

SPECIALISED PETROLEUM MANUFACTURING LIMITED

Report and Financial Statements

31 December 2019

Registered No: SC131809

COMPANIES HOUSE
21 DEC 2020
EDINBURGH MAILBOX



Company information

Registered No: SC131809

Directors

Colin McGregor

Keith Peach

Company Secretary

Colin McGregor

Independent auditors

PricewaterhouseCoopers LLP

141 Bothwell Street

Glasgow

G2 7EQ

Bankers

HSBC Bank PLC

8 Canada Square

London

E14 5HQ

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 year ended 31 December 2019.

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

The company's overall performance continued to improve over prior periods with its markets generally strengthening in all product lines and geomarkets, although the comparatively lower pricing following the oil industry contraction of 2015 and 2016 remains and now appears to be the new baseline as the industry seeks efficiency savings.

The Company's key financial and other performance indicators during the year were as follows:

	2019	2018	
	£000	£000	Change
Revenue	24,943	22,586	10%
Operating profit	1,888	1,384	36%
Profit before tax	2,107	1,416	49%
Profit for the year	1,713	1,401	22%
Total shareholders' funds	32,413	30,700	6%
Working capital as % of sales	122%	131%	-900bps
Current assets as % of current liabilities	633%	674%	-4,137bps
Average number of employees	46	43	7%

Turnover improved by 10% in the year, driven by strong OEM Equipment and Spares sales in Russia and former CIS states (up 11% on the prior year), and a continued recovery of the North Sea Equipment Rental Market (up 18% on the prior year, which had seen much reduced levels of activity in the downturn of 2016 and 2017 and had only recovered in the second half of 2018).

Operating profit improved by 36% in the year, with gross margins improving from 18% in 2018 to 22% in 2019, primarily driven by the increased equipment rental volumes. This was offset however by increased administrative costs, primarily intragroup charges and exchange costs driven by a comparatively weaker US Dollar in 2019 versus the prior year.

Profit before tax increased by 49% in the year, in line with the increase in operating profit, together with slightly improved net financing gains on foreign exchange hedging activity.

Working capital decreased from 131% of turnover in 2018 to 122% in 2019, primarily as a result of the increased turnover outstripping the increase in working capital itself (2%). The working capital increase itself however was driven nearly entirely by transferring cash funds to group loan accounts, and as such, is reflective of the profit for the financial year.

Average headcount increased 7% in the year with a 10% increase in the service business year on year driving additional workshop requirements. Management and administration headcount fell as the management structure was flattened with supervisor level positions replacing the functions previously performed by management staff.

Entering 2020, the business carried a strong orderbook for the the first quarter of the new year and expectations of similar levels of business in the equipment rental and refurbishment markets. However the development of the COVID-19 pandemic has led to a worldwide decline in economic activity from the second quarter onwards and a resultant decline in order input across all product

lines. This contraction has led to depressed results in 2020, with revenues and operating profits reducing by approximately 30% and 42% respectively through the first 3 quarters of 2020 as compared with the prior corresponding period.

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.

Director's Statement on duty as per Section 172 Companies Act

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders. Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 26 and 27 of the 2019 Annual Report of The Weir Group PLC, which does not form part of this report.

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 27th June 2019 (valid until November 2020) Certificate No: 10132258. 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 and at the latest visit in January 2019 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 and ultimate 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. 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.

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 expected credit losses, measured in accordance with the impairment requirements of IFRS 9.

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.

Specialised Petroleum Manufacturing Limited

On behalf of the Board of Directors

A handwritten signature in black ink that reads "Colin McGregor". The signature is written in a cursive, slightly slanted style.

Colin McGregor

Director

17 December 2020

Directors' report

The directors present their report and the audited financial statements of Specialised Petroleum Manufacturing Limited (Registered Number SC131809) ('the Company') for the year ended 31 December 2019.

Dividends

No dividend was declared in the year (2018: £nil).

Principal activities and review of the business

The Strategic report presents a summary of the Company's principal activities and future developments.

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 year 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 has a strong net current asset position with good cover for its liabilities and as such, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The directors, having reviewed current forecasts, in particular current liabilities and those falling due within the next 12 months, and having considered the impact of COVID-19 on the Group, continue to adopt the going concern basis in preparing the financial statements.

On 5 October 2020, The Weir Group PLC announced its intention to sell their oil and gas division, including Specialised Petroleum Manufacturing Limited, to Caterpillar Inc ("the acquirer"). The sale is expected to complete by January 2021. The company is currently reliant on Weir Group for its funding, and has received a letter of support from Weir Group covering the period up to the completion of the sale to the acquirer. While the directors do not have any reason to believe that the acquirer will not continue to support the company, they do not have visibility over the future intentions of the acquirer, including the funding to be provided to the company for the foreseeable future. This is considered to create a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Events since the balance sheet date

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity, and have consequently driven down the demand for, and price for, oil & gas output. As a result, the business has seen a significant downturn activity over the period following the balance sheet date in both sales and service markets and in both the key North Sea and Eastern European/Russian markets. Throughout this period however, the business has remained profitable and has not undergone any significant structural changes to date. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible. On 5 October 2020, the Company's ultimate parent, The Weir Group PLC, announced an agreement had been entered into to sell its Oil & Gas division to Caterpillar Inc., for an enterprise value of US\$405m, subject to customary working capital and debt-like

adjustments at closing. The transaction remains subject to certain regulatory and other approvals with completion expected in Q1 2021.

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 year and up to the date of this report were:

Colin McGregor

Keith Peach

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 2019 and up to the date of approval of the financial statements in respect of the Company's directors and officers. The directors and officers liability insurance is considered to be a qualifying third party indemnity as detailed in s.234 of the Companies Act 2006.

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.

Independent auditors

PricewaterhouseCoopers LLP were appointed under section 485 of the Companies Act 2006 as the Company's auditors at the Annual General Meeting of the Group on 30 April 2019 and have indicated their willingness to continue in office.

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 year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 *Reduced Disclosure Framework*, and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that year.

In preparing the 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;
- state whether applicable UK Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Specialised Petroleum Manufacturing Limited

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

A handwritten signature in black ink that reads "Colin McGregor". The signature is written in a cursive style with a large 'C' and 'M'.

Colin McGregor
Company Secretary

17 December 2020

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

Report on the audit of the financial statements

Opinion

In our opinion, Specialised Petroleum Manufacturing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Income statement, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern – change in ownership

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The Weir Group PLC has initiated a sales process to dispose of its Oil and Gas business, which includes the company. The sale is expected to complete by January 2021 and the company will therefore be under new ownership with new funding arrangements. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material

misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

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 year ended 31 December 2019 is consistent with the financial statements and has 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 did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 auditors' 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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Mark Hoskyns-Abrahall (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Glasgow

17 December 2020

Specialised Petroleum Manufacturing Limited

Income statement
for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Revenue	3	24,943	22,586
Operating profit (loss)		1,888	1,384
Finance costs	5	(1,184)	(979)
Finance income	6	1,403	1,011
Profit (loss) on ordinary activities before tax		2,107	1,416
Tax on profit (loss) on ordinary activities	7	(394)	(15)
Profit (loss) for the financial year		1,713	1,401

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

The result reported above includes all income and expenses for the year and therefore no statement of comprehensive income has been presented.

Specialised Petroleum Manufacturing Limited

Balance sheet
as at 31 December 2019

	Notes	2019 £000	2018 £000
ASSETS			
Non-current assets			
Property, plant & equipment	8	2,029	678
Deferred tax asset	7	335	309
Total non-current assets		2,364	987
Current assets			
Inventories	9	2,749	2,101
Trade & other receivables	10	33,279	32,568
Derivative financial instruments	13	174	221
Total current assets		36,202	34,890
Total assets		38,566	35,877
LIABILITIES			
Current liabilities			
Financial liabilities	11	(251)	-
Trade & other payables	12	(5,399)	(4,846)
Derivative financial instruments	13	(73)	(331)
Total current liabilities		(5,723)	(5,177)
Non-current liabilities			
Financial liabilities	11	(430)	-
Total non-current liabilities		(430)	-
Total liabilities		(6,153)	(5,177)
NET ASSETS		32,413	30,700
Capital & reserves			
Called up share capital	15	1	1
Retained earnings		32,412	30,699
TOTAL EQUITY		32,413	30,700

The notes numbered 1 to 19 are an integral part of these financial statements.

The financial statements on pages 13 to 34 were authorised for issue by the Board of Directors on 17 December 2020 and signed on its behalf by

Colin McGregor

Colin McGregor

Director

17 December 2020

Specialised Petroleum Manufacturing Limited

Statement of changes in equity
for the year ended 31 December 2019

	Called up share capital £000	Retained earnings £000	Total equity £000
At 31 December 2017	1	29,298	29,299
Profit (loss) for the financial year	-	1,401	1,401
At 31 December 2018	1	30,699	30,700
Profit (loss) for the financial year	-	1,713	1,713
At 31 December 2019	1	32,412	32,413

Notes to the financial statements

for the year ended 31 December 2019

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

The financial statements of Specialised Petroleum Manufacturing Limited for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 17 December 2020 and the balance sheet was signed on the Board's behalf by Colin McGregor.

Specialised Petroleum Manufacturing Limited is a private limited company, limited by shares, registered in Scotland.

The financial statements were prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

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

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

Specialised Petroleum Manufacturing Limited

2. Accounting policies**Basis of preparation**

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019 ('2019'), the comparative information is provided for the year ended 31 December 2018 ('2018'). The accounting policies are consistent with those of the previous period, with the exception of the following new standard which applies for the first time in 2019.

The financial statements have been prepared on the going concern basis and the historic cost convention, as modified by the revaluation of land and buildings and derivative financial assets and liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. An assessment of the going concern basis is included within the Directors' Report.

On 5 October 2020, The Weir Group PLC announced its intention to sell their oil and gas division, including Specialised Petroleum Manufacturing Limited, to Caterpillar Inc ("the acquirer"). The sale is expected to complete by January 2021. As noted, the company is currently reliant on Weir Group for its funding, and has received a letter of support from Weir Group covering the period up to the completion of the sale to the acquirer. While the directors do not have any reason to believe that the acquirer will not continue to support the company, they do not have visibility over the future intentions of the acquirer, including the funding to be provided to the company for the foreseeable future. This is considered to create a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

IFRS 16 'Leases'

The Company adopted IFRS 16 'Leases' on 1 January 2019. The standard has resulted in any current operating leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. The Company has applied the modified retrospective transition method, and consequently comparative information is not restated.

Within opening balances as at 1 January 2019, the Company has recognised £832,000 of continuing right-of-use assets. A corresponding continuing IFRS 16 lease liability of £798,000 has been recognised, representing the obligation to make lease payments. Right-of-use assets have been initially valued as equal to lease liabilities, with subsequent adjustments made to reflect prepayments, rent free periods and provisions including onerous lease contracts recognised on balance sheet at 31 December 2018.

The balance sheet transition impact by line item on the closing 2018 Balance Sheet is shown in the table.

Impact of IFRS 16 transition on 2018 Balance Sheet

	31 December 2018 £000	IFRS 16 impact £000	1 January 2019 £000
Property, plant & equipment	678	832	1,510
Trade & other receivables	3,928	(34)	3,894
Assets held for sale	2,101	-	2,101
Interest-bearing loans and borrowings (total)	28,640	(798)	27,842
Trade & other payables	(4,846)	-	(4,846)
Other	199	-	199
NET ASSETS	30,700	-	30,700

Specialised Petroleum Manufacturing Limited

For each lease, the lease term has been calculated as the non-cancellable period of the lease contract, except where the Company is reasonably certain that it will exercise contractual extension options.

The Company has elected to use the following practical expedients allowed by the standard:

- On initial application:
 - i) the use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease;
 - ii) the exclusion of initial direct costs from the measurement of the right-of-use asset; and
 - iii) IFRS 16 has only been applied to contracts that were previously classified as leases.
- Lease payments for contracts with a duration of 12 months or less and contracts for which the underlying asset is of a low value have continued to be expensed in the income statement.

For operating leases now recognised on balance sheet, the operating lease expenses have been replaced by a depreciation expense on the right-of-use assets recognised and an interest expense.

Where the interest rate implicit in the lease cannot be readily determined, the Company's incremental borrowing rate will be used. The Company's incremental borrowing rate is calculated by taking the government borrowing rate in any given currency and adding the estimated Company credit spreads for a variety of tenors. An interpolation is performed to obtain one rate for each of the major lease currencies based on the weighted average life of the lease book.

For the period to 31 December 2019, the impact on profit before tax from continuing operations (before exceptional items and intangibles amortisation) compared to the prior year is a reduction of £25,000 partly due to the front loading of interest costs.

There is also a change in presentation of cash flows for leases previously accounted for as operating leases, which are now presented as cash flows from financing activities rather than cash flows from operating activities.

The reconciliation from operating commitments disclosed under IAS 17 to the lease liability recognised on the balance sheet at 1 January 2019 is as follows.

Reconciliation from IAS 17 disclosure to IFRS 16 at 1 January 2019

	1 January 2019 £000
Operating lease commitments at 31 December 2018	922
Impact of discounting	(77)
Discounted operating lease commitments at 1 January 2019	845
Recognition exemption for short-term leases	(14)
Recognition exemption for leases of low value assets	(33)
Lease liabilities reported at 1 January 2019	798

Specialised Petroleum Manufacturing Limited

Statutory instruments & exemptions

The Company has adopted SI 2015/980 for presentational purposes in order to align with the financial statements of its ultimate parent company.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101, and the company intends to take these exemptions in future years:

- 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';
- IAS 24 'Related Party Disclosures' disclosure of related party transactions with a fellow wholly owned subsidiary in IAS 24 'Related Party Disclosures';
- paragraph 10(d), 10(f) 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 111, 134-136 of IAS 1 'Presentation of financial statements'; and
- paragraph 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraphs 52 and 58 of IFRS 16 'Leases'.

There are no new standards or interpretations, in addition to the above, which are considered to have a material impact on the financial statements.

Judgements and key sources of estimation uncertainty

There are no areas in the preparation of these financial statements that require management to make significant judgements, estimates or assumptions.

Significant accounting policies***Revenue recognition***

Revenue is the consideration received or receivable which reflects the amount expected to be received from customers, mainly the transaction price adjusted for variable consideration. Revenue will only be recognised when the fulfilment of performance obligations is achieved. Revenue is shown net of sales taxes and discounts.

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.

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Property, Plant and Equipment

Property, plant & equipment comprises owned assets and right-of-use assets that do not meet the definition of investment property.

Owned assets

Owned property, plant & equipment is stated at cost less accumulated depreciation and any recognised impairment losses. Depreciation of property, plant & equipment is provided on a straight-line basis so as to charge the cost less residual value, 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
Rental equipment	5 years

Right-of-use asset and lease liability

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether it has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset throughout the period of use.

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

The lease liability is initially measured as the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or where the interest rate implicit in the lease cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments consist of the following components:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option (if the lessee is reasonably certain to exercise that option); and
- payments of penalties for terminating the lease (if the lease term reflects the lessee exercising the option to terminate the lease).

The Company's incremental borrowing rate is calculated by taking the government borrowing rate in any given currency and adding the estimated Company credit spreads for a variety of tenors. An interpolation is performed to obtain one rate for each of the major lease currencies based on the weighted average life of the lease book.

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The right-of-use asset is measured as equal to the lease liability and adjusted for:

- lease payments made to the lessor at or before the commencement date;
- lease incentives received;
- initial direct costs associated with the lease; and
- an initial estimate of restoration costs.

The right-of-use asset is depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by any impairment losses.

The Company has adopted the exemption available for low value assets, with payments being recognised on a straight-line basis over the lease term. Leases relating to laptops, desktop computers, mobile phones, photocopiers, printers and other office equipment, where the asset value is less than £3,500 or the local currency equivalent have been treated as 'low value'. Where the lease contract meets both 'short-term' and 'low value' exemptions, the lease is reported within expenses relating to short-term leases.

For each lease, the lease term has been calculated as the non-cancellable period of the lease contract, except where the Company is reasonably certain that it will exercise contractual extension options. In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Company shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. In certain circumstances the Company will refer to the 5 year strategic plan period as an appropriate period to consider whether the 'reasonably certain' criteria are met.

Policy applicable before 1 January 2019

Under IAS 17 leases which transferred to the Company substantially all of the risks and rewards of ownership of the leased asset were classified as finance leases. All other assets were classified as operating leases.

Assets held under finance lease were included within property, plant & equipment, initially measured at their fair value or, if lower, the present value of the minimum lease payments, and a corresponding liability was recognised within obligations under finance leases.

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

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.

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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.

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 at original invoice amount where the consideration is unconditional. If they contain significant financing components, trade receivables are instead recognised at fair value. The Company holds trade receivables to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details of the Company's impairment policies and calculation of the loss allowance are provided in note 10.

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. 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

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curves, spot foreign exchange rates and counterparty and own credit risk. Changes in their fair values are recognised in the income statement, except where hedge accounting is used, provided the conditions specified by IFRS 9 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IFRS 9 and practical to do so. When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges, as appropriate.

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. When the hedged asset or liability 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 through other comprehensive income is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss that was reported in equity is immediately reclassified to the income statement in the period.

Derivatives embedded in non-derivative host contracts which are not already measured at fair value through profit or loss, 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.

Post-employment benefits

For defined contribution plans, the cost represents the Company's contributions to the plan and these are charged to the income statement in the year in which they fall due, along with any associated administration costs.

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Taxation

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

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;
- 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 years in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future years 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.

	2019 £000	2018 £000
A reconciliation of revenue to operating profit (loss) is as follows		
Revenue	24,943	22,586
Cost of sales	(19,344)	(18,550)
Gross profit	5,599	4,036
Selling & distribution costs	(560)	(543)
Administrative expenses	(3,151)	(2,109)
Operating profit (loss)	1,888	1,384

	2019 £000	2018 £000
Revenue by activity is as follows		
Equipment sales	17,906	16,190
Equipment service	834	1,071
Rental of equipment	6,203	5,325
	24,943	22,586

	2019 £000	2018 £000
Timing of revenue recognition		
At a point in time	24,943	22,586
	24,943	22,586

	2019 £000	2018 £000
Operating profit (loss) is stated after charging		
Depreciation of assets (note 8)	719	391
Loss (gain) on disposal of fixed assets	(29)	(56)
Exchange (gains) losses	343	(107)
Cost of inventories recognised as an expense (included in cost of sales)	13,204	11,330
Audit fees payable to the Company's auditors	35	22
Operating lease payments	-	264

Lease costs, following the adoption of IFRS 16 'Leases', are now disclosed in note 8.

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4. Staff costs & directors' remuneration

	2019 £000	2018 £000
Employee benefits expense		
Wages and salaries	2,327	1,950
Social security costs	270	228
Other pension costs	98	70
	2,695	2,248

Included in other pension costs are £98,000 (2018: £70,000) in respect of the defined contribution scheme.

	2019 Number	2018 Number
Employee numbers		
The average number of people employed by the company (including directors) is as follows		
Workshop & Operations	29	24
Sales	6	4
Management & Administration	11	15
	46	43

	2019 £000	2018 £000
Directors' remuneration		
Aggregate emoluments of directors in respect of qualifying services	452	362
Aggregate Company contributions to defined contribution pension plans	17	20

	2019 Number	2018 Number
Number of directors accruing benefits under		
Defined contribution schemes	2	2
Number of directors who received shares in respect of qualifying services	1	-

	2019 £000	2018 £000
In respect of the highest paid director		
Aggregate remuneration	286	226
Accrued pension contributions in the year	13	15
Shares received	34	-
	333	241

Two directors were remunerated by Specialised Petroleum Manufacturing Limited during the year.

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5. Finance costs

	2019 £000	2018 £000
Interest payable to group undertakings	40	-
Interest and finance charges payable on lease liabilities	18	-
Losses on financial asset & liabilities at fair value through profit & loss	1,126	979
	1,184	979

6. Finance income

	2019 £000	2018 £000
Interest receivable from group undertakings	208	159
Gains on financial assets & liabilities at fair value through profit & loss	1,195	852
	1,403	1,011

7. Taxation

Tax charged in the income statement

	2019 £000	2018 £000
The tax charge (credit) is made up as follows		
Current income tax		
UK corporation tax	356	130
Adjustments in respect of previous years	64	(84)
Total current income tax	420	46
Deferred income tax		
Origination & reversal of temporary differences	44	140
Impact of change in tax rate	4	-
Adjustment in respect of previous periods	(74)	(171)
Total deferred tax	(26)	(31)
Total income tax charge (credit) in the income statement	394	15

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Factors affecting the tax charge for the year

The standard rate of tax for the year based on the UK standard rate of corporation tax is 19.00% (2018: 19.00%). The actual tax charge for the current year is set out in the following reconciliation.

	2019 £000	2018 £000
Result from continuing operations before income tax	2,107	1,416
Tax calculated at UK standard rate of corporation tax of 19.00% (2018: 19.00%)	400	269
Effect of		
Tax underprovided in previous periods	(10)	(255)
Change in tax laws and rate	4	-
Other tax reconciling item	-	1
Tax expense (income) in the income statement	394	15

Factors that may affect future tax charges

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the corporation tax rate will be held at 19%. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in these financial statements.

As substantive enactment is after the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at a rate of 17%. If the amended tax rate had been used, the net deferred tax asset would have been £38,000 higher.

	2019 £000	2018 £000
Deferred income tax assets		
Accelerated capital allowances	331	309
Other timing differences	4	-
Deferred income tax assets	335	309

Unrecognised deferred tax assets at 31 December 2019 amounted to £1,200 (2018: £1,200).

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8. Property, plant & equipment

Property, plant & equipment comprises owned and right-of-use assets that do not meet the definition of investment property.

	Owned land & buildings £000	Owned plant & equipment £000	Owned rental equipment £000	Right-of-use land & buildings £000	Right-of-use plant & equipment £000	Total £000
Cost						
At 31 December 2018	475	331	7,537	-	-	8,343
Transition adjustment (note 2)	-	-	-	832	-	832
At 1 January 2019	475	331	7,537	832	-	9,175
Additions	2	-	1,137	-	113	1,252
Disposals	-	(2)	(292)	-	-	(294)
At 31 December 2019	477	329	8,382	832	113	10,133
Aggregate depreciation						
At 31 December 2018	441	276	6,948	-	-	7,665
Charge for year	10	17	456	230	6	719
Disposals	-	(2)	(278)	-	-	(280)
At 31 December 2019	451	291	7,126	230	6	8,104
Net book value at 31 December 2018	34	55	589	-	-	678
Net book value at 31 December 2019	26	38	1,256	602	107	2,029

The Company leases Buildings, Vehicles, Forklift Trucks and Photocopiers. The current and non-current lease liabilities are disclosed in note 11. The following table shows the breakdown of the lease expense between amounts charged to operating profit and amounts charged to finance costs in the year.

	2019 £000
Depreciation of right-of-use assets	236
Expenses relating to short-term leases	20
Expenses relating to lease of low value assets, excluding short-term leases of low value	15
Charge to operating profit	271
Finance cost - interest expense related to lease liabilities	18
Charge to profit before tax	289

The total cash outflow in the year is £247,000.

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9. Inventories

	2019 £000	2018 £000
Finished goods	2,749	2,101
	2,749	2,101

Inventories are stated after impairment of £766,000 (2018: £967,000).

10. Trade and other receivables

	2019 £000	2018 £000
Trade receivables	4,296	3,179
Contract assets	432	483
Amounts receivable from group undertakings	28,446	28,690
Tax receivable	37	97
Prepayments	68	119
	33,279	32,568

The Company has recognised the following assets in relation to contracts with customers.

	2019 £000	2018 £000
Accrued income	432	483
	432	483

Trade receivables are stated after provisions for impairment of £97,000 (2018: £87,000).

All amounts are recoverable within one year.

Amounts receivable from group undertakings are unsecured, bear interest at a rate of 3 month GBP LIBOR -0.125%, and are repayable on demand.

Impairment of trade & other receivables

Amounts owed by subsidiaries and other group undertakings relate to cash balances subject to group cash pooling arrangements and trading balances with other group trading entities. Intercompany balances are typically managed on a Group basis, and the Company's credit risk management practices reflect this. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all such receivables.

The trading balances owed by subsidiaries and other group undertakings do not carry an interest charge, and it is the Company's expectation that materially all the amounts owed by subsidiaries are fully recoverable over time. Expected credit losses at 31 December 2019 are therefore immaterial, and there has been no material change to the expected loss allowance during the year.

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- i) trade receivables for sales of products and services; and

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- ii) contract assets relating to rental and equipment refurbishment contracts.

Credit risk is managed on the following basis: if wholesale customers are independently rated, these ratings are used; otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by customers is regularly monitored by line management.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics.

The contract assets relate to unbilled equipment rental and refurbishment revenues and have substantially the same risk characteristics as the trade receivables for the same types of contracts. Due to the way in which these contracts are managed, expected credit loss is included within the loss allowance for trade receivables.

For short-term trade receivables, historical loss rates might be an appropriate basis for the estimate of expected future losses. These are then adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. As such, one methodology applied is the use of a provision matrix, where different loss rates are applied depending on the number of days that a trade receivable is past due. Alternatively the expected credit loss is calculated on an individual customer basis based on historical loss data for that customer, their receivables ageing, and any other knowledge of the customer's current and forecast financial position.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the [GDP and the unemployment rate of the countries in which it sells its goods and services / diesel price and oil rig counts] to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade receivables and contract assets are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 365 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The gross carrying amount of trade receivables, for which the loss allowance is measured at an amount equal to the lifetime expected credit losses under the simplified method, is analysed below:

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Ageing of gross carrying amount of trade receivables by days past due

	2019 £000	2018 £000
Not past due	3,387	2,623
Up to 3 months past due	927	588
Between 3 & 6 months past due	28	(23)
More than 6 months past due	51	78
	4,393	3,266

Reconciliation of opening to closing loss allowance for trade receivables

	2019 £000	2018 £000
Balance at the beginning of the year	87	71
Impairment losses recognised on receivables	102	84
Amounts written off as uncollectable	(16)	(18)
Amounts recovered during the year	(76)	(50)
Balance at the end of the year	97	87

11. Financial liabilities

	2019 £000	2018 £000
Amounts due are repayable as follows		
Current		
- lease liability	251	-
Non-current		
More than one year but not more than two years		
- lease liability	256	-
More than two years but not more than five years		
- lease liability	174	-
	681	-
Less current instalments due on		
- lease liability	251	-
	430	-

As IFRS 16 'Leases' was adopted on 1 January 2019, there are no lease liabilities recognised in relation to the year ended 31 December 2018.

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12. Trade and other payables

	2019 £000	2018 £000
Trade payables	106	80
Payments received on account	34	-
Amounts owed to group undertaking	4,323	3,951
Tax payable	333	155
Accruals & deferred income	603	660
	5,399	4,846

Amounts owed to group undertakings are unsecured, bear interest at a rate of 3 month GBP LIBOR +0.65% and are repayable on

13. Derivatives

	2019 £000	2018 £000
Current assets		
Cross currency swaps	91	63
Forward foreign currency contracts	83	158
	174	221
Current liabilities		
Cross currency swaps	(23)	(231)
Forward foreign currency contracts	(50)	(100)
	(73)	(331)

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

14. Commitments & legal claims**Operating lease commitments**

Lease costs, following the adoption of IFRS 16 'Leases', are now disclosed in note 8. The lease disclosures below are given for the year ended 31 December 2018.

	2018 £000
Less than one year	265
After one year but no more than five years	657
	922

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15. Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
1,000 (2018: 1,000) ordinary shares of £1.00 each	1	1
	1	1

16. Contingent liabilities

The Company was a member of a group UK cash pool arrangement and had jointly and severally given guarantee of the net overdraft amount of the pool up to a maximum of £5.0million (2018: £5.0million). At the year end, the net amount drawn under the facility was £nil (2018: £nil). As of November 2020, the Company no longer participates in the cash pool arrangement due to the agreed sale of the Company to Caterpillar Inc., as discussed in note 19.

17. Related party disclosures

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

18. Ultimate group undertaking

The immediate parent undertaking is SPM Flow Control, Inc..

The ultimate parent undertaking and controlling party is The Weir Group PLC. The Company is only consolidated into these group financial statements which are available to the public and may be obtained from The Weir Group PLC, 1 West Regent Street, Glasgow, G2 1RW.

19. Events after the balance sheet date

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity, and have consequently driven down the demand for, and price for, oil & gas output. As a result, the business has seen a significant downturn activity over the period following the balance sheet date in both sales and service markets and in both the key North Sea and Eastern European/Russian markets. Throughout this period however, the business has remained profitable and has not undergone any significant structural changes to date. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible. On 5 October 2020, the Company's ultimate parent, The Weir Group PLC, announced an agreement had been entered into to sell its Oil & Gas division to Caterpillar Inc., for an enterprise value of US\$405m, subject to customary working capital and debt-like adjustments at closing. The transaction remains subject to certain regulatory and other approvals with completion expected in Q1 2021.