

# Clyde Union Limited

## Report and Financial Statements

31 December 2010

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13/08/2011

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COMPANIES HOUSE

**Directors**

James McColl  
Thomas Burley  
Keith Mitchell  
Allan Dowie  
Stephen Gilbey  
Crawford Gorrie  
Frank Barrett  
John Fleming  
Mark Hannigan  
Brian Scorer

**Secretary**

T J Brown

**Auditors**

Ernst & Young LLP  
George House  
50 George Square  
GLASGOW  
G2 1RR

**Bankers**

Bank of Scotland  
167-201 Argyle Street  
GLASGOW  
G2 8BU

**Solicitors**

Dundas & Wilson CS LLP  
191 West George Street  
GLASGOW  
G2 2LD

**Registered Office**

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## CHAIRMAN'S STATEMENT

### Introduction

It gives me great pleasure to write the Chairman's Statement for CLYDEUNION Pumps, the trading name of Clyde Union S.p.A. and its subsidiaries, with the business recording another excellent year and continuing along a steep growth curve, delivering both tremendous financial results and excellent operational performance.

The first section of this statement is a review of the CLYDEUNION Pumps group of which Clyde Union Limited is a significant part. A review of Clyde Union Limited's performance is briefly covered on Page 6 and more fully in the Directors' Report on Pages 7-9.

The last twelve months has seen the financial performance of the company move forward at a rapid pace. Order bookings are up 22% over 2009, revenue is up 4%, underlying EBITDA is up by 29%, and we start the year with an excellent order book. We also successfully extended our banking facilities to enable further growth in our business in 2011 and beyond.

The implementation of the business unit led strategy of focusing on key markets and customers, aligned with global sales teams and manufacturing facilities, has yielded significant successes in what have been challenging economic conditions. Order bookings for the Original Equipment business have grown 18% to £181.1m and it should be noted if nuclear power is excluded, having won a number of major long-term contracts in 2008 & 2009, then the other business units increased order bookings by 84% although events in Japan in 2011 have brought our technology again to the forefront and we are having many discussions around the world. In March 2011 we were awarded another significant contract for the Chinese nuclear market. This growth is significantly ahead of the competition and demonstrates market share increases. Aftermarket order bookings showed a strong increase of 26% to £126.5m following continued achievements in serving our installed base throughout the world.

### Acquisition Strategy

In line with our strategy of acquiring businesses that fill product and geographical gaps, we announced the acquisition of the S&N Pump Company in October 2010, a highly respected and recognised global offshore pumping and service solutions provider for the oil and gas industry. Key product offerings are sea water lift pumps, diesel engine fire pump packages, diesel engine pump packages, submersible pumps, motor repairs & rewind, and service.

S&N is headquartered in Houston, Texas, USA with service, packaging and test capabilities in Angola, Dubai, Singapore and the UK. S&N has been serving the offshore oil and gas market since 1957 and currently employs 96 people across five locations. The acquisition provides CLYDEUNION Pumps with products in an offshore market segment previously not served, and gives service expansion capabilities with S&N's global footprint to access markets and promote CLYDEUNION Pumps products and services. The acquisition of S&N is a great addition to the CLYDEUNION Pumps portfolio.

We are currently in discussions to add a further three businesses to CLYDEUNION Pumps that will increase our minerals and mining operations and also add to our oil and gas service network. The businesses are based in Australia and South Africa and we plan to have the transactions completed by September 2011 subject to completion of the required diligence.

The story of CLYDEUNION Pumps though is much more than about numbers. As I visit our many operations and offices in Brazil, India, China, the Americas, France, the Middle East, the Far East and, of course, our facilities in the UK, I meet and talk with many of the high quality people doing great work in our business. We have continued to invest in our people, facilities and now have a platform to continue the growth for many years to come.

## CHAIRMAN'S STATEMENT

### Introduction (continued)

From our most experienced pump engineers in Glasgow, with over 30 years in the industry, designing and successfully testing our first 800MW main boiler feed pump for India, to the young applications engineers in Houston, the Middle East and the Far East who helped double our oil & gas order bookings in 2010, time and again I am struck by the enthusiasm, thirst for knowledge and focus on delivering for our customers. Indeed this mixture of skills and capabilities, experience and willingness to learn combined with a growing presence across the world is, I believe, a keystone of our rapid global growth.

The first phase of the development of CLYDEUNION Pumps was to build capability to service the needs of our various markets. The second phase was focused on rapid sales growth through re-engagement with our customers. We are now moving into a third phase in our development, one focused on optimising value for our customers and ourselves. For CLYDEUNION Pumps that means combining a continued sales and customer growth focus while ensuring that we have highly effective and efficient operational capability in all aspects of our business. It means for example that:

- We have a detailed understanding of each market and country we operate in to ensure we plan for and meet the specific needs of our customers
- Our world class ERP and applications engineering systems are configured correctly and used consistently across the group to drive quality, accuracy and productivity in our customer proposals, a main driver of revenue for our business
- Our new high end machining capability in Glasgow is optimally utilised to decrease cost, increase accuracy and meet on-time delivery of major components for the entire group

These activities and many others like them will help us to continually drive customer satisfaction in all areas as well as increase our own EBITDA performance, thus addressing two primary goals of our business at the same time.

### Key Performance Indicators

The following table is from a CLYDEUNION Pumps group perspective:

	2010 £m	2009 £m	Increase %
EBITDA (pre bonding and acquisition costs)	40.1	25.6	56
Underlying EBITDA	40.1	31.1	29
Order Bookings	310.2	254.5	22
Order Backlog	283.1	240.7	18
Revenue	261.5	252.2	4
Number of Employees (at balance sheet date)	1,927	1,643	17

### Strategy

The strategy remains unchanged since the formation of CLYDEUNION Pumps and the financial results are testament to the success of this business model. Our goal is to be a global market leading pumps solutions provider and our strategy is focused on growth. Our key objectives are aligned to this, namely:

- Increase our geographical footprint
- Increase our product offering and lead innovation in the industry
- Increase the number of target industries and applications
- Improve price competitiveness

## CHAIRMAN'S STATEMENT

### Strategy (continued)

Our growth strategy will be achieved through organic growth in existing markets, developing new markets in existing and new territories, and through strategic acquisitions and joint ventures. Our track record since the formation of CLYDEUNION Pumps has demonstrated our ability to achieve ambitious growth targets which will continue over years to come.

The cohesive leadership of our regional sales teams, business units and facilities ensure the foundations of our success through:

- Great Customer Intimacy
  - The necessary relationships with customers and end users at all levels
  - Knowledge of their needs and ability to influence them
- Great Product Capability
  - Products which are competitive in terms of application performance and design to support cost effective and quality production
- Great Operational Capability
  - To produce successful world class tenders and proposals on time
  - To produce our products to a high quality, cost effectively and on time

### Geographic Expansion

Geographic expansion is core to our goal of being a global market leading pumps solutions provider. In 2010 further geographic expansion has been achieved through the following:

- The acquisition of S&N Pump Company (in USA, Singapore, Angola, Dubai and UK)
- Increasing our sales team presence with the establishment of new sales offices including Paris, Cairo, New Jersey, and Chicago with offices planned for Milan and Rio De Janeiro in 2011
- The establishment of service and distribution partnerships in order to give us better coverage in Norway, Egypt, Thailand, Malaysia and Abu Dhabi
- The formation of appropriate joint venture operations using local partners as a route to entry. Our joint venture operations are now fully established in India and Brazil and further joint venture operations are planned for 2011 including in Indonesia and China

We now manufacture in 8 locations in 7 different countries with 25 service centres (including joint ventures) and 26 sales offices globally. Increasing our global footprint will continue into 2011 by leveraging the already expanded network we have created over the past three years, through new operations and partnerships, and through the developed sales team we have in place. In particular we aim to establish further presences in Central America, Africa, the Middle East, Asia and Australia.

Chinese localisation requirements dictate a specified percentage of local manufacturing and CLYDEUNION Pumps entered into a joint venture with the Shenyang Blowers Works Group in 2009. Due to changes in local policy the nuclear licences required for the Shenyang Shengu Clyde Union Pumps Co Ltd were not able to be transferred. In December 2010 a board decision was taken to change partner and create a new joint venture that will meet these requirements. We have identified a new partner and we plan to announce the set-up of a new joint venture before June 2011.

## **CHAIRMAN'S STATEMENT**

### **Product Development**

We have made significant progress in product development in 2010. Through our 'Gate Review' process we have developed new products and made significant improvements to our existing product range. Significant highlights of 2010 include:

- The completion of the first production unit of the largest boiler feed pump the business has made to date is giving us a competitive advantage
- A successful R&D project which now allows us to reach test conclusions much quicker resulting in more competitive lead times
- A significant cost reduction achieved in the manufacture of safety pumps for the EPR reactor is improving our price competitiveness
- The launch of a new design range of speed diffuser pumps for smaller power stations
- The global implementation of SolidWorks 3D-CAD software and Enterprise Product Data Management (EPDM) to help strengthen our engineering capabilities and improve communication and collaboration

### **Order Pipeline & Tendering**

Fundamental to the continuation of our upward trend in OE order bookings is filling our order pipeline with quality tenders. We are also seeking to actively improve the hit rate on tenders and with this dual approach we are continuing to build our basket of opportunities to support 2011 growth. Development Actions include:

- Continued development of Intelliquip, our front-end quotations system, to extend this tender capability across our total product range
- Recruitment of applications engineers in key areas together with tender managers to improve throughput, efficiency and tender hit-rates
- Growth and development of our Global Tender Centre in Noida, India
- A "World Class Proposals" initiative to improve the quality, commercial and technical competitiveness of our tender submissions

### **People & Training**

Our people are a vital asset to our business and we strive to create an environment which develops talent and enables employees to reach their full potential and play a part in the growth of the organisation. We finished 2010 with 1,927 employees which represent an increase of 284 in the year including 96 added through the acquisition of the S&N Pump business. In 2010 we introduced a performance development programme for our high performers. "Alchemy" offers development solutions to ensure our employees, leaders and managers are equipped with the skills, attitudes and behaviours to deliver the organisation's strategy and create an environment for high performance to flourish.

The CLYDEUNION Academy exists to help the business achieve its goal of being the best pumps business in the world by helping to realise the potential of all staff and raising skills and expertise to the level of global leadership. Since July 2008 we have had over 3,400 attendees at over 280 courses run by the Academy. Our Academy now covers all our global staff with courses available at all our key facilities. We will continue to improve our training facilities and courses by developing our curriculum using internal and external resources.

## CHAIRMAN'S STATEMENT

### Recent Events

#### ***Nuclear – Japan & China***

On Friday 11 March 2011 an incident at the Fukushima Daiichi nuclear power plant in north-eastern Japan damaged the reactor as a result of an earthquake and tsunami. There is no direct impact on CLYDEUNION Pumps from the situation in Japan as we have never supplied to the Japanese market, but we have offered full support and have been assisting the various authorities in this situation. The Fukushima plant was commissioned in the 1970s.

The events in Japan have meant that all countries who have nuclear build plans have been reviewing the situation and CLYDEUNION Pumps has been involved in the critical discussions around the world on procedures and safety.

In China there are currently 13 nuclear reactors with another 28 being built and plans for a further 50. On 31 March 2011, based on discussions both pre and post the Japanese incident, CLYDEUNION Pumps secured a contract for more than £10m to supply six Main Feedwater Pump sets to Fuqing Nuclear Power Plant Units 3 and 4 in Fujian Province, China. The Main Feedwater Pumps are high temperature and high pressure pumps which require design and manufacturing integrity which is a major reason for CLYDEUNION Pumps success, as these pumps are an integral part of power generation. The Fuqing station is ultimately expected to have six 1,000 megawatt CPR-1000 pressurised water reactors. This contract follows from CLYDEUNION Pumps' previous successes for Fuqing Units 1 and 2 and maintains our position as the leading supplier to the nuclear industry. Delivery of these Main Feedwater Pumps will be in 2013.

In November 2010, I accompanied the UK Prime Minister, David Cameron, on a two day British business delegation to China to boost exports to the Far East. This visit has brought great benefit to CLYDEUNION Pumps not only in assisting the awarding of the Fuqing nuclear contract but also in allowing a forum that created the set-up of a bonding scheme supported by the Government's Export Credits Guarantee Department.

#### ***Bonding***

The EGCD's Bond Support Scheme was set-up as of mid April 2011. The scheme is intended to increase contract bond capacity for UK exporters. The ECGD will provide support on a risk-sharing basis to UK banks issuing or arranging the issue of contract bonds on behalf of their exporter clients.

The bonds support is available on contracts that have a minimum 20% UK content (of goods or services) for export to either OECD or non-OECD destinations and will be provided on a contract-by-contract basis. CLYDEUNION Pumps has been at the forefront of the development of this scheme and has been working with both the Government and the UK banks on its development. We will be the first UK business to utilise this scheme and it will reduce the costs being paid by us to just under 50% of current rates.

Bonding has been a source of much discussion with banks, insurance providers and the Government. Bonding is critical to doing business internationally. Bonds types include bid, performance, advance payment, progress payment and warranty. In the past CLYDEUNION Pumps has been penalised on pricing due to the UK banking position and this has put us at a disadvantage to our competitors with rates in continental Europe over 50% cheaper.

Bonding has been a significant cost of doing business (£5.6m in 2010). We were also disadvantaged being a relatively new company name (CLYDEUNION Pumps was created in November 2008) and this meant that we were subject to double the normal level of bonding requirement. Both these factors are now correcting with the new schemes (ECGD and Insurance) at pricing of 50% of previous levels combined with an increasing company trading history as shown by the recent nuclear contract for Fuqing. This means that in 2011 and beyond we will see the costs potentially reduce by up to 70%.

## CHAIRMAN'S STATEMENT

### Outlook

In 2010 we continued to establish firm routes back into markets through our organic and acquisition growth. Even in such tough economic conditions, we present a growing and more profitable business at the end of the year. This gives us a stronger global platform upon which to build a stronger business. With this tremendous growth platform, we have the scale to compete globally in all our chosen markets.

As mentioned our transactional activity will also accelerate our development in new and emerging markets and other business partners already identified in key locations in 2011 we aim to significantly increase input, revenue and profit.

### Clyde Union Limited

I am pleased to present our financial results for the year ended 31 December 2010 for Clyde Union Limited.

Clyde Union Limited recorded significant revenue growth during 2010 with Original Equipment revenues increasing by 17% and Aftermarket revenues increasing by 11%. EBITDA for the Company at £16.7m was a 104% increase from the 2009 level. Closing cash at £10.8m was up £8.1m on 2009 reflecting our continuing focus on cash management and processes.

Another good year for Clyde Union Limited saw the site's embedded project management culture drive the business forward. We invested £5m in three high end machining centres while a further £3m was spent on a unique steam testing capability for use in the testing of key products. Strong relationships have been built with both Annecy and Penistone sites resulting in shared best practice for improved business performance.

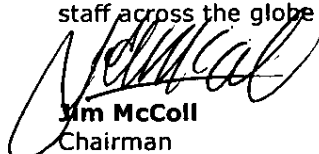
Training and development remains a key focus with the Company winning Glasgow Business Awards for Apprentice Employer of the Year and for Excellence in Skills and Learning.

The overall performance of the Company was rewarded with two prestigious accolades, namely Scottish Engineering Company of the Year 2010 and Glasgow Business Award for Best Performing Business (over 25 employees).

### Board of Directors

I would like to thank all members of the board for their continued support and commitment during this period of trading.

I would also like to offer my sincere thanks to all our customers, suppliers, investors and bankers for your continued interest and support in CLYDEUNION Pumps. It has been an exciting journey so far with many more opportunities to come. I look forward to reporting to you next year on the progress we have made in our newly formed Minerals and Mining Business Unit, in the integration and growth of our latest acquisition, S&N Pump Company, and other opportunities we don't even know of yet. More than ever though, I thank all our staff across the globe for their continued efforts in support of our business.



**Jim McColl**  
Chairman

27 April 2011



## DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2010.

### Results and Dividends

The profit for the year, after taxation, amounted to £11,365,000 (2009: £2,811,000). The directors recommend no dividend for the year.

### Principal Activity and Review of the Business

The company is structured to deliver market leading products and services to meet the technical and commercial challenges of customers operating in the power, oil, water and industrial sectors throughout the world.

### Business Review

These financial statements cover the activities of Clyde Union Limited for the year ending 31 December 2010. This was clearly a time of development and expansion for the business, employees, customers and suppliers but through detailed planning and control all the primary objectives for this year have been achieved. The directors consider the results for the year and the 31 December 2010 financial position to be satisfactory.

### Key Performance Indicators

	2010 £000s	2009 £000s
Order input	132,477	102,076
Order book	152,409	141,617
Revenue	123,057	107,119
Operating profit before amortisation of intangibles	15,065	6,499
EBITDA before bonding costs	16,640	8,175
Cash inflow/(outflow)	8,088	(1,827)
Net (liabilities)/assets	15,323	3,627
Number of employees at the balance sheet date	833	775

### Future Developments

The company continues to grow strongly with a positive outlook going forward as outlined in the Chairman's Statement.

### Principal Risks and Uncertainties

The management of the business and execution of the company's strategy is subject to a number of risks. The business risks affecting the company are set out below. Risks are formally reviewed by the Board and appropriate processes are put in place to monitor and mitigate them. If more than one adverse event occurs, it is possible that the overall effect of such events would be compounded.

### Manufacturing Facility

The existing manufacturing premises of the business are subject to a lease from Weir Engineering Services Limited for a period of three years from 1 April 2009. As part of that agreement, an associate company acquired an irrevocable option, exercisable before the end of the second year of the lease, to purchase the premises. In line with the agreed date, an offer has been made to purchase the premises.

### Key Individuals

The company's future performance depends heavily on its ability to retain the services of its directors and managers and to be able to retain and attract the services of suitable personnel. The loss of the services of any such directors or managers could have an adverse impact on the business and the prospects of the company.

## DIRECTORS' REPORT

### Principal Risks and Uncertainties (continued)

#### **Financial Risk Management**

The company's financial risks are discussed in Note 23 to the financial statements.

#### **Supplier Payment Policy**

Payment terms vary according to the terms of trade with each supplier. Payment dates are then established according to the date of delivery of goods or provision of services and receipt of the correct invoice. At 31 December 2010 the company had an average of 116 days (2009: 87 days) purchases outstanding in trade creditors.

#### **Research and Development**

The company has ongoing development and engineering programmes covering the improvement of existing products and the development of new innovative solutions for key markets. The Directors regard investment in development as a prerequisite for success in the medium to long term future.

#### **Employees**

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, regular newsletters and the intranet.

The company gives full and fair consideration to applications for employment from disabled persons. Company policy supports the further training, career development and promotion of any disabled persons with the company, including those persons who may have become disabled whilst employed with the company.

With over 830 employees around the world we are developing a 'can do' and 'customer focused' culture throughout our organisation. We have a team of engineers who have proven themselves on many occasions as being able to provide solutions that are not only creative but value adding.

#### **Environmental Policy**

As a responsible manufacturing company, we recognise that our operations may have an impact upon the environment. Clyde Union Limited is committed to:

- Managing our processes, materials and workforce in order to achieve continuous improvement in our environmental performance
- Integrating environmental considerations into the selection of suppliers and subcontractors, manufacturing processes, materials and energy usage
- Taking proactive steps to minimise or prevent pollution arising as a result of our activities
- Setting challenging objectives and targets for environmental improvement and periodically reviewing these
- Identifying and complying with all relevant statutory obligations and other applicable requirements

#### **Health and Safety**

Clyde Union Limited is committed to implementing and achieving the highest standards of health and safety for our employees.

Our goal is to integrate best practice health and safety into all our operations as we strive to eliminate injury and ill-health and to manage any higher risk activities.

We are equally committed to providing a healthy and safe working environment for all employees, contractors and visitors.

## DIRECTORS' REPORT

### Directors

The following directors served during the year were as follows:

James McColl  
Thomas Burley  
Keith Mitchell  
Allan Dowie  
Stephen Gilbey  
Crawford Gorrie  
Frank Barrett  
John Fleming  
Mark Hannigan  
Brian Scorer

### Disclosure of Information to the Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board



**T J Brown**  
Secretary

27 April 2011

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 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;
- state whether applicable International Financial Reporting Standards 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.

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.

# **INDEPENDENT AUDITORS REPORT**

**to the members of Clyde Union Limited**

We have audited the financial statements of Clyde Union Limited for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related Notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 Directors' Responsibilities Statement set out on Page 10, 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 Director's Report to identify material inconsistencies with the audited financial statements. 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 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

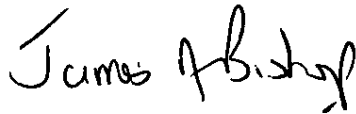
## INDEPENDENT AUDITORS REPORT (continued)

to the members of Clyde Union Limited

### 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 Andrew Bishop** (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP (Statutory Auditor)  
Glasgow

27 April 2011

# INCOME STATEMENT

for the year ended 31 December 2010

		2010			2009		
		Before Bonding and Acquisition Costs	Bonding and Acquisition Costs	Group Income Statement	Before Bonding and Acquisition Costs	Bonding and Acquisition Costs	Group Income Statement
	Notes	£000s	£000s	£000s	£000s	£000s	£000s
<b>Revenue</b>	3	<b>123,057</b>	-	<b>123,057</b>	<b>107,119</b>	-	<b>107,119</b>
Cost of sales		(87,204)	(4,135)	(91,339)	(80,089)	(2,707)	(82,796)
<b>Gross Profit</b>		<b>35,853</b>	<b>(4,135)</b>	<b>31,718</b>	<b>27,030</b>	<b>(2,707)</b>	<b>24,323</b>
Other operating income		437	-	437	1,145	-	1,145
Selling and distribution costs		(6,483)	-	(6,483)	(8,826)	-	(8,826)
Administrative costs		(10,828)	-	(10,828)	(9,082)	-	(9,082)
<b>Operating Profit before Foreign Exchange Gains/(Losses) and Amortisation of Intangibles</b>		<b>18,979</b>	<b>(4,135)</b>	<b>14,844</b>	<b>10,267</b>	<b>(2,707)</b>	<b>7,560</b>
Foreign exchange gains/(losses)		221	-	221	(1,061)	-	(1,061)
<b>Operating Profit before Amortisation of Intangibles</b>		<b>19,200</b>	<b>(4,135)</b>	<b>15,065</b>	<b>9,206</b>	<b>(2,707)</b>	<b>6,499</b>
Amortisation of intangible assets		(619)	(1,552)	(2,171)	(605)	(1,622)	(2,227)
<b>Operating Profit after Amortisation of Intangibles</b>		<b>18,581</b>	<b>(5,687)</b>	<b>12,894</b>	<b>8,601</b>	<b>(4,329)</b>	<b>4,272</b>
Finance revenue	7			-			2,649
Finance costs	8			(5,097)			(4,110)
<b>Profit from Continuing Operations before Tax</b>				<b>7,797</b>			<b>2,811</b>
Taxation	9			3,568			-
<b>Profit from Continuing Operations</b>				<b>11,365</b>			<b>2,811</b>

All activities relate to continuing operations

The above presentation has been laid out to reflect our primary internal profit measurement which is before bonding and acquisition costs.

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	2010 £000s	2009 £000s
<b><i>Income/(Expense) Recognised Directly in Equity</i></b>		
Gain on cash flow hedges	331	449
Profit for the Year	11,365	2,811
<b><i>Total Recognised Income/(Expense) for the Year</i></b>	<b>11,696</b>	<b>3,260</b>

This is wholly attributable to the equity holders of the company



**BALANCE SHEET**

at 31 December 2010

	Notes	2010 £000s	2009 £000s
<b>Assets</b>			
<b>Non-Current Assets</b>			
Plant and equipment	10	12,612	6,041
Intangible assets	11	29,076	29,492
Investments	13	306	186
Trade and other receivables	14	1,878	4,364
Derivative financial instruments	15	313	489
Deferred tax assets	9	4,500	-
		<b>48,685</b>	<b>40,572</b>
<b>Current Assets</b>			
Inventories	16	8,385	5,531
Construction contracts	17	40,098	20,237
Trade and other receivables	14	36,557	24,566
Derivative financial instruments	15	843	584
Cash and cash equivalents	18	10,764	2,676
		<b>96,647</b>	<b>53,594</b>
<b>Total Assets</b>		<b>145,332</b>	<b>94,166</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	19	42,102	27,205
Construction contracts	17	14,659	12,451
Interest bearing loans and borrowings	20	14,274	4,535
Finance leases payable		1,976	504
Derivative financial instruments	15	1,056	280
Provisions for charges and liabilities	22	4,571	5,868
		<b>78,638</b>	<b>50,843</b>
<b>Non-Current Liabilities</b>			
Interest bearing loans and borrowings	20	23,661	26,557
Other long term liabilities	19	19,943	8,283
Finance leases payable		3,895	-
Derivative financial instruments	15	1,524	2,110
Provisions for charges and liabilities	22	1,817	2,746
Deferred tax liabilities	9	531	-
		<b>51,371</b>	<b>39,696</b>
<b>Total Liabilities</b>		<b>130,009</b>	<b>90,539</b>
<b>Net Assets</b>		<b>15,323</b>	<b>3,627</b>

## BALANCE SHEET (continued)

at 31 December 2010

	Notes	2010 £000s	2009 £000s
<b>Capital and Reserves</b>			
Share capital	25	18,700	18,700
Retained losses		(2,073)	(13,438)
Hedge reserve		(1,304)	(1,635)
<b>Net Equity</b>		<b>15,323</b>	<b>3,627</b>



**Allan Dowie**  
Director

27 April 2011

Registered No: SC317760

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	2010 £000s	2009 £000s
<b>Operating Activities</b>		
Profit for the year before tax	7,797	2,811
Adjustments to reconcile profit for the year to net cash inflow from operating activities:		
Net finance costs	5,097	1,461
Depreciation of property, plant and equipment	1,575	1,676
Amortisation of intangible assets	2,171	2,227
(Increase)/decrease in inventories	(2,854)	(1,843)
(Increase)/decrease in trade and other receivables	(29,620)	(18,898)
Increase/(decrease) in trade and other payables	28,734	19,471
Increase/(decrease) in provisions	(2,226)	(1,578)
<b>Cash generated from operations</b>	<b>10,674</b>	<b>5,327</b>
Income taxes paid	(401)	-
<b>Net Cash Flow from Operating Activities</b>	<b>10,273</b>	<b>5,327</b>
<b>Investing Activities</b>		
Interest received	-	9
Purchases of plant and equipment	(2,460)	(1,057)
Purchases of intangible assets	(1,755)	(913)
Investment in subsidiaries	(120)	(86)
Receipts from sales of property, plant and equipment	-	6
<b>Net Cash Flow from Investment Activities</b>	<b>(4,335)</b>	<b>(2,041)</b>
<b>Financing Activities</b>		
Interest paid	(3,649)	(3,173)
Proceeds from/ (repayments of) revolving credit facility	9,082	(500)
Repayments of acquisition debt	(2,309)	(590)
Payment of finance lease liabilities	(290)	(290)
Financing fees paid	(684)	(560)
<b>Net Cash Flow from Financing Activities</b>	<b>2,150</b>	<b>(5,113)</b>
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>8,088</b>	<b>(1,827)</b>
<b>Cash and Cash Equivalents at 1 January</b>	<b>2,676</b>	<b>4,503</b>
<b>Cash and Cash Equivalents at 31 December</b>	<b>10,764</b>	<b>2,676</b>

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	<i>Equity Share Capital £000s</i>	<i>Hedge Reserve £000s</i>	<i>Retained Earnings £000s</i>	<i>Total Equity £000s</i>
<b>At 1 January 2010</b>	<b>18,700</b>	<b>(1,635)</b>	<b>(13,438)</b>	<b>3,627</b>
Gain on effective cash flow hedges	-	331	-	331
Profit in year attributable to equity holders	-	-	11,365	11,365
<b>At 31 December 2010</b>	<b>18,700</b>	<b>(1,304)</b>	<b>(2,073)</b>	<b>15,323</b>

The equivalent disclosure for the prior year is as follows:

	<i>Equity Share Capital £000s</i>	<i>Hedge Reserve £000s</i>	<i>Retained Earnings £000s</i>	<i>Total Equity £000s</i>
<b>At 1 January 2009</b>	<b>18,700</b>	<b>(2,084)</b>	<b>(16,249)</b>	<b>367</b>
Gain on effective cash flow hedges	-	449	-	449
Profit in year attributable to equity holders	-	-	2,811	2,811
<b>At 31 December 2009</b>	<b>18,700</b>	<b>(1,635)</b>	<b>(13,438)</b>	<b>3,627</b>

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies

#### ***Authorisation of Financial Statements and Statement of Compliance with IFRSs***

The financial statements of Clyde Union Limited for the year ended 31 December 2010 were approved and authorised for issue by the board of directors on 27 April 2011 and the balance sheet was signed on the board's behalf by Allan Dowie, Finance Director. Clyde Union Limited is a company incorporated and domiciled in Scotland.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the company for the year ended 31 December 2010, and in accordance with the provisions of the Companies Act 2006.

The principal accounting policies adopted by the company are set out below.

#### ***Basis of Presentation***

The financial statements of the company have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention with the exception of derivative financial instruments which are stated at fair value.

The company has taken advantage of the exemption from preparing group accounts under Section 400 of the Companies Act 2006.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed further below.

#### ***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 and the disclosure of contingent liabilities at the reporting date. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the company's accounting policies, management has had to make the following judgements, apart from those involving estimations, which have the most significant impact on the amounts recognised in the financial statements:

#### ***Intangible Assets and Fair Values***

On the acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognised). The fair values of these intangible assets are dependent on estimates of attributable future revenues, margins and cashflows.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### *Estimates and Assumptions*

##### *Impairment of Non-Financial Assets*

The company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when indicators of impairment may exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including an analysis of key assumptions, is given in Note 12.

##### *Deferred Tax Assets*

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are provided in Note 9.

##### *Fair Value of Financial Instruments*

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

##### *Business Combinations and Goodwill*

##### *Business Combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### *Business Combinations and Goodwill (continued)*

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual, legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### *Business Combinations prior to 1 January 2010*

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The minority interest is accounted for using the parent entity extension method, whereby the difference between the consideration paid and the book value of the share in net assets acquired is recognised in goodwill. Goodwill is initially measured at cost being the excess of the cost of business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, the difference is recognised in profit and loss. Goodwill recognised as an asset as at 31 December 2003 is recorded at its carrying amount under IFRS and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities. After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying amount being reviewed for impairment at least annually and whenever events of changes in circumstances indicate that the carrying value maybe impaired. The carrying amount of goodwill allocated to cash generating units is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it. Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### ***Property, Plant and Equipment***

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes the cost directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all plant and equipment, other than assets under construction, on a straight-line basis over its expected useful life as follows:

Leasehold improvements	- 10 years
Plant and equipment, including furniture and fixtures	- over 2 to 20 years

The carrying values of plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of plant or equipment is derecognised upon disposal or where no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognising of the asset is included in the income statement in the period of derecognising.

#### ***Intangible Assets***

Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised over their finite useful economic life and assessed for impairment whenever there is an indication that the asset may be impaired. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense consistent with the function of the intangible asset.

Intangible assets with a finite life have no residual values and are amortised on a straight line basis as follows:

Purchased software	- over 4 to 8 years
Brand name	- over 5 to 20 years
Customer relationships	- over 20 years
Order book	- over 2 years

Intangible assets with indefinite useful lives are tested for impairment annually. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.



## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### ***Intangible Assets (continued)***

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### ***Research and Development***

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- its intention to complete and its ability to use or sell the asset
- how the asset will generate future economic benefits
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the amortised cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

#### ***Impairment of Non-Financial Assets***

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement in those expense categories consistent with the function of the impaired asset, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease up to the amount of any previous revaluation.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### ***Impairment of Non-Financial Assets (continued)***

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior periods. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition as follows:

- Raw materials and consumables - purchase cost on a first-in, first out basis
- Short term work in progress - cost of direct materials and labour plus attributable overheads based on a normal level of activity, excluding borrowing costs

Net realisable value is based on an estimated selling price less any further costs expected to be incurred to completion and disposal.

#### ***Construction Contracts***

Construction contract assets and liabilities represent the net amount of costs incurred, revenue recognised and customer billings. Revenue on construction contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. Full provision is made for losses on all contracts in the period in which they are first foreseen.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### ***Interest-Bearing Loans and Borrowings***

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any premium on settlement that will probably be incurred.

#### ***Provisions***

A provision is recognised when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the un-winding of the discount is recognised as a finance cost.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### *Provisions (continued)*

When the company expects some or all of a provision to be reimbursed, for example, under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to the provision is presented in the income statement net of any reimbursement.

#### *Derivative Financial Instruments*

The company uses derivative financial instruments such as forward currency contracts to hedge its risk associated with foreign currency. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. All movements in fair value are reflected through the Income Statement.

#### *Hedge Accounting*

The company does not apply hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies. The company applies hedge accounting in respect of interest rate swaps held to manage movements in exchange rates.

#### *Leasing*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in the contractual terms, other than a renewal or extension of the arrangement.
- (b) A renewal option is exercised or extension granted, unless the terms of the renewal or extension was initially included in the lease term.
- (c) There is a change in the determination of whether the fulfilment is dependent on a specific asset.
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of the renewal or extension in scenario (b).

Finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the company will obtain ownership by the end of the term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### **Sales Tax**

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

#### **Borrowing Costs**

Borrowing costs are recognised as an expense when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

#### **Revenue Recognition**

Revenue is recognised 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 measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Revenue represents the net invoiced value of services provided and for long-term contracts, the sales value of work done but not invoiced. The following specific recognition criteria must also be met before revenue is recognised:

##### *Construction Contracts*

Revenue on construction contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The revenue is calculated on a basis to reflect the proportion of work done at the year end, by recording revenue and related costs as contract activity progresses. Full provision is made for losses on all contracts in the period in which they are first foreseen.

##### *Sale of Goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

##### *Rendering of Services*

Revenue from the installation or repair of equipment is recognised by reference to the stage of completion.

#### **Exceptional Items**

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the company's financial performance.

#### **Interest Income**

Revenue is recognised as interest accrues (using the effective interest method). Interest income is included in finance revenue in the income statement.

#### **Share Based Payments**

The cost of equity-settled transactions with employees or officers is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees or officers become fully entitled to the award. Fair value is determined by an external value using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### **Share Based Payments (continued)**

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modifications, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

#### **Income Taxes**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period and the company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the temporary difference arises 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### *Income Taxes (continued)*

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the income statement.

#### *Financial Assets*

Financial assets are recognised when the company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, evaluates this designation at each financial year-end. When financial assets are recognised initially they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

#### *Financial Assets at Fair Value through Profit or Loss*

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or as financial guarantee contracts. Financial assets at fair value are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2010, no financial assets have been designated at fair value through profit and loss.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### **Financial Assets (continued)**

##### *Held-to-Maturity Investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the company has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Investments intended to be held for an undefined period are not included in this classification. As at 31 December 2010, the company had no held-to-maturity investments.

##### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade receivables, which generally have 30 to 60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when 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.

##### *Available-for-Sale Financial Assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

##### *Fair Values*

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and pricing models. Otherwise assets will be carried at cost.

##### **Impairment of Financial Assets**

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### *Impairment of Financial Assets (continued)*

##### *Assets Carried at Amortised Cost*

For amounts due from loans and advances to customers carried at amortised cost, the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss shall be recognised in administration costs. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

##### *Available-for-Sale Financial Assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value, less any impairment loss on that investment previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'interest and similar income'. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### **Financial Liabilities**

##### *Initial Recognition*

Financial liabilities within the scope of IAS39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs. The company's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

##### *Subsequent Measurement*

The measurement of financial liabilities depends on their classification as follows:

##### *Financial Liabilities at Fair Value through Profit or Loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

At the year end, the company had no financial liabilities designated as at fair value through profit or loss.

##### *Loans and Borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

#### **Derecognition of Financial Assets and Liabilities**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay. When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the company's continuing involvement is the amount of the transferred asset that the company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### ***Derecognition of Financial Assets and Liabilities (continued)***

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 the income statement.

#### ***Offsetting of Financial Instruments***

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### ***Derivative Financial Instruments and Hedging***

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting and the ineffective portion of an effective hedge are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as either:

- fair value hedge – hedging the exposure to changes in the fair value of a recognised asset, liability, or unrecognised firm commitment (except for foreign currency risk);
- cash flow hedge – hedging the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset, liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- net investment hedge – hedging a net investment in a foreign operation

At the inception of a transaction to be designated as a hedge the company formally designates and documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The only designated hedging transactions currently in place in the company are interest rate swaps hedging variable rate borrowings. Such designated hedging transactions are classified as cash flow hedges.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 1. Accounting Policies (continued)

#### **Cash Flow Hedges**

The effective portion of the gain or loss on the hedging instrument (swap) is recognised directly in equity while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss (when the interest is charged).

Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement.

If the hedging instrument expires or is sold, or if the hedge no longer meets the criteria for hedge accounting, amounts previously recognised in equity remain in equity until the forecast transactions (interest charges) occur and are transferred to the income statement as above. If the related transaction is not expected to occur, the amount is immediately taken to the income statement.

The forward currency contracts currently in place in the company are not treated as designated hedging instruments and as such are classified as held-for-trading under IAS39. Held-for-trading financial derivatives are accounted for at fair value through the income statement.

#### **New Standards and Interpretations not Applied**

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements.

#### **International Accounting Standards (IAS/IFRS)**

<i>IFRS 9 Financial Instruments: Classification and Measurement</i>	<i>1 Jan 2013</i>
<i>IAS 24 Related Party Disclosure</i>	<i>1 Jan 2011</i>
<i>IAS 32 Amendment – Classification of Rights Issues</i>	<i>1 Feb 2010</i>

#### **International Financial Reporting Interpretations Committee (IFRIC)**

<i>IFRIC 14 Amendment – Prepayments of a Minimum Funding Requirement</i>	<i>1 Jan 2011</i>
<i>IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments</i>	<i>1 Jul 2010</i>

The above standards and interpretations will be adopted in accordance with their effective dates and have not been adopted in these financial statements. The directors do not anticipate that adoption of these standards and interpretations will have a material effect on the company's financial statements in the period of initial application.

IFRS 3 (revised) applies to business combinations arising from 1 January 2010. This requires recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill. In addition, transaction costs are recognised immediately in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 2. Revenue

Revenue recognised in the income statement is analysed as follows:

	2010 £000s	2009 £000s
Revenue from construction contracts	81,330	78,895
Sale of goods	40,225	26,953
Rendering of services	1,502	1,271
	<u>123,057</u>	<u>107,119</u>

### 3. Operating Profit after Amortisation of Intangibles

This is stated after charging:

	Notes	2010 £000s	2009 £000s
Depreciation of property, plant and equipment	10	1,575	1,676
Amortisation of intangible assets	11	2,171	2,227
Operating lease payments		1,584	1,421
Exchange (gain)/loss		(221)	1,061
Cost of inventory recognised as an expense		91,339	82,796
Impairment of trade receivables recognised in administrative costs		209	125
Research and development costs		<u>527</u>	<u>539</u>

### 4. Auditors' Remuneration

The following amounts were payable to its auditors in respect of the audit of the financial statements and for other services provided to the company:

	2010 £000s	2009 £000s
Audit of company's financial statements	<u>90</u>	<u>110</u>
Other fees to auditors		
- other services related to taxation	20	90
- all other services	-	36
	<u>20</u>	<u>126</u>

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 5. Employee Benefit Expense

	2010 £000s	2009 £000s
Wages and salaries	26,241	25,893
Social security costs	2,611	2,616
Pension costs	991	974
	<u>29,843</u>	<u>29,483</u>

The pension costs are in respect of defined contribution schemes.

The average monthly number of employees during the year was made up as follows:

	2010 No.	2009 No.
Operations	479	418
Engineering	117	130
Sales and administration	198	161
	<u>794</u>	<u>709</u>

### 6. Directors' Emoluments

	2010 £000s	2009 £000s
Directors' emoluments	<u>1,311</u>	<u>1,226</u>

	2010 No.	2009 No.
Directors accruing benefits under a defined contribution scheme	<u>8</u>	<u>8</u>

During the year, the aggregate value of company contributions paid to a pension scheme on behalf of the directors was £54,000 (2009: £41,000).

For the highest paid director:

	2010 £000s	2009 £000s
Emoluments	<u>238</u>	<u>287</u>
Contributions to a defined contribution scheme	<u>10</u>	<u>9</u>

# NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

## 7. Finance Revenue

	2010 £000s	2009 £000s
Fair value adjustments to financial derivatives	-	2,640
Interest receivable from group companies	-	9
	<u>-</u>	<u>2,649</u>

## 8. Finance Costs

	2010 £000s	2009 £000s
Interest payable on bank loans and overdrafts	3,312	3,461
Amortisation of bank arrangement fee	296	232
Interest payable to group companies	734	170
Finance charges under finance leases	-	48
Fair value adjustments to financial derivatives	345	-
Movement in discounting	108	196
Other finance charges	302	3
	<u>5,097</u>	<u>4,110</u>

## 9. Taxation

### (a) Reconciliation of the total tax charge

The tax expense in the income statement for the year is less than the standard rate of corporation tax in the UK of 28% (2009: 28%).

The differences are reconciled below:

	2010 £000s	2009 £000s
Profit from continuing operations before taxation	<u>7,797</u>	<u>2,811</u>
Profit multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	2,183	787
Tax effect of non-deductible or non-taxable items	32	43
Loss on disposal	-	2
Deferred tax on P, P & E not recognised	-	(2)
Deferred tax on goodwill not recognised	-	(151)
Deferred tax on losses not recognised	-	1,308
Deferred tax rate changes	147	-
Deferred tax on forward currency contracts	(34)	-
Deferred tax on foreign currency contracts not recognised	365	(1,081)
Movement in unprovided deferred tax	(6,551)	-
Non taxable provision release	-	(906)
Overseas tax paid	401	-
Overseas tax expensed	(111)	-
Total tax (credit) reported in the income statement	<u>(3,568)</u>	<u>-</u>

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 9. Taxation (continued)

#### (b) Change in corporation tax rate

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance Act (No 2) was enacted in July 2010 and reduces the main rate of corporation tax from 28% to 27% from 1 April 2011. This rate reduction was latterly amended to 26% in the 2011 Budget with effect from 1 April 2011. Further reductions are to be enacted separately each year with the aim of reducing the rate by 1% per annum to 23% by 1 April 2014.

It is estimated that the reduction in the proposed rate of corporation tax from 27% to 23% will result in a reduction in the deferred tax asset recognised as at 31 December 2010 of approximately £588,000.

#### (c) Deferred tax

	2010 £000s	2009 £000s
Deferred tax liabilities:		
Plant and equipment	-	(23)
Intangible assets	531	400
	<u>531</u>	<u>377</u>
Deferred tax assets:		
Tax losses	-	6,285
Less: not recognised	-	(5,908)
Property, Plant & Equipment	773	
Other Financial Assets	33	
Provisions	346	
Tax losses	3,348	-
	<u>4,500</u>	<u>377</u>
Deferred tax asset not recognised on unused tax losses	-	21,100

### 10. Property, Plant and Equipment

	Leasehold Improvements £000s	Plant and Equipment £000s	Total £000s
Cost or valuation:			
At 1 January 2010	169	10,976	11,145
Additions	64	8,082	8,146
At 31 December 2010	<u>233</u>	<u>19,058</u>	<u>19,291</u>
Depreciation and impairment:			
At 1 January 2010	11	5,093	5,104
Provided during the year	23	1,552	1,575
At 31 December 2010	<u>34</u>	<u>6,645</u>	<u>6,679</u>
Net book value:			
At 31 December 2010	<u>199</u>	<u>12,413</u>	<u>12,612</u>
At 31 December 2009	<u>158</u>	<u>5,883</u>	<u>6,041</u>

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 10. Property, Plant and Equipment (continued)

The equivalent disclosure for the prior year is as follows:

	<i>Leasehold Improvements £000s</i>	<i>Plant and Equipment £000s</i>	<i>Total £000s</i>
Cost or valuation:			
At 1 January 2009	-	10,146	10,146
Additions	169	888	1,057
Disposals	-	(58)	(58)
At 31 December 2009	169	10,976	11,145
Depreciation and impairment:			
At 1 January 2009	-	3,480	3,480
Provided during the year	11	1,665	1,676
Disposals	-	(52)	(52)
At 31 December 2009	11	5,093	5,104
Net book value:			
At 31 December 2009	158	5,883	6,041
At 31 December 2008	-	6,666	6,666

The carrying value of plant and equipment held under finance leases or hire purchase contracts at 31 December 2010 was £4,768,000 (2009: £170,000). There were additions during the year of plant and equipment held under finance leases or hire purchase contracts to the value of £4,808,000 (2009: nil). Leased assets and assets held under hire purchase contracts are pledged as security for the related lease and hire purchase liabilities.

### 11. Intangible Fixed Assets

	<i>Product Development £000s</i>	<i>Purchased Software £000s</i>	<i>Business Acquisitions £000s</i>	<i>Goodwill £000s</i>	<i>Total £000s</i>
Cost:					
At 1 January 2010	-	4,688	22,974	13,456	41,118
Additions	-	1,444	-	-	1,444
Internally generated Assets	311	-	-	-	311
At 31 December 2010	311	6,132	22,974	13,456	42,873
Depreciation and impairment:					
At 1 January 2010	-	853	10,773	-	11,626
Amortisation during the year	-	619	1,552	-	2,171
At 31 December 2010	-	1,472	12,325	-	13,797
Net book value:					
At 31 December 2010	311	4,660	10,649	13,456	29,076
At 31 December 2009	-	3,835	12,201	13,456	29,492



## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 11. Intangible Fixed Assets (continued)

The intangible fixed assets identified as part of business acquisitions were as follows:

	<i>Brand Name £000s</i>	<i>Installed Pump Base £000s</i>	<i>Order Book £000s</i>	<i>Total £000s</i>
Cost:				
At 1 January 2010	5,338	10,985	6,651	22,974
At 31 December 2010	5,338	10,985	6,651	22,974
Depreciation and impairment:				
At 1 January 2010	2,659	1,463	6,651	10,773
Amortisation during the year	997	555	-	1,552
At 31 December 2010	3,656	2,018	6,651	12,325
Net book value:				
At 31 December 2010	1,682	8,967	-	10,649
At 31 December 2009	2,679	9,522	-	12,201

The equivalent disclosures for the prior year are as follows:

	<i>Purchased software £000s</i>	<i>Business acquisition £000s</i>	<i>Goodwill £000s</i>	<i>Total £000s</i>
Cost:				
At 1 January 2009	3,901	22,974	13,456	40,331
Additions	913	-	-	913
Disposals	(126)	-	-	(126)
At 31 December 2009	4,688	22,974	13,456	41,118
Depreciation and impairment:				
At 1 January 2009	374	9,151	-	9,525
Amortisation during the year	605	1,622	-	2,227
Disposals	(126)	-	-	(126)
At 31 December 2009	853	10,773	-	11,626
Net book value:				
At 31 December 2009	3,835	12,201	13,456	29,492
At 31 December 2008	3,527	13,823	13,456	30,806

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 11. Intangible Fixed Assets (continued)

	<i>Brand name £000s</i>	<i>Installed pump base £000s</i>	<i>Order book £000s</i>	<i>Total £000s</i>
Cost:				
At 1 January 2009	5,338	10,985	6,651	22,974
At 31 December 2009	5,338	10,985	6,651	22,974
Depreciation and impairment:				
At 1 January 2009	1,662	914	6,575	9,151
Amortisation during the year	997	549	76	1,622
At 31 December 2009	2,659	1,463	6,651	10,773
Net book value:				
At 31 December 2009	2,679	9,522	-	12,201
At 31 December 2008	3,676	10,071	76	13,823

**Brand name:** The trade name and heritage of Weir Pumps is globally recognised so the acquisition agreement granted Clyde Pumps (now renamed Clyde Union) the right to use the subtext 'incorporating Weir Pumps Glasgow' under the Clyde Union name for a period of four years from the completion date and to use 'incorporating Weir Pumps Glasgow' in the heritage section of the 'about us' page of the Clyde Union website or in printed profiles of the business for a period of twenty years from the completion date. The net book value at 31 December 2010 of £1,682,000 will be substantially amortised over the next year.

**Installed pumps base:** The Weir Pumps business has been supplying pumps for many years so naturally there will be a significant number still operating at customer locations worldwide which will give rise to future service and spares revenue for Clyde Union now that the company has acquired Weir Pumps. The net book value at 31 December 2010 of £8,967,000 will be amortised over the remaining useful life of 16 years.

**Order book:** The customer order book acquired by Clyde Union at the transaction date comprised both original equipment and spares orders that had not yet been delivered or invoiced. The order book had been fulfilled at the December 2009 balance sheet date.

Other intangibles are amortised on a straight line basis over their useful economic life of four to eight years.

Goodwill is not amortised but is subject to an annual impairment review (see Note 12). There has been no allocation of goodwill as the business is considered to be one cash generating unit.

The carrying value of purchased software held under a finance lease at 31 December 2010 was £1,579,000 (2009: £743,000). There were additions during the year of software held under finance leases or hire purchase contracts to the value of £945,000 (2009: nil).

Included in intangible assets at 31 December 2010 was an amount of £1,291,000 relating to expenditure for software in the course of construction.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 12. Impairment Testing of Goodwill and Intangibles with Indefinite Lives

The recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial plans approved by the board.

The main assumptions used in the valuation are:

**Gross margins:** Gross margins are based on a detailed analysis of projected market and product sales for a forecast period, increased over the period for anticipated efficiency improvements.

**Discount rates:** Discount rates reflect management's estimate of risks. This is the benchmark used by management to assess the operating performance and evaluate future investment proposals. In determining appropriate discount rates regard has been given to the yield on a ten-year government bond at the beginning of the budgeted year. The discount rate applied to the cash flow projections is 12.9%.

**Market share assumptions:** These are important because management assesses how the company's position, relative to its competitors, might change over the budget period.

**Growth rate estimates:** In preparing the five year projection, the anticipated impact of growth in output through increased market share in significant markets was taken into account. A growth rate of 2.1% was used in the years beyond the projection period which was in line with the long-term growth rates for the regions in which the company operates.

#### **Sensitivity to changes in assumptions**

With regard to the assessment of value in use management believes that no reasonably possible change in any of the key assumptions would cause the carrying value to materially exceed its recoverable amount.

### 13. Investments

	2010 £000s	2009 £000s
Investment in subsidiary and associates		
At 1 January	186	100
Additions in the year	120	86
At 31 December	306	186

Details of the investments in which the company holds 20% or more of the nominal share value of any class of share capital is as follows:

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
Clyde Union China Holdings Limited	Ordinary shares	100%	Holding company
Clyde Union Pumps Technology (Beijing) Co Ltd (China) *	Ordinary shares	100%	Support and service of pumps
Clyde Union IMBIL LTDA	Ordinary shares	60%	Manufacture, support and service of pumps
Clyde Pumps India Pvt Limited	Ordinary shares	60%	Manufacture of support and service of pumps

\* held by subsidiary

# NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

## 14. Trade and Other Receivables

	2010 £000s	2009 £000s
Trade receivables	24,111	22,754
Less: provision for impairment of receivables	(718)	(712)
Trade receivables – net	23,393	22,042
Prepayments and other accrued income	1,763	2,135
Amounts due from group undertakings	11,401	389
	<u>36,557</u>	<u>24,566</u>

Amounts falling due in more than one year are:

	2010 £000s	2009 £000s
Amounts due from group undertakings	1,878	4,364
	<u>1,878</u>	<u>4,364</u>

Out of the carrying amount of trade receivables of £24m, £11m relates to five major customers. Trade receivables are non-interest bearing and are generally on 30-60 days terms (2009: out of the carrying amount of trade receivables of £23m, £11.5m relates to four major customers).

Analysis of trade receivables:

	2010 £000s	2009 £000s
Neither impaired nor past due	18,217	14,613
Past due but not impaired	5,176	7,429
Impaired	718	712
At 31 December	<u>24,111</u>	<u>22,754</u>

Ageing of past due but not impaired trade receivables:

	2010 £000s	2009 £000s
Up to 3 months	4,932	5,687
Between 3 and 6 months	179	797
More than 6 months	65	945
At 31 December	<u>5,176</u>	<u>7,429</u>

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 14. Trade and Other Receivables (continued)

Movements in the provision for impairment of receivables were as follows:

	2010 £000s	2009 £000s
At 1 January	712	705
Impairment losses recognised on receivables	209	569
Utilised	(29)	-
Unused amounts reversed	(174)	-
Amounts written off as uncollectible	-	(562)
At 31 December	<u>718</u>	<u>712</u>

Ageing of impaired trade receivables:

	2010 £000s	2009 £000s
Up to 3 months	-	192
Between 3 and 6 months	4	68
More than 6 months	714	452
At 31 December	<u>718</u>	<u>712</u>

### 15. Derivative Financial Instruments

	2010 £000s	2009 £000s
Forward currency hedging contracts – non-current assets	313	489
– current assets	843	584
Total assets	<u>1,156</u>	<u>1,073</u>
	2010 £000s	2009 £000s
Interest rate swap contracts – non-current liabilities	1,303	1,635
Forward currency hedging contracts – non-current liabilities	221	474
– current liabilities	1,056	280
Total liabilities	<u>2,580</u>	<u>2,389</u>

Net gain or loss on financial assets and liabilities at fair value through profit or loss:

	2010 £000s	2009 £000s
Financial asset at fair value through profit or loss	(439)	2,640
Net (loss)/gain	<u>(439)</u>	<u>2,640</u>

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 16. Inventories

	2010 £000s	2009 £000s
Raw materials and consumables	1,074	1,501
Short term work in progress	7,295	3,598
Finished goods	16	432
	<u>8,385</u>	<u>5,531</u>

### 17. Construction Contracts

	2010 £000s	2009 £000s
Gross amount due from customers for contract work (included in current assets)	<u>40,098</u>	<u>20,237</u>
Gross amount due to customers for contract work (included in current liabilities)	<u>14,659</u>	<u>12,451</u>

For contracts in progress at the balance sheet date, the amount of contract costs incurred plus recognised profits less recognised losses to date was £88,725,000 (2009: £71,008,000). There were no retentions held by customers for contract work (2009: nil). The amount of advances received from customers for contract work amounted to £5,800,000 (2009: £9,600,000).

### 18. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following:

	2010 £000s	2009 £000s
Cash at bank and in hand	<u>10,764</u>	<u>2,676</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 19. Trade and Other Payables

	2010 £000s	2009 £000s
Trade payables	31,959	17,785
Other payables	9,248	8,179
Amounts owed to group undertakings	895	1,241
	<u>42,102</u>	<u>27,205</u>

Amounts falling due in more than one year are:

	2010 £000s	2009 £000s
Amounts owed to group undertakings	19,943	8,283
	<u>19,943</u>	<u>8,283</u>

### 20. Interest Bearing Loans and Borrowings

	2010 £000s	2009 £000s
Current:		
Current instalments due on bank loans (net of unamortised arrangement fees)	13,229	4,535
Other Loans	1,045	-
	<u>14,274</u>	<u>4,535</u>

Non-current:

Non-current instalments due on bank loans (net of unamortised arrangement fees)	23,661	26,557
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Bank loans comprise the following:

	2010 £000s	2009 £000s
Revolving credit variable rate loan 2013 <sup>1</sup>	10,800	1,500
£9,041,000 variable rate loan 2013 <sup>2</sup>	9,041	8,420
£9,791,000 variable rate loan 2014 <sup>2</sup>	9,791	9,036
£9,791,000 variable rate loan 2015 <sup>2</sup>	9,791	9,059
£4,303,000 variable rate loan 2016 <sup>3</sup>	-	4,746
Less: Unamortised arrangement fees	(2,533)	(1,669)
	<u>36,890</u>	<u>31,092</u>
Less: Current instalments due on bank loans (net of unamortised arrangement fees)	(13,229)	(4,535)
	<u>23,661</u>	<u>26,557</u>

Each loan is secured by a first and only floating charge on Clyde Union Limited and Clyde Union Holdings Limited.

<sup>1</sup> Interest on the revolving credit facility maturing in 2013 is LIBOR plus a margin of 4%.

<sup>2</sup> Interest on the loans maturing in 2013 to 2015 is LIBOR plus margins of 4%, 4.25% and 4.75% respectively (2009: 4%, 4.25% and 4.75% respectively).

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 21. Obligations under Leases and Hire Purchase Contracts

#### *Operating Lease Agreements where the Company is the Lessee*

The company has entered into commercial leases on property and motor vehicles. Future minimum rentals payable under these non-cancellable operating leases are as follows:

	2010 £000s	2009 £000s
Not later than one year	2,372	15
After one year but not more than five years	584	5,252
	<u>2,956</u>	<u>5,267</u>

#### *Finance Lease and Hire Purchase Commitments*

The Group has finance leases and hire purchase contracts for various items of plant and equipment and computer software. These leases have terms of renewal but no purchase options and escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2010		2009	
	Minimum Payments	Present Value of Minimum Payments	Minimum Payments	Present Value of Minimum Payments
	£000s	£000s	£000s	£000s
Within one year	2,169	1,976	504	504
After one year but not more than five years	4,384	3,895	-	-
Total minimum lease payments	<u>6,553</u>	<u>5,871</u>	<u>504</u>	<u>504</u>

### 22. Provisions for Charges and Liabilities

	Warranties/ Penalties £000s	Other £000s	Total £000s
At 1 January 2010	6,765	1,849	8,614
Arising during the year	586	-	586
Utilised during the year	(515)	(928)	(1,443)
Released during the year	(1,368)	-	(1,368)
Movement in discount rate	1	(2)	(1)
At 31 December 2010	<u>5,469</u>	<u>919</u>	<u>6,388</u>
Current	3,652	919	4,571
Non-current	1,817	-	1,817
At 31 December 2010	<u>5,469</u>	<u>919</u>	<u>6,388</u>



## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 22. Provisions for Charges and Liabilities (continued)

The equivalent disclosure for the prior year is as follows:

	<i>Warranties</i> <i>£000s</i>	<i>Other</i> <i>£000s</i>	<i>Total</i> <i>£000s</i>
At 1 January 2009	7,498	2,690	10,188
Arising during the year	2,157	-	2,157
Utilised during the year	(2,138)	(888)	(3,026)
Released during the year	(901)	-	(901)
Movement in discount rate	149	47	196
At 31 December 2009	6,765	1,849	8,614
Current	4,950	918	5,868
Non-current	1,815	931	2,746
At 31 December 2009	6,765	1,849	8,614

*Warranties:* The Company has made provision for known warranty and contract penalty claims on goods sold and an allowance has been made for potential warranty claims based on past experience for goods sold with a warranty guarantee. It is expected that all costs related to such claims will have been incurred within five years of the balance sheet date.

*Other:* The Company entered into operating leases up to 31 March 2009 for the factory and offices at its main location in Cathcart, Glasgow and on acquisition provided £5.2m for relocation costs to another site in the local area. In 2008 an agreement was reached with Weir Engineering Services Limited for Clyde Union Limited to enter into a new lease for the premises for a period of three years until 31 March 2012, and for Clyde Blowers Limited to be granted an option to purchase the site at the end of the lease period. Consequently the relocation provision set up on acquisition was released in 2008. The lease covers the whole of the Glasgow site and includes both manufacturing and office areas not presently occupied or utilised. An onerous lease provision was set up for the proportion of the lease applicable to the unoccupied areas.

### 23. Financial Instruments

#### *Financial Risk Management Objectives and Policies*

The company's financial instruments comprise bank overdrafts, bank loans, cash, short term deposits, as well as financial derivatives. The main purpose of these 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 risks to which the company is exposed are those relating to foreign currency, interest rate, commodity price, credit, and liquidity. These risks are managed in accordance with board approved policies.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 23. Financial Instruments (continued)

#### *Foreign Currency Risk*

The company buys and sells goods and services in currencies other than the functional currency. As a result, the company's non-sterling revenues, assets, liabilities, profits, and cash flows can be affected by movements in exchange rates.

Foreign currency risks may exist in respect of financial instruments which are denominated in a currency that is not the functional currency of the company and which are of a monetary nature. The company seeks to minimise these risks by ensuring that major non-derivative monetary financial instruments (receivables, payables, cash and short-term deposits and interest-bearing loans and borrowings) are either directly denominated in functional currency or are transferred to the functional currency through the use of derivatives.

The company considers the most significant foreign currency risk relates to the US Dollar and the Euro. The following table, calculated on a symmetric basis, demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rates with all other variables held constant, of the company's profit before tax (due to changes in the fair value of the monetary assets, liabilities and forward currency contracts).

#### *Foreign Currency Risk*

	<i>Increase in US Dollar/ Euro rate</i>	<i>Effect on profit before tax 2010 £000s</i>	<i>Effect on loss before tax 2009 £000s</i>
US dollar	+5%	836	576
US dollar	-5%	(975)	(576)
Euro	+5%	882	500
Euro	-5%	(1,134)	(500)

#### *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*

There are no significant concentrations of credit risk within the company unless otherwise disclosed. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

The company endeavours to minimise credit risk by the use of trade finance instruments such as letters of credit and insurance. The company also performs detailed credit checks before a customer is accepted. Historically, these procedures have proved effective in minimising the level of impaired and past due debtors.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 23. Financial Instruments (continued)

#### Liquidity Risk

The table below summarises the maturity profile of the company's financial liabilities at 31 December 2010 based on contractual cash flows. In the table below interest rates on variable rate loans have been based on a forward curve:

At 31 December 2010	On demand £000s	Less than 3 months £000s	3 to 12 months £000s	1 to 5 years £000s	>5 years £000s	Total £000s
Interest bearing loans and borrowings	-	10,931	6,303	30,232	-	47,466
Trade and other payables	14,179	18,469	9,454	19,943	-	62,045
	<u>14,179</u>	<u>29,400</u>	<u>15,757</u>	<u>50,175</u>	<u>-</u>	<u>109,511</u>

The equivalent disclosure for the prior year is as follows:

At 31 December 2009	On demand £000s	Less than 3 months £000s	3 to 12 months £000s	1 to 5 years £000s	>5 years £000s	Total £000s
Interest bearing loans and borrowings	-	1,500	3,867	21,136	17,200	43,703
Trade and other payables	9,849	17,356	-	8,283	-	35,488
	<u>9,849</u>	<u>18,856</u>	<u>3,867</u>	<u>29,419</u>	<u>17,200</u>	<u>79,191</u>

Certain of the Company's borrowings have normal financial covenants. If these were breached the borrowings would become payable immediately.

Each loan is secured by a first and only floating charge on Clyde Union Limited and Clyde Union Holdings Limited.

#### Fair Value Hierarchy

As at 31 December 2010, the Company held the following financial instruments measured at fair value. The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are based on observable market data

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 23. Financial Instruments (continued)

#### *Fair Value Hierarchy (continued)*

<i>At 31 December 2010</i>	<i>Total £000s</i>	<i>Level 1 £000s</i>	<i>Level 2 £000s</i>	<i>Level 3 £000s</i>
Assets measured at fair value:				
Derivative financial instruments recognised at fair value through profit or loss	1,156	-	1,156	-
Liabilities measured at fair value:				
Derivative financial instruments recognised at fair value through profit or loss	1,277	-	1,277	-
Derivative financial instruments in a hedge relationship	1,303	-	1,303	-

During the reported period ended 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value

#### *Fair Values*

Set out below is a comparison by category of carrying amounts and fair values of all of the company's financial instruments that are carried in the financial statements:

	<i>Book value 2010 £000s</i>	<i>Fair value 2010 £000s</i>	<i>Book value 2009 £000s</i>	<i>Fair value 2009 £000s</i>
Financial assets:				
Cash	10,764	10,764	2,676	2,676
Derivative financial instruments	1,156	1,156	1,073	1,073
Financial liabilities:				
Interest bearing loans and borrowings:				
Floating rate borrowings	39,423	39,423	31,853	31,853
Derivative financial instruments	2,579	2,579	2,389	2,389

#### *Interest Rate Maturity Profile of Financial Assets and Liabilities*

Interest rate exposure is managed within limits agreed by the board. The majority of the company's borrowings are at variable rates of interest. Interest rate risk is regularly monitored to ensure that the mix of fixed and variable rate borrowing is appropriate for the company in the short to medium term. To achieve this mix the company has entered into interest rate swaps. At 31 December 2010 the fair value of these derivatives was £1,303,000 (2009: £1,635,000) and these will impact cash flows and profits up to 2013.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 23. Financial Instruments (continued)

#### **Interest Rate Risk**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's profit before tax (through the impact on floating rate borrowings). There is no impact on the company's equity. The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes those recognised at fair value as well as all non-derivative floating rate financial instruments.

Fair value interest rate hedges, that are part of a hedging relationship, have been excluded from the analysis, as gains and losses from fair valuing both the hedging item and hedging instrument almost cancel one another out completely in the income statement. However, for the purpose of the sensitivity analysis hedged loans are treated as floating rate borrowings as a result of the swap relationship, which exposes them to a variable interest expense in the income statement.

Currency derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk:

	<i>Increase in basis points</i>	<i>Effect on profit before tax 2010 £000s</i>	<i>Effect on loss before tax 2009 £000s</i>
Sterling	25	(27)	(4)

A 25 point decrease would have an equal and opposite effect.

### 24. Capital Management

The primary objective of the company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it in light of changes in economic conditions to maintain or adjust the capital structure. The company monitors capital using the following indicators.

#### **Gearing Ratio**

Gearing comprises net debt divided by total equity. Net debt comprises cash and short term deposits and interest bearing loans and borrowings (see Notes 18 and 20).

The gearing ratio is as follows:

	<i>2010 £000s</i>	<i>2009 £000s</i>
Net debt	29,704	30,085
Total equity	18,700	18,700
Gearing ratio	158%	161%

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 24. Capital Management

#### *Net Debt to EBITDA Cover*

Net debt to EBITDA comprises net debt divided by operating profit from continuing operations before bonding costs, exceptional items, depreciation and amortisation.

The net debt/EBITDA cover is as follows:

	2010 £000s	2009 £000s
Net debt	29,704	30,085
Operating profit	12,894	4,272
Bonding costs	4,135	2,707
Depreciation and amortisation	3,746	3,903
EBITDA	20,775	10,882
Net Debt to EBITDA cover	1.4	2.8

#### *Interest Cover*

Interest cover comprises operating profit from continuing operations before exceptional items and intangible amortisation divided by gross finance costs (excluding other finance income).

Interest cover is as follows:

	2010 £000s	2009 £000s
Operating profit before amortisation of intangibles	15,065	6,499
Finance costs	5,097	4,110
Interest cover	2.96	1.58

### 25. Share Capital

	2010 £000s	2009 £000s
<i>Authorised:</i>		
18,700,000 Ordinary shares of £1 each	18,700	18,700
<i>Allotted, called up and fully paid:</i>	No.	£000
At 31 December 2010	18,700,000	18,700

On formation, the authorised share capital of the company was £1,000, being 1,000 ordinary shares of £1. The company increased the authorised share capital by £18,699,000 by the creation of 18,699,000 ordinary shares of £1 each which were issued on 8 May 2007.

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 26. Additional Cash Flow Information

Reconciliation of increase/(decrease) in cash and cash equivalents to movement in net debt

	Notes	2010 £000s	2009 £000s
Net increase/(decrease) in cash and cash equivalents		8,088	(1,827)
Net decrease/(increase) in debt		(7,707)	385
Change in net debt during the period		<u>381</u>	<u>(1,442)</u>
Changes in net debt resulting from cash flows		880	(360)
Non cash movements in net debt		(499)	(1,082)
Change in net debt during the period		<u>381</u>	<u>(1,442)</u>
Change in net debt during the period		381	(1,442)
Net debt at beginning of the period		(30,085)	(28,643)
Net debt at end of the period		<u>(29,704)</u>	<u>(30,085)</u>
Net debt comprises the following:			
Cash and cash equivalents	18	10,764	2,676
Current interest bearing loans and borrowings	20	(14,274)	(4,535)
Non-current interest bearing loans and borrowings	20	(26,194)	(28,226)
Net debt at end of the period		<u>(29,704)</u>	<u>(30,085)</u>
Significant non-cash transactions:			
Net increase/(decrease) in cash and cash equivalents		8,088	(1,827)
Net decrease/(increase) in debt		(7,707)	385
Change in net debt during the period		<u>381</u>	<u>(1,442)</u>

### 27. Capital Commitments

The company had capital commitments for plant and equipment, and purchased software totalling £2,050,000 at 31 December 2010 (2009: £1,167,000).

## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 28. Contingent Liabilities

Bank guarantees to the value of £61.7m (2009: £36.3m) were outstanding at the year end. These were entered into in the normal course of the company's business. Other contingent liabilities arise in the ordinary course of business in connection with the completion of contracts. In the opinion of the directors no material loss will arise from such contingent liabilities in excess of the amounts provided in the financial statements.

The guarantee and overdraft facilities are obtained after the granting of fixed and floating charges over the assets of the company.

### 29. Related Party Transactions

The company entered into transactions, in the ordinary course of business, with related parties during the year. The total of these transactions during 2010 and the trading balances outstanding at 31 December 2010 are as follows:

	<i>Sales to related party £000s</i>	<i>Purchases from related party £000s</i>	<i>Amounts owed by related party £000s</i>	<i>Amounts owed to related party £000s</i>
Clyde Union (Holdings) S.à r.l.	-	-	1,688	240
Clyde Union S.à r.l.	-	-	885	-
Clyde Union (US) Inc.	-	526	1,777	-
Clyde Union Inc	446	-	1,708	1,806
Clyde Union Canada Limited	211	1,543	693	2,794
Clyde Union (Holdings) S.A.S.	-	-	118	-
Clyde Union S.A.S.	2	-	1,805	6,373
Clyde Union (Holdings) Ltd	-	-	2,963	-
Clyde Union DB Ltd	77	64	1,266	8,940
Clyde Union China Holdings Ltd	-	1,644	376	-
Clyde Union Technology (Beijing) Co. Ltd	-	868	-	483
Clyde Union IMBIL LTDA	11	-	-	144
Clyde Pumps India (Private) Ltd	58	109	-	58
	<u>805</u>	<u>4,754</u>	<u>13,279</u>	<u>20,838</u>



## NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2010

### 29. Related Party Transactions (continued)

The equivalent disclosure for the prior year is as follows:

	<i>Sales to related party £000s</i>	<i>Purchases from related party £000s</i>	<i>Amounts owed by related party £000s</i>	<i>Amounts owed to related party £000s</i>
Clyde Union (Holdings) S.à r.l.	-	-	1,037	-
Clyde Union S.à r.l.	-	-	336	-
Clyde Union Inc.	-	-	-	2,498
Clyde Union Canada Limited	-	-	-	232
Clyde Pumps Inc.	-	410	-	-
Clyde Union S.A.S.	-	-	-	2,175
Clyde Union (Holdings) Limited	-	-	817	-
Clyde Union DB Limited	-	-	-	4,121
Clyde Union China Holdings Limited	-	1,437	329	-
Clyde Union Technology (Beijing) Co. Ltd	-	-	-	108
	-	1,847	2,519	9,134

### 30. Ultimate Parent Company

The Company's immediate parent undertaking is Clyde Union (Holdings) Limited, a company incorporated in Scotland.

The company's intermediate parent undertaking in which Clyde Union Limited's results are consolidated is Clyde Union S.à r.l., a company registered in Luxembourg. Copies of the financial statements can be obtained from 37, rue d'Anvers, L-1130 Luxembourg.

Management considers the company's ultimate parent undertaking and controlling party to be Clyde Blowers Capital Fund II LP which is a limited partnership incorporated in Scotland.