate parent. The company has six (2021: six) share schemes in operation during the year, two of which are settled in shares (SIPs and stock options), three of which are cash-settled (SARs, PSUs and RSUs) and one where the scheme may be settled in cash or shares at the option of the employee (DSU-Bs). All share schemes in operation are in relation to the shares of the ultimate parent company, Finning International Inc. Finning International Inc. makes awards to employees of the company for stock options, PSUs, RSUs and DSUs. The company awards the share appreciation rights and the free matching shares under the share incentive plan.

The average monthly number of employees (including executive directors) was:

	2022 Number	2021 Number
Sales and administration	729	715
Production and engineering	677	614
	<u>1,406</u>	<u>1,329</u>

Their aggregate remuneration comprised:

	£'000	£'000
Wages and salaries	71,704	66,808
Social security costs	7,592	6,525
Other pension costs	4,777	3,399
Share-based payments	1,642	1,684
	<u>85,715</u>	<u>78,416</u>

Staff costs include amounts charged to operating profit and finance costs associated with the defined benefit retirement scheme.

The disclosures for share based payments are disclosed in note 4 to the consolidated financial statements and relate entirely to the parent company.

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

35 Goodwill - company

	Goodwill £'000
Cost	
At 1 January 2022 and 31 December 2022	232
Net book value	
At 31 December 2021 and 31 December 2022	232

36 Other intangible assets – company

	Distribution Network £'000	Customer contracts £'000	Software £'000	Total £'000
Cost				
At 1 January 2022	1,568	123	10,087	11,778
Additions	-	-	405	405
Disposals	-	-	(6)	(6)
At 31 December 2022	1,568	123	10,486	12,177
Amortisation				
At 1 January 2022	-	123	6,896	7,019
Charge for the year	-	-	1,342	1,342
Disposals	-	-	(1)	(1)
At 31 December 2022	-	123	8,237	8,360
Net book value				
At 31 December 2022	1,568	-	2,249	3,817
At 31 December 2021	1,568	-	3,191	4,759

Intangible assets comprise a distribution network from the Bucyrus acquisition which is considered to have an infinite life and so is not amortised; an order backlog from the Bucyrus acquisition which was amortised over the period in which the orders were fulfilled; and software which is amortised over a period of 5 years.

The distribution network relates to the company's ability to distribute Bucyrus. This asset has future economic benefits as long as the company is able to distribute Bucyrus product. The company expects to use the distribution network as long as there is customer demand and Caterpillar continues to manufacture Bucyrus product. The company's distribution agreement for existing Caterpillar product has been in place, uninterrupted, for over 75 years, therefore Bucyrus distribution network is deemed to have an infinite life.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

37 Property, plant and equipment – company

	Freehold land and buildings £'000	Long Leasehold land and buildings £'000	Equipment, fixtures and fittings and IT equipment £'000	Rental equipment £'000	Total £'000
Cost or valuation					
At 1 January 2022	29,678	3,964	26,738	56,608	116,988
Additions	748	169	3,191	8,989	13,097
Transfers from inventory	-	-	-	-	-
Disposals	-	-	(37)	-	(37)
Transfers to inventory	-	-	(150)	(7,292)	(7,442)
Other transfers	-	-	-	-	-
At 31 December 2022	<u>30,426</u>	<u>4,133</u>	<u>29,742</u>	<u>58,305</u>	<u>122,606</u>
Depreciation					
At 1 January 2022	12,863	2,359	21,694	25,758	62,674
Charge for the year	969	115	1,815	6,057	8,956
Impairment Loss	(37)	-	-	-	(37)
Disposals	-	-	(38)	-	(38)
Transfers to inventory	-	-	(8)	(4,035)	(4,043)
Other Transfers	8	-	-	-	8
At 31 December 2022	<u>13,803</u>	<u>2,474</u>	<u>23,463</u>	<u>27,780</u>	<u>67,520</u>
Net book value					
At 31 December 2022	<u>16,623</u>	<u>1,659</u>	<u>6,279</u>	<u>30,525</u>	<u>55,086</u>
At 31 December 2021	<u>16,815</u>	<u>1,605</u>	<u>5,044</u>	<u>30,850</u>	<u>54,314</u>

The rental equipment is hired to third parties under short-term rental agreements. Transfers to inventory comprise of rental equipment removed from the rental fleet and transferred to used equipment inventory held for resale.

Freehold land of £5,072,000 (2021: £5,072,000) included in the above is not being depreciated.

See note 11 regarding Freehold land and buildings shown at professional valuations.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

38 Leases (the group as a lessee) –company

Right of use assets

	Right-of-use Buildings £'000	Right-of-use Vehicles £'000	Right-of-use Plant & Equipment £'000	Right-of-use Rental Equipment £'000	Total £'000
Cost or valuation					
At 1 January 2021	5,841	11,807	1,176	20,347	39,171
Additions	327	297	515	1,224	2,363
Disposals	-	(86)	-	(367)	(453)
Lease remeasurement	-	-	-	-	-
Lease termination	-	-	-	-	-
At 31 December 2021	6,168	12,018	1,691	21,204	41,081
Additions	-	574	-	609	1,183
Disposals	(760)	-	-	(148)	(908)
At 31 December 2022	5,408	12,592	1,691	21,665	41,356
Depreciation					
At 1 January 2021	2,302	4,954	368	7,589	15,213
Charge for the year	415	3,157	192	5,165	8,929
Disposals	-	(16)	-	(483)	(499)
Lease remeasurement	-	-	-	-	-
Lease termination	-	-	-	-	-
At 31 December 2021	2,717	8,095	560	12,271	23,643
Charge for the year	617	2,681	248	3,954	7,500
Disposals	-	-	-	(130)	(130)
At 31 December 2022	3,334	10,776	808	16,095	31,013
Net book value					
At 31 December 2022	2,074	1,816	883	5,570	10,343
At 31 December 2021	3,451	3,923	1,131	8,933	17,438
At 1 January 2021	3,539	6,853	808	12,758	23,958

The maturity analysis of lease liabilities is presented in note 46.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

39 Investments – company

	£'000	
Cost and net book value		
At 1 January 2021		14,599
Additions		5,630
		<hr/>
At 31 December 2021		20,229
Additions		-
		<hr/>
At 31 December 2022		<u>20,229</u>
		<hr/>
	2022	2021
	£'000	£'000
H. Leverton Limited	11,031	11,031
Sitech Technology Systems Limited	3,067	3,067
Murray Control Systems Limited	500	500
Finning Finance Limited	1	1
Finning Acquisition Co.	0.001	0.001
Sitech ROI	0.001	0.001
Finning Power Rental Limited	5,179	5,179
Finning Power Rental LP	451	451
	<hr/>	<hr/>
Investment in subsidiaries	20,229	20,229

Details of the company's subsidiaries at 31 December 2022 are as follows:

Subsidiary	Registered address	Holding	Nature	%
H. Leverton Limited	Watling Street, Cannock, Staffordshire, WS11 8LL, UK	Ordinary shares	Dormant	100
Sitech Technology Systems Limited (formerly Reaction One Ltd)	Finning (UK) Ltd, Watling Street, Cannock, Staffordshire, WS11 8LL, UK	Ordinary shares	Trading	100
Murray Control Systems Limited	Finning (UK) Ltd, Watling Street, Cannock, Staffordshire, WS11 8LL, UK	Ordinary shares	Trading	100
Finning Power Rental Limited	Finning (UK) Ltd, Watling Street, Cannock, Staffordshire, WS11 8LL, UK	Ordinary shares	Trading	100
Finning Power Rental LP	Finning (UK) Ltd, Watling Street, Cannock, Staffordshire, WS11 8LL, UK	Profit share	Trading	100

All investments are direct except Finning Power Rental LP which is 1% indirect

There are no significant restrictions on the ability of the group to access or use the assets and settle liabilities.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

40 Deferred tax - company

Deferred taxation provided is as follows:

	2022	2021
	£'000	£'000
Accelerated tax depreciation	(1,971)	(1,706)
Other timing difference	(511)	(511)
Deferred tax liability related to pension scheme	(14,964)	(27,588)
Tax losses allowable	1,434	1,172
	<u>(16,012)</u>	<u>(28,604)</u>
Deferred tax liability	<u>(16,012)</u>	<u>(28,604)</u>

The deferred tax asset has been recognised as sufficient future taxable profits are forecast that will realise the asset.

	2022	2021
	£'000	£'000
At 1 January	(28,604)	(15,183)
Charged to the profit and loss account	(1,075)	(1,272)
Deferred tax on pension costs	13,667	(12,149)
	<u>(16,012)</u>	<u>(28,604)</u>
At 31 December	<u>(16,012)</u>	<u>(28,604)</u>

The headline UK statutory corporation tax rate for the year ended 31 December 2022 was 19%. Legislation introduced in the Finance Bill 2021 will maintain the 19% corporation tax rate for the period to 31 March 2023..

The headline rate of corporation tax will then be increased to 25% from 1 April 2023.

Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Accordingly, with enactment of the Finance Act 2021 on 10 June 2021 the deferred tax balances have been recognised at the 25% rate.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

41 Inventories – company

	2022	2021
	£'000	£'000
Work-in-progress	11,822	7,865
Finished goods and goods for resale	84,447	59,083
	<u>96,269</u>	<u>66,948</u>

There is no material difference between the balance sheet value of inventory and their replacement cost.

For the year ended 31 December 2022 on-hand equipment, parts, supplies and internal work in progress recognised as an expense amounted to £540,931,000 (2021: £409,190,000). For the year ended 31 December 2022, the write-down of inventories amounted to £1,435,000 (2021: £1,679,000).

42 Contract assets – company

	2022	2021
	£'000	£'000
Contracts in progress at the balance sheet date:		
Power systems projects	1,011	961
Long term support contracts	13,386	12,599
Service work-in-progress	12,672	10,690
	<u>27,069</u>	<u>24,250</u>

Invoices for sales of power systems projects are issued in accordance with milestone payments agreed within each sales contract with the customer. Invoices for sales of parts and labour when servicing equipment under long-term support contracts are issued in accordance with the billing arrangement over the contract term. Invoices for sales of parts and labour when servicing equipment not under long-term contracts are issued when the work is complete. The group recognises unbilled service work in progress for sales of complex power and energy systems and sales of parts and labour when servicing equipment when revenue recognition criteria are met, and the group has the right to receive amounts from customers but invoices have not yet been issued.

All contract assets are due within 1 year.

Impairment losses of £nil (2021: £nil) have been recognised on contract assets during the year.

The directors of the group always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the group's key markets. None of the amounts due from customers at the end of the reporting period is past due.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under construction contracts.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

43 Trade and other receivables - company

	2022	2021
	£'000	£'000
Amounts falling due within one year:		
Amounts receivable for the sale of goods	60,778	52,937
Loss provision	(1,049)	(757)
	<hr/>	<hr/>
Net trade receivables	59,729	52,180
Contract assets (note 42)	27,069	24,250
Amounts owed by group undertakings	2,999	12,665
Other receivables	18,388	10,626
Prepayments and accrued income	371	899
	<hr/>	<hr/>
	108,556	100,620
	<hr/> <hr/>	<hr/> <hr/>
Amounts falling due after one year – company		
Amounts owed by group undertakings	7,367	7,313
Other receivables	6,866	3,053
	<hr/>	<hr/>
	14,233	10,366
	<hr/> <hr/>	<hr/> <hr/>

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

44 Contract liabilities – company

	2022	2021
	£'000	£'000
Contracts in progress at the balance sheet date:		
Power systems projects	9,690	4,209
Long term support contracts	26,606	26,044
	<u>36,296</u>	<u>30,253</u>

The group recognises deferred revenue when cash has been collected from the customer but control of the goods or services has not yet been transferred to the customer. Contract liabilities are recorded in respect deferred revenue on sales of parts and labour when servicing equipment and power system projects. Cash is typically collected as the customer is billed while revenue is deferred and recognised evenly over the term of the contract, which can extend beyond one year. The majority of revenue related to long-term product support contracts is recognised within one year of collecting cash from the customer. All other streams of revenue are recognised within one year of recording deferred revenue. Revenue recognized in 2022 from carried forward contract liabilities is estimated at £12.2m.

Contract liabilities on power systems projects and long term support contracts can vary year on year depending on the value of progress billings relative to the value of work performed on the contract.

45 Trade and other payables - company

	2022	2021
	£'000	£'000
Trade payables	40,971	40,918
Contract liabilities (note 44)	36,280	30,253
Amounts owed to group undertakings	21,360	19,008
Other taxation and social security	19,174	9,582
Accruals and deferred income	24,567	15,773
	<u>142,352</u>	<u>115,534</u>

Amounts owed to group undertakings are repayable on demand.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 19 days (2021: 27 days). For most suppliers no interest is charged on the trade payables for the first days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

46 Lease liabilities – company

	2022	2021
	£'000	£'000
Maturity analysis:		
Year 1	7,765	11,627
Year 2	4,420	5,541
Year 3	3,158	3,841
Year 4	1,734	2,732
Year 5	999	1,467
Onwards	3,692	4,811
	<u>21,768</u>	<u>30,019</u>
Less: future finance charges	(5,693)	(5,176)
Present value of lease obligations	<u>16,075</u>	<u>24,843</u>
Analysed as:		
Current obligations under finance lease	6,339	10,516
Non-current obligations under finance lease	9,736	14,327
	<u>16,075</u>	<u>24,843</u>

It is the company's policy to lease certain items of its property, plant and equipment under finance leases. The average lease term is 4.4 years (2021: 4 years). For the year ended 31 December 2022, the average effective borrowing rate was 3.76% per cent (2021: 3.62%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the company's lease obligations is approximately equal to their carrying amount.

The company's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 12.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

47 Borrowings – company

	2022	2021
	£'000	£'000
Unsecured borrowings at amortised cost		
Overdraft	-	-
Other loans	537	817
Amounts owed to group undertakings	25,000	25,000
	<u>25,537</u>	<u>25,817</u>
Total borrowings		
Amount due for settlement within 12 months	<u>25,240</u>	<u>143</u>
Amount due for settlement after 12 months	<u>297</u>	<u>25,674</u>

On 1 June 2010 £25,000,000 of a Eurobond issue was assigned to Finning (UK) Ltd. In December 2020, the bonds were further extended to be redeemed in May 2023, carrying an interest rate of 2.55%, payable quarterly.

The Eurobond is fully subscribed by a company which is a subsidiary of Finning International Inc. The amount outstanding at the year end is £25,000,000 (2021: £25,000,000). Post year end on 27th February Finning UK Limited has paid the Eurobond.

The company holds a £20,000,000 uncommitted net overdraft facility with HSBC. The facility covers the Finning Holdings group's various bank accounts denominated in GBP, EUR, USD and DKK and is guaranteed across the Finning Holding's group through counter indemnity. The overdraft carries a range of interest rates chargeable at 0.40% above the base rate in the account currency's local jurisdiction.

The company also holds a £10,000,000 short term uncommitted money market facility with HSBC. Interest is charged at the Bank of England base rate plus 1.25%. No amounts were drawn on this facility at 31 December 2022 (2021: £nil).

Borrowings are repayable as follows:

	2022	2021
	£'000	£'000
Loans and overdrafts		
On demand or within one year	240	143
Between one and five years	297	674
Over five years	-	-
	<u>537</u>	<u>817</u>
Amounts owed to group undertakings		
On demand or within one year	25,000	-
Between one and five years	-	25,000
	<u>-</u>	<u>25,000</u>

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

48 Provisions for liabilities – company

	2022	2021
	£'000	£'000
Provisions for dilapidations	879	825
Warranty provisions	10,863	6,477
Provision for buybacks	936	1,324
Provision for product support	1,204	1,730
Restructuring provision	-	-
	<u>13,881</u>	<u>10,356</u>
Current	12,700	8,437
Non-current	<u>1,181</u>	<u>1,919</u>
	<u>13,881</u>	<u>10,356</u>

	Dilapidations	Warranty	Buybacks
	£'000	£'000	£'000
At 1 January 2022	825	6,477	1,324
Additional provision in year	50	15,288	838
Utilised during the year	4	(8,797)	-
Released during the year	-	(2,105)	(1,226)
At 31 December 2022	<u>879</u>	<u>10,863</u>	<u>936</u>
	Product support	Restructuring	Total
	£'000	£'000	£'000
At 1 January 2022	1,730	-	10,356
Additional provision in year	384	-	16,560
Utilised during the year	(560)	-	(9,353)
Released during the year	(351)	-	(3,682)
At 31 December 2022	<u>1,203</u>	<u>-</u>	<u>13,881</u>

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

48 Provisions for liabilities -- company (continued)

The provision for dilapidations is a provision to make good any repairs on properties rented under operating leases and is expected to be utilised at the expiry of each lease, with the longest lease expiring in 2078.

Warranty provisions on equipment sales are expected to be utilised over the lives of the given warranty periods. This is expected to be utilised within a year.

The buyback provision relates to certain sales agreements that contain "buyback" arrangements that may be exercised at the option of the customer within specified periods in the future, with the longest period being December 2023. This is utilised when an option is exercised or expired.

Provisions for product support are those for product support claims and are recognised over the given product support periods.

The restructuring provision relates to redundancy costs incurred as part of a company reorganisation undertaken during the year. This is expected to be utilised within a year.

No provision has been made for deferred tax on revaluing property to its market value. The tax on any gain arising from the revaluation would only become payable if the property were sold without rollover relief being available. This is expected to be utilised within a year

49 Retained earnings – company

	Retained earnings £'000	Total £'000
At 1 January 2022	129,341	129,341
Retained profit for the year	27,649	15,741
Actuarial loss net of deferred taxation	(41,001)	16,234
Dividends paid	(2,636)	(34,447)
	<hr/>	<hr/>
At 31 December 2022	<u>113,353</u>	<u>129,342</u>

Dividends of £2,636,000 were paid during the year to holders of fully paid ordinary shares (2021: £34,447,000) were paid to holders of fully paid ordinary shares.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

50 Related party transactions - company

Balances between the company and its subsidiaries are disclosed below.

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties		Amounts owed to related parties	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Murray Control Systems Limited	59	44	(29)	(181)
Diperk (UK) Ltd	1,988	1,988	(63)	(26)
Finning Power Rental Solutions LP	202	941	(110)	(234)
Finning Canada	11	-	(136)	(38)
Finning Holdings Ltd	5,379	5,325	(9,222)	(9,161)
Finning (Ireland) Ltd	384	11,317	(449)	(7)
Finning International Inc.	376	-	(2,018)	(640)
H Leverton Ltd	-	-	(8,327)	(8,327)
Finning Tractor Finance Limited	-	-	(25,000)	(25,000)
Sitech Technology Systems Limited (formerly Reaction One Limited)	417	304	(1,006)	(394)
Finning Services Limited	1,549	-	-	-
Hydraquip Hose & Hydraulics Limited	1	-	-	-
Finning Chile S.A.	-	59	-	-
	<u>10,366</u>	<u>19,978</u>	<u>(46,360)</u>	<u>(44,008)</u>

The related party transactions are all with companies in the group headed by the ultimate controlling party, Finning International Inc..

Sale of goods and purchases of goods to and from related parties are made on arm's length basis.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

No expense has been recognised in the year for loss provisions in respect of the amounts owed by related parties.

The £25,000,000 balance at year end (2021: £25,000,000) between Finning (UK) Ltd and Finning Tractor Finance Limited represents the Eurobond loan and related interest owed subscribed by Finning Tractor Finance Limited, held by Finning (UK) Ltd. This was paid in February 2023 and a new loan of £25,000,000 obtained from Finning Finance Limited.

See note 4 for remuneration of key management personnel.

Notes to the parent company financial statements (continued)
For the year ended 31 December 2022

51 Parent Company Guarantee

The following subsidiaries are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts for the year ended 31 December 2022 by virtue of s479A of the Act, for which Finning UK Ltd is providing the guarantee:

NAME OF SUBSIDIARY	REGISTERED NUMBER	COUNTRY OF REGISTRATION
Sitech Technology Systems Limited	08760819	United Kingdom
Finning Power Rental Limited	04547569	United Kingdom
Murray Control Systems Limited	04745929	United Kingdom

52 Ultimate controlling party – group and company

The company is a wholly-owned subsidiary of Finning Holdings, a company registered in England and Wales which is a wholly-owned subsidiary undertaking of Finning International Inc., a company incorporated in Canada. The latter company is considered by the directors to be the ultimate holding company and controlling party. The largest and smallest groups in which the results of the company and its subsidiary undertakings are consolidated are those headed by Finning International Inc. and Finning Holdings, respectively.

The consolidated financial statements of Finning Holdings are available from Watling Street, Bridgtown, Cannock, Staffordshire, WS11 8LL. The consolidated financial statements of Finning International Inc. are available from 300-565 Great Northern Way, Vancouver, BC, V5T 0H8, Canada.

53 Post balance sheet events

On 27th February, 2023 Finning UK paid off loan of £25million (Eurobond loans from Finning Finance Tractor Limited), this loan is replaced by new loans from Finning Finance Limited.