

# **SPECIALISED PETROLEUM MANUFACTURING LIMITED**

## **Report and Financial Statements**

**1 January 2016**

**Registered No: SC131809**

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## Company information

Registered No: SC131809

### Directors

Colin McGregor  
Keith Peach

### Company Secretary

Colin McGregor

### Auditors

Ernst & Young LLP  
G1  
5 George Street  
Glasgow  
G2 1DY

### Bankers

HSBC plc  
2 Buchanan Street  
Glasgow G1 3LB

### Registered Office

SPM House  
Badentoy Crescent  
Badentoy Industrial Park  
Portlethen  
AB12 4YD

### Country of Incorporation

Scotland

# Strategic report

The directors present their Strategic report on Specialised Petroleum Manufacturing Limited ('the Company') for the 52 week period ended 1 January 2016.

## Principal activities

The Company's principal activity is the sale and rental of specialised flow control products to the oil and gas industry.

## Business review

2015 proved to be a difficult year for the Company, and one of the most difficult ever for the Oil & Gas Industry. With the sustained drop in oil prices continuing throughout the year, including a particularly sharp drop in the fourth quarter when the price of Brent Crude Benchmark the temporarily dropped below \$30/gallon, the continued impact of Russian Sanctions and their consequent effect in further devaluing the Rouble, unrest in the Middle East and the worldwide surplus of oil, the Company's markets have been in full recession for the entire year with customer spend decreasing significantly. This has forced the Company to implement significant cost cutting mechanisms, however the sheer extent of the recession has led to a significant decrease in Year-on-Year profitability.

On 3 January 2015 the Company transitioned from previously extant UK GAAP to FRS 101 *Reduced Disclosure Framework* for both periods presented and has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking, SPM Flow Control Inc., was notified of and did not object to the use of the disclosure exemptions from EU-adopted IFRS, provided by FRS 101. Details of the recognition or measurement differences arising on the adoption of FRS 101 are included in note 19 to the financial statements. The accounting policies which follow set out the policies that apply in preparing the financial statements for the 52 weeks ended 1 January 2016 ('2015') and the restated comparative information for the 52 weeks ended 2 January 2015 ('2014'). The Company has taken early adoption of SI2015/980 for presentational purposes in order to align with the financial statements of its ultimate parent company.

The company's key financial and other performance indicators during the period were as follows:

	2015	2014	
	£000	£000	Change
Revenue	18,538	23,688	-22%
Operating profit (before exceptional items)	1,790	1,996	-10%
Profit before tax (before exceptional items)	1,854	2,009	-8%
Profit for the period (before exceptional items)	1,465	1,659	-12%
Exceptional items	1,128	-	100%
Shareholders' funds	29,021	28,456	2%
Working capital as % of sales	143.9%	105.8%	3,810 bps
Current assets as % of current liabilities	663.0%	568.7%	9,430 bps
Average number of employees	51	56	-5

Revenue declined by 22% compared with the prior period, with equipment sales continuing at the same depressed levels seen since the late 3rd quarter of 2014 when the Russian Economic Sanctions took effect (a large proportion of the Company's sales businesses being highly dependent on the Russian Market). This was offset to some extent by large individual sales in the 3rd quarter of 2015, however overall, the sales business declined by over 27% compared to the prior period. In the prior period, the Company's service business streams had remained resilient in the face of the challenging market conditions, however in 2015, while revenues remained in line with the prior period in the first half of the year, they abruptly dropped by half over the 3rd quarter, with the overall year's decline at 19%.

Despite the severely reduced volumes, the decline in Operating Profit (before Exceptional items) was held to only 10% compared with the prior period due to aggressively managing variable costs in both service the service business and general overheads. However, the Company did incur Exceptional Costs of £1,128,000 as a result of absorption of Manufacturing underrecovery charges from its parent company, SPM Flow Control Inc, who provide the Company's product, and redundancy costs at a local level. Operating Profit (after Exceptional Items) consequently declined by 67% overall compared with the prior period.

The Cost Control measures equally held the decline in Profit Before Tax (before Exceptional Items) to 8% compared with the prior period, however the Exceptional Items increased this deficit compared with the prior period to a 64% decline. Profit after tax declined 12% before Exceptional Items and 65% after Exceptional Items.

The movement in Shareholders' funds (+2%) related entirely to the net profit after tax for the year.

Working capital as % of sales rose 3,810 basis points as working capital rose by 0.6% yet sales declined by 21.7% compared with the comparative period's closing figure. The Current Ratio increased by 9,430 basis points primarily due to the decreases in inventories and receivables and increases in cash compared with the prior period.

## Specialised Petroleum Manufacturing Limited

Average Employee Headcount declined by 5 overall, driven by reductions in the workshop in the 3rd Quarter due to reduced volumes and a consolidation of management positions.

Looking forward to 2016, the market outlook remains flat, with current projection indicating that no significant economic recovery is expected in the market until the final quarter of the year at the earliest, and more likely not until 2017. The Company will continue to aggressively manage its cost basis in line with volumes and is actively pursuing new business outside its traditional geographic boundaries. There are no significant plans to alter the core business of the company in the future.

### Principal risks

Risk is inherent in our business activities and as a consequence of operating a sound risk management process the Company has identified the following principal risks and uncertainties, which it believes could have a materially adverse effect on its business, turnover, profit, assets, liquidity, resources and reputation. The nature of risk is such that no list can be comprehensive and it is possible that other risks may arise, or that risks not currently considered material may become so in the future. The Company's ultimate parent company, The Weir Group PLC ('the Group'), operates controls as described in its Strategic report to mitigate against these risks.

### Political risks

The Company and its customers operate around the world including the North Sea Sector (UK & Scandinavia), Continental Europe, Russia and the former CIS states, and the African Continent.. While benefiting from the opportunities in these regions, the Company and its customers are exposed to the political and business risks associated with international operations, such as sudden changes in regulation, expropriation of assets, imposition of trade barriers and limits on the export of currency.

### Product liability claims

The Company faces an inherent business risk of exposure to product liability and warranty claims in the event that a failure of a product results in, or is alleged to result in, bodily injury, property damage and/or consequential loss. The Company's ultimate parent company maintains insurance coverage for product liability claims where possible. For warranty claims not covered by insurance, warranty costs may be incurred which the Company may not be able to recover.

### Employee issues

Company performance depends on the skills and efforts of its employees and management team across all of its businesses. The Company recognises that failing to attract new talent and retain existing expertise, knowledge and skills in operations, products and infrastructure areas such as information technology could have a negative impact on its business.

### Health & safety

The Company operates in a number of demanding environments and safe working practices are extremely important to protect everyone on the Company's premises with long established working practices and controls to minimise damage and injury.

The Company is certified by Lloyds Register to OHSAS 18001 International Standard. The Safety Management System was recertified on 15th May 2015 (Valid until May 2018) Certificate No: LRQ 4004981. In addition to this, the Company is compliant with the Weir EHS Standards and is subject to an annual audit. The Company operates to the "Weir Zero Harm" behavioural policies, with all Staff being trained on these principles. The Company's legal obligations are verified annually by a Third Party (Waterman) and at the latest visit in January 2016 were found to be fully compliant.

### Customer relationships

The Company benefits from close commercial relationships with a number of key customers. The loss of any of these key customers, or a significant worsening in commercial terms, could impact on the Company's results. The Company devotes significant resources to supporting these relationships to ensure they continue to operate satisfactorily.

### Supply chain risk

The Company subcontracts certain elements of the manufacturing process through supply chains external to the Company. Any failure of the supply chain would represent a risk to the Company's ability to meet customer requirements and achieve its financial goals. The Company's strategy is to simplify the external supply chain and forge deeper strategic relationships with fewer but stronger suppliers.

### Business continuity and disaster recovery

The Company has a Business continuity and disaster recovery plan which is reviewed annually. Risk of disablement of the Company's business critical systems at a key location is mitigated by data back-up designed to ensure that information can be recovered rapidly and independently of any disabled location. In addition, I.T. disaster recovery plans are in place for each location in the event of disruption.

### Financial risk management objectives & policies

The Company's principal financial instruments comprise amounts due to and from its parent company, cash at bank and financial derivatives.. The main purpose of these financial instruments is to manage the Company's funding and liquidity requirements. The Company has other financial instruments such as trade receivables and trade payables which arise directly from its operations. The principal financial risks to which the company is exposed are listed below. These risks are managed in accordance with Board approved policies.

### Foreign exchange risk

As a result of the Company's business activities it is exposed to transactional currency risk. Transactional currency exposure arises when the Company enters into transactions denominated in currencies other than its functional currency which is Sterling. Foreign currency exposures are identified and managed directly by the Company within the policies and guidelines established by the Company's ultimate parent, The Weir Group PLC. The parent company enters into foreign exchange hedging transactions on behalf of the Company in accordance with those policies and procedures. The Company makes limited use of derivative financial instruments to hedge balance sheet translation exposures.

## Specialised Petroleum Manufacturing Limited

Transaction exposures are hedged with the use of forward exchange rate contracts where deemed appropriate and where they can be reliably forecast. It is policy not to engage in any speculative transaction of any kind.

### Commodity price risk

The Company's exposure to raw material price risk is generally diminished by restricting bid validity to periods within those quoted by suppliers and by material price escalation clauses.<sup>3</sup>

### Credit risk

The credit risk on liquid funds and derivative financial instruments is limited because the counter parties are banks with high credit-ratings assigned by international credit-rating agencies. The Company's credit risk is primarily attributable to its trade receivables. The Company is exposed to risk over a large number of countries and customers and there is no significant concentration of risk. Where appropriate, the Company endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance. Credit worthiness checks are also undertaken before entering into contracts with new customers and credit limits are set as appropriate. Due to long established relationships with the majority of customers, the Company does not consider there to be a significant credit quality issue. The amounts presented in the balance sheet are net of an allowance for doubtful receivables. An allowance for impairment is made where there is an identifiable loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

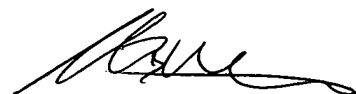
### Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and inter-company trading accounts.

### Interest rate risk

The Company's borrowings consist of inter group loans and these are at variable rates of interest. Based on current levels of net debt, interest rate risk is not considered to be material.

On behalf of the Board of Directors



Colin McGregor  
Director

25 August 2016

## Directors' report

The directors present their report and the audited financial statements of Specialised Petroleum Manufacturing Limited (Registered Number SC131809) ('the Company') for the 52 week period ended 1 January 2016.

### Dividends

No dividend was declared in the period (2014: £nil).

### Principal activities and review of the business

The Company's principal activity is the sale and rental of specialised flow control products to the oil and gas industry.

### Disabled employees

The Company's policy is to give full and fair consideration to employment applications from disabled persons who have the necessary aptitudes and abilities to perform the job in question. Where a person becomes disabled while employed by the Company, arrangements are made, wherever practicable, to continue employment by identifying, where available, a job suitable to that person's capabilities and providing any necessary retraining. It is also the policy of the Company to encourage the career development of disabled persons having regard to the particular abilities and skills of the individual concerned.

### Employee involvement

Within commercial confidence, information continues to be given to employees about the progress of the Company and on matters of concern to them as employees. Regular meetings are held to discuss matters affecting employees.

During the period the Company has continued arrangements whereby it periodically makes presentations to employees on the performance of the Company and its objectives in the context of both internal and external economic factors.

### Financial instruments

The Company's principal financial instruments are shown on the balance sheet. The principal financial risks to which the Company is exposed are outlined in the Strategic report.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review contained in the Strategic report, as is the financial position of the Company. In addition, the Strategic report includes the Company's objectives, policies and processes for managing its capital, financial instruments and its financial risk management objectives and policies.

The Company has considerable financial resources together with continuing contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Company is ultimately owned by The Weir Group PLC ('the Group') and it participates in the Group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the Company depends, in part, on the ability of the Group to continue as a going concern. The directors have considered the Company's funding relationship with The Weir Group PLC to date and have considered available relevant information relating to The Weir Group PLC's ability to continue as a going concern. In addition, the directors have no reason to believe that The Weir Group PLC will not continue to fund the Company, should it become necessary, to enable it to continue in operational existence.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements

### Future developments

Future developments affecting the business are discussed in the Business Review section of the Strategic report

### Directors

The directors of the company during the period and to the date of this report were:

Colin McGregor

Jason Zeller (resigned 06 April 2015)

Andrew McDonald (resigned 23 June 2015)

David Paradis (resigned 23 June 2015)

Keith Peach (appointed 23 June 2015)

### Directors' liabilities

The Company's Articles of Association contain a provision that every director or other officer shall be indemnified against all losses and liabilities which they may incur in the course of acting as directors (or officers as the case may be) permitted by the Companies Act 2006 (as amended).

These indemnities are uncapped in amount. The Company's ultimate parent company maintained directors and officers liability insurance throughout 2015 in respect of the Company's directors and officers.

#### Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### Auditors

The ultimate parent company's Annual General Meeting has recommended that PricewaterhouseCoopers LLP be appointed under section 485 of the Companies Act 2006 as the Company's auditor.

#### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements.

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.

By order of the Board



Colin McGregor  
Company Secretary

25 August 2016

## **Independent auditors' report to the members of Specialised Petroleum Manufacturing Limited**

We have audited the financial statements of Specialised Petroleum Manufacturing Limited for the 52 weeks ended 1 January 2016 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out in the Directors' report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 1 January 2016 and of its result for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; including FRS 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

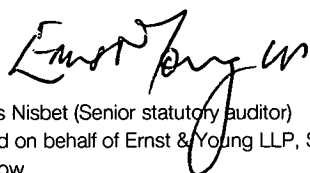
- the information given in the Strategic report and Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic report or Directors' report.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



James Nisbet (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Glasgow  
26 August 2016



Specialised Petroleum Manufacturing Limited

**Income statement  
for the 52 weeks ended 1 January 2016**

52 weeks ended 1 January 2016				52 weeks ended 2 January 2015			
	Notes	Before exceptional items & intangibles amortisation £000	Exceptional items & intangibles amortisation (note 4) £000	Total £000	Before exceptional items & intangibles amortisation £000	Exceptional items & intangibles amortisation (note 4) £000	Total £000
<b>Revenue</b>	3	18,538	-	18,538	23,688	-	23,688
<b>Operating profit (loss)</b>		1,790	(1,128)	662	1,996	-	1,996
Finance costs	6	(113)	-	(113)	(16)	-	(16)
Finance income	7	177	-	177	29	-	29
Other finance costs - retirement benefits		-	-	-	-	-	-
<b>Profit (loss) on ordinary activities before tax</b>		1,854	(1,128)	726	2,009	-	2,009
Tax on profit (loss) on ordinary activities	8	(389)	228	(161)	(350)	-	(350)
<b>Profit (loss) for the period</b>		1,465	(900)	565	1,659	-	1,659

The Company's results for the current and the prior period were earned from continuing operations.

The result reported above includes all income and expenses for the period.

## Specialised Petroleum Manufacturing Limited

**Balance sheet**  
**at 1 January 2016**

	Notes	2015 £000	2014 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant & equipment	9	2,130	3,223
Deferred tax asset	8	204	149
<b>Total non-current assets</b>		<b>2,334</b>	<b>3,372</b>
<b>Current assets</b>			
Inventories	10	2,461	4,527
Trade & other receivables	11	2,991	5,024
Derivative financial instruments	14	9	-
Cash & short-term deposits	12	25,969	20,885
<b>Total current assets</b>		<b>31,430</b>	<b>30,436</b>
<b>Total assets</b>		<b>33,764</b>	<b>33,808</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	(4,743)	(5,352)
<b>Total current liabilities</b>		<b>(4,743)</b>	<b>(5,352)</b>
<b>Total liabilities</b>		<b>(4,743)</b>	<b>(5,352)</b>
<b>NET ASSETS</b>		<b>29,021</b>	<b>28,456</b>
<b>Capital &amp; reserves</b>			
Share capital	16	1	1
Retained earnings		29,020	28,455
<b>TOTAL EQUITY</b>		<b>29,021</b>	<b>28,456</b>

The financial statements of Specialised Petroleum Manufacturing Limited were approved by the directors and signed on their behalf by:

Colin McGregor  
 Director



25 August 2016

**Statement of changes in equity  
for the 52 weeks ended 1 January 2016**

	Share capital £000	Retained earnings £000	Total equity £000
At 3 January 2014	1	26,796	26,797
Result for the period	-	1,659	1,659
Dividends	-	-	-
Exercise of LTIP awards	-	-	-
Amortisation of property revaluation surplus	-	-	-
At 2 January 2015	1	28,455	28,456
Result for the period	-	565	565
Dividends	-	-	-
Exercise of LTIP awards	-	-	-
Amortisation of property revaluation surplus	-	-	-
At 1 January 2016	1	29,020	29,021

## Notes to the financial statements

for the 52 week period ended 1 January 2016

### 1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Specialised Petroleum Manufacturing Limited for the 52 weeks ended 1 January 2016 were authorised for issue by the Board of Directors on 25 August 2016 and the balance sheet was signed on the Board's behalf by Colin McGregor.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and in accordance with applicable accounting standards.

The Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful life. However, under IFRS 3 *Business Combinations* goodwill is not amortised. Consequently, the Company does not amortise goodwill, but it reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

The Company's financial statements are presented in Sterling and all values have been presented in thousands (£000) except where otherwise indicated.

The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare group financial statements as it is a wholly owned subsidiary of The Weir Group PLC. The results of the Company are included in the consolidated financial statements of The Weir Group PLC which are publically available.

The principal accounting policies adopted by the Company are set out in note 2.

## 2. Accounting policies

### Basis of preparation

The Company transitioned from the previously extant UK GAAP to FRS 101 for both periods presented. Transition reconciliations showing all material adjustments under IFRS 1 are disclosed in note 19. The accounting policies which follow set out the policies which apply in preparing the financial statements for the 52 weeks ended 1 January 2016 ('2015'), the comparative information is provided for the 52 weeks ended 2 January 2015 ('2014').

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- paragraphs 45(b) and 46-52 of IFRS 2 *Share-based Payment*, because the share based payment arrangement concerns the instruments of the Weir Group PLC;
- IFRS 7 *Financial Instruments: Disclosures*;
- paragraphs 91-99 of IFRS 13 *Fair Value Measurement*;
- IAS 7 *Statement of Cash Flows*;
- paragraph 38 of IAS 1 *Presentation of financial statements* comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 *Property, Plant & Equipment*; and paragraph 118(e) of IAS 38 *Intangible Assets*;
- paragraph 17 of IAS 24 *Related Party Disclosures*; and
- IAS 24 *Related Party Disclosures* disclosure of related party transactions with a fellow wholly owned subsidiary in IAS 24 *Related Party Disclosures*.

For the 52 week period ended 1 January 2016 and previous periods, the Company has reported its financial statements to the week ending closest to the Company reference date of 31 December. For practical purposes, a decision has been made to alter the reporting basis to reflect a calendar year, with the next annual reporting date being 31 December 2016. This is not expected to significantly impact the reported results in 2016.

### Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date, and the amounts reported for revenues and expenses during the year. These estimates and assumptions are based on historical experience, information available at the time and other factors considered relevant.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

#### *Operating lease commitments*

The Company has entered into commercial leases in exchange for the use of property, plant and equipment. The classification of such leases as operating or finance leases requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets, and accordingly whether the lease requires an asset and liability to be recognised on the balance sheet.

#### *Taxation*

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the long term nature and complexity of existing contractual arrangements, differences arising between the actual results and the assumptions made or future changes to such assumptions could result in future adjustments to tax income and expense already recorded. Provisions are established based on reasonable estimates for possible consequences of audits by the tax authorities. Management judgement is required to determine the amount of such provisions, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

#### *Provisions*

Provisions are recognised where the Company has an obligation, as a result of a past event, that can be measured reliably and where an outflow of economic benefits is considered probable. Management judgement is used to determine the amount of such provisions taking into account the commercial drivers which gave rise to them, the Company's previous experience of similar obligations and the progress of any associated legal proceedings. With regard to inventory provisioning, historical usage as well as anticipated future demand is considered. Where changes to these factors occur during the period, this may impact on the assumption integral to management's assessment of the provision and the overall valuation. Any changes are recognised in the income statement in the period.

#### *Impairment*

The company carries out impairment testing on any assets that show indications of impairment as well as annually for goodwill and other intangible assets with indefinite lives and so not subject to amortisation. This testing includes exercising management judgement about future cash flows and other events which are, by their nature, uncertain.

### Significant accounting policies

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, and to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is shown net of sales taxes and discounts.

#### *Sale of goods*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, usually on despatch of goods, and reliable measurement is possible. No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, or the possible return of goods. Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Where the sale of product requires customer inspection, revenue is not recognised until the inspection has been completed and approved by the customer.

## Specialised Petroleum Manufacturing Limited

This policy is applicable to the sale of both original equipment and spare parts, whether sold individually, in bulk or as part of a cross-selling marketing strategy.

### **Provision of services**

Revenue from the rendering of services is generally recognised on completion if the service contract is short-term in nature. Where this is not the case, revenue from services is recognised in proportion to the stage of completion of the service at the balance sheet date. The stage of completion is assessed by reference to the contractual agreement with each separate customer and the costs incurred on the contract to date in comparison to the total forecast costs of the contract. Revenue recognition commences only when the outcome of the contract can be reliably measured otherwise it is recognised to the extent costs are incurred.

### **Exceptional items**

Exceptional items are items of income and expense which, because of the nature, size and/or infrequency of the events giving rise to them, merit separate presentation to allow a better understanding of the elements of the Company's financial performance for the period and are presented on the face of the income statement to facilitate comparisons with prior periods and assessment of trends in financial performance. Exceptional items may include but are not restricted to: profits or losses arising on disposal or closure of businesses; the cost of significant business restructuring; significant impairments of intangible or tangible assets; adjustments to the fair value of acquisition related items such as contingent consideration and inventory; other items deemed exceptional due to their significance, size or nature; and the related exceptional taxation.

### **Foreign currency translation**

Transactions denominated in foreign currencies are translated into the Company's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the balance sheet date. Currency translation differences are recognised in the income statement.

### **Fixed assets and depreciation**

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment losses. Freehold land and assets under construction are not depreciated.

Depreciation of property, plant and equipment, other than freehold land and assets under construction, is provided on a straight line basis so as to charge the cost less residual value, based on prices prevailing at the balance sheet date, to the income statement over the expected useful life of the asset concerned, and is in the following ranges:

Freehold buildings, long leasehold & buildings	10 – 40 years
Short leasehold land & buildings	duration of lease
Plant & equipment	3 - 7 years
Motor vehicles	4 years
Rental equipment	3 – 7 years

### **Impairment of non-current assets**

All non-current assets are tested for impairment whenever events or circumstances indicate that their carrying values might be impaired. Additionally, goodwill, intangible assets with an indefinite life and any capitalised development expenditure are subject to an annual impairment test.

An impairment loss is recognised to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's fair value less costs to sell and its value in use. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is conducted for the cash generating unit to which it belongs. Similarly, the recoverable amount of goodwill is determined by reference to the discounted future cash flows of the cash generating units to which it is allocated.

Impairment losses are recognised in the income statement. Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of an asset shall not be increased above the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. Impairment losses recognised in respect of goodwill are not reversed.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value, with due allowance for any obsolete or slow moving items. Cost represents the expenditure incurred in bringing inventories to their existing location and condition and comprises the cost of raw materials, direct labour costs and related production overheads. Raw materials cost is generally determined on a first in, first out basis. Net realisable value is the estimated selling price less costs to complete and sell.

### **Financial assets & liabilities**

The Company's principal financial assets and liabilities, other than derivatives, comprise the following:

- bank overdrafts
- short-term borrowings
- loans and fixed rate notes
- cash and short-term deposits
- trade receivables
- trade payables
- contingent consideration.

A financial asset is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

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A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

### **Trade receivables**

Trade receivables, which are generally of a short term nature, are recognised and carried at original invoice amount less an allowance for estimated irrecoverable amounts. Provision is made where there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

### **Cash at bank and in hand**

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

### **Provisions**

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, the obligation can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **Derivative financial instruments & hedge accounting**

The Company uses derivative financial instruments, principally forward foreign currency contracts and cross currency swaps, to reduce its exposure to exchange rate movements. The Company also uses foreign currency borrowings as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries. Additionally, the Company uses interest rate swaps to manage its exposure to interest rate risk. The Company does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. The fair value of forward foreign currency contracts is calculated as the present value of the estimated future cash flows based on spot and forward foreign exchange rates and counterparty and the Company's own credit risk. The fair value of interest rate swaps and cross currency swaps is calculated as the present value of the estimated future cash flows based on interest rate curves, spot foreign exchange rates and counterparty and own credit risk. Changes in their fair values have been recognised in the income statement, except where hedge accounting is used, provided the conditions specified by IAS 39 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IAS 39 and practical to do so. When hedge accounting is used, the relevant hedging relationships will be classified as fair value hedges, cash flow hedges or net investment hedges.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss will be recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument.

Where the hedging relationship is classified as a cash flow hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in other comprehensive income rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in other comprehensive income will be either recycled to the income statement or, if the hedged item results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to net profit or loss for the period.

Derivatives embedded in non-derivative host contracts are recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

### **Leases**

Leases which transfer to the Company substantially all of the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are included within property, plant and equipment, initially measured at their fair value or, if lower, the present value of the minimum lease payments and a corresponding liability is recognised within obligations under finance leases. Subsequently, the assets are depreciated on a basis consistent with similar owned assets or the lease term if shorter. At the inception of the lease, the lease rentals are apportioned between an interest element and a capital element so as to produce a constant periodic rate of interest on the outstanding liability. Subsequently, the interest element is recognised as a charge to the income statement while the capital element is applied to reduce the outstanding liability.

Operating lease rentals and any incentives receivable are recognised in the income statement on a straight-line basis over the term of the lease.

### **Taxation**

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period.

Deferred tax is recognised on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base with the following exceptions:

Deferred tax arising from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination, that, at the time of the transaction, affects neither accounting nor taxable profit or loss, is not recognised;

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Deferred tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, the carry forward of unutilised tax losses and the carry forward of unused tax credits. Deferred tax is measured on an undiscounted basis using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Current and deferred tax is recognised in the income statement except if it relates to an item recognised directly in equity, in which case it is recognised directly in equity.



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### 3. Revenues & expenses

The following disclosures are given in relation to total continuing operations and include exceptional items & intangibles amortisation.

	2015 £000	2014 £000
A reconciliation of revenue to operating profit is as follows		
Revenue	18,538	23,688
Cost of sales	(14,745)	(18,129)
Gross profit	3,793	5,559
Selling & distribution costs	(456)	(452)
Administrative expenses	(2,675)	(3,111)
Operating profit	662	1,996

	2015 £000	2014 £000
Operating profit is stated after charging (crediting)		
Depreciation of assets (note 9)	1,105	1,106
Loss (gain) on disposal of fixed assets	(94)	(127)
Exchange (gains) losses	25	(20)
Audit fees payable to the Company's auditor	17	17
Operating lease payments	301	272

### 4. Exceptional items

	2015 £000	2014 £000
Recognised in arriving at operating profit (loss) from continuing operations		
Other	1,128	-
	1,128	-

As specified in the Strategic report, the Company incurred exceptional costs of £1,128,000 as a result of absorption of Manufacturing underrecovery charges from its parent company, SPM Flow Control Inc, who provide the Company's product, and redundancy costs at a local level.

## 5. Staff costs &amp; directors' remuneration

	2015 £000	2014 £000
Employee benefits expense		
Wages and salaries	2,005	2,097
Social security costs	208	208
Pension costs	59	55
	2,272	2,360

Included in pension costs are £59,000 (2014: £55,000) in respect of defined benefit schemes. The Company is a member of The Weir Group Pension & Retirement Savings Scheme which is a defined benefit multi-employer plan operated by The Weir Group PLC which closed during 2015. The assets and liabilities of the scheme are held on the balance sheet of the ultimate parent entity.

	2015 Number	2014 Number
Employee numbers		
The average number of people employed by the company (including directors) is as follows		
Workshop & Operations	27	31
Sales	6	4
Management & Administration	18	21
	51	56

	2015 £000	2014 £000
Directors' remuneration		
Aggregate emoluments of directors in respect of qualifying services	337	274
Aggregate Company contributions to defined contribution pension plans	16	48

	2015 Number	2014 Number
Number of directors accruing benefits under		
Defined contribution schemes	3	2

	2015 £000	2014 £000
In respect of the highest paid director		
Aggregate remuneration	143	187
Accrued pension at the end of the period	-	1
Accrued pension contributions in the period	4	11
	147	199

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## 6. Finance costs

	2015 £000	2014 £000
Interest payable to group undertakings		16
Losses on financial asset & liabilities at fair value through profit & loss	113	-
	113	16

## 7. Finance income

	2015 £000	2014 £000
Interest receivable on financial assets	21	-
Interest receivable from group undertakings	57	3
Gains on financial assets & liabilities at fair value through profit & loss	99	26
	177	29

**8. Taxation****Tax charged in the income statement**

	2015 £000	2014 £000
The tax charge is made up as follows		
Current income tax		
UK corporation tax	216	450
Adjustments in respect of previous years		(73)
Total current income tax	216	377
Deferred income tax		
Origination & reversal of temporary differences *	(55)	(27)
Total deferred tax	(55)	(27)
Total income tax charge in the income statement	161	350

**Factors affecting the tax charge for the period**

The standard rate of tax for the period based on the UK standard rate of corporation tax is 20.25% (2014: 21.5%). The actual tax charge for the current period is set out in the following reconciliation.

	2015 £000	2014 £000
Result from continuing operations before income tax	726	2,009
Tax calculated at UK standard rate of corporation tax of 20.25% (2014: 21.5%)	147	432
Effect of		
Expenses not deductible for tax purposes	22	(43)
Dividends on preference shares included in finance costs		-
Non-taxable income	(20)	-
Non-taxable dividend income		-
Group relief		-
Utilisation of previously unrecognised tax losses		-
Tax overprovided in previous periods		(73)
Capital allowances less than depreciation	12	34
Tax expense in the income statement	161	350

**Factors that may affect future tax charges**

A number of changes which reduce future UK corporation tax rates were announced in the UK Budget Statement of 20 March 2013. Following on from this, legislation was enacted on 2 July 2013 such that the main rate of UK corporation tax will be 20% from 1 April 2015. No deferred tax is recognised on the revaluation of property, which if disposed of at book value, would give rise to a capital loss. At present, it is not envisaged that any tax will become recoverable in the foreseeable future in this regard.

**The deferred tax included in the balance sheet is as follows**

	2015 £000	2014 £000
Deferred income tax assets		
Accelerated capital allowances	204	149
Deferred income tax assets	204	149

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## 9. Property, plant & equipment

	Land & buildings £000	Plant & equipment £000	Motor vehicles £000	Rental equipment £000	Total £000
<b>Cost</b>					
At 2 January 2015	465	396	18	7,980	8,859
Additions				117	117
Disposals	(8)	(62)		(326)	(396)
At 1 January 2016	457	334	18	7,771	8,580
<b>Aggregate depreciation</b>					
At 2 January 2015	262	296	18	5,060	5,636
Charge for period	88	28		989	1,105
Disposals	(5)	(34)		(252)	(291)
At 1 January 2016	345	290	18	5,797	6,450
Net book value at 2 January 2015	203	100		2,920	3,223
Net book value at 1 January 2016	112	44		1,974	2,130

## 10. Inventories

	2015 £000	2014 £000
Finished goods	2,461	4,527
	2,461	4,527

## 11. Trade and other receivables

	2015 £000	2014 £000
Trade receivables	2,480	3,899
Amounts receivables from group undertakings	55	179
Tax receivable		86
Prepayments and accrued income	456	860
	2,991	5,024

Amounts due from group companies are unsecured, interest free and repayable on demand.

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### 12. Cash and short-term deposits

	2015 £000	2014 £000
Cash	25,969	20,885
	25,969	20,885

### 13. Trade and other payables

	2015 £000	2014 £000
Trade payables	101	179
Payments received on account	11	22
Amounts owed to group undertaking	4,066	4,467
Tax payable	232	377
Other payables	50	63
Accruals & deferred income	283	244
	4,743	5,352

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

### 14. Derivatives

	2015 £000	2014 £000
<b>Current assets</b>		
Forward foreign currency contracts	9	-
	9	-

The figures in the above table are inclusive of derivative financial instruments where the counterparty is a subsidiary of The Weir Group PLC.

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15. Commitments & legal claims

Operating lease commitments

	2015 £000	2014 £000
Less than one year	355	285
After one year but no more than five years	114	398
	469	683

16. Share capital

	2015 £000	2014 £000
<b>Allotted, called up and fully paid</b>		
1 Ordinary share of £1.00 each	1	1
	1	1

**17. Contingent liabilities**

The Company has given a guarantee in relation to the overdraft and loan facilities extended to The Weir Group PLC and certain subsidiary companies. The net debt of the other companies party to these facilities at 1 January 2016 amounted to £23,495,000 (2014: £55,965,000).

**18. Ultimate group undertaking**

The immediate parent undertaking is SPM Flow Control Inc..

The ultimate parent undertaking is The Weir Group PLC. The Company is included within these group accounts which are available to the public and may be obtained from The Weir Group PLC, 1 West Regent Street, Glasgow, G2 1RW.

**19. Changes in accounting policies**

For all periods up to and including the year ended 2 January 2015, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 1 January 2016, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 4 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing the financial statements, the Company has started from an opening balance sheet as at 4 January 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101.

No restatements have been identified as a result of this review.