

Registration number: 04839607

SPP PUMPS LIMITED
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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SPP PUMPS LIMITED

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SPP PUMPS LIMITED

COMPANY INFORMATION

Chairman	S C Kirloskar
Directors	S C Kirloskar A S Kirloskar P B Shirke
Company secretaries	A B Naniwadekar Speafi Secretarial Limited
Registered office	Crucible Close Mushet Industrial Park Coleford Gloucestershire GL16 8PS
Auditors	Deloitte LLP Abbots House Abbey Street Reading RG1 3BD

SPP PUMPS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to SPP Pumps Limited and its subsidiary undertakings when viewed as a whole.

Fair review of the business

The Group has achieved an operating profit for the year, which was realised despite 2016 being a year of uncertain economic background, and this reflects a number of positive changes that have been made within the organisation, described below.

Continuous improvement initiatives

Before the start of the year the Group had already identified a number of continuous improvement initiatives and throughout 2016 there has been heavy focus in all areas to drive through these changes to strengthen the Group's position. The programme includes initiatives aimed at improving operational efficiency, expanding the product range, achieving business growth, eliminating waste and reducing costs. Most of these initiatives aim for long-term benefit. Routine and detailed monitoring of these projects has seen the required changes being made and savings and benefits are now being seen by the business. The programme will continue throughout 2017.

Although turnover has fallen by 7% compared with 2015, gross margins have increased from 21% in 2015 to 24% in 2016. This increase is partly due to change in product mix, with a higher proportion of non-oil & gas business; the weakening pound after Brexit that has helped with European exports from the UK; but several of the improvement initiatives have also contributed to higher margins.

Diversification

The downturn in the oil industry on a global scale has meant that exploration, production and major construction projects in this sector have been either cancelled or postponed. In addition, service and maintenance activities in this sector have been curtailed. This has had a consequent impact on the Group's sales to this market.

The Group has responded to this change in market conditions by focussing on other, higher margin, market sectors and, despite many construction projects in the UK being placed on hold after Brexit, excellent growth of 5% was seen in 2016 in the Industrial Fire business unit, on top of the 9% growth achieved in 2015. This was mainly achieved through continued expansion of SPP's presence in Central and Eastern Europe and is built on strong long-standing customer relationships.

The Group has also focussed on other geographical areas, and sales in the Middle East region have remained buoyant with higher gross margins also being achieved. Significant construction, infrastructure and municipal activity is taking place in the region and sales of water and fire pumps have both seen strong growth with confirmed orders and encouraging prospects for 2017.

A new manufacturing facility has been brought into operation at the Group's Coleford site, dedicated to the Transformer Oil business unit. The production line has been developed using lean manufacturing principles and has the capacity to cope with the planned future growth of sales of transformer oil pumps. This business unit expanded by 124% in 2016 compared with 2015.

Cost Reduction

Since the year end, in January 2017, the Group has announced a reduction in headcount at its Coleford manufacturing site to right-size the business. This has been combined with a reorganisation within the facility that is designed to streamline both production capability and organisational reporting. These changes will generate substantial savings.

SPP PUMPS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Principal risks and uncertainties

Commodity risk

With the price of oil now trading at about \$54 a barrel, the Oil & Gas marketplace is a more stable platform and there is optimism that this will translate to improved orders for the Group's business units that rely on this sector.

Currency risk

Approximately 75% of the Group's sales and many key components are sourced from outside the UK, with a significant portion denominated in US Dollars. So foreign exchange movements are an ongoing risk that needs to be managed. The Group minimises this risk by hedging foreign currency transactions through forward contracts that are matched to specific orders.

Credit risk

The challenges in the global economy have inevitably increased the credit risk to the Group. However SPP controls its credit exposures carefully and does not anticipate any material impact on its financial performance as a result of these. The majority of customers in the sectors in which the Group operates are financially robust and this, together with the Group's own credit risk controls, have meant that the Group has not suffered from significant problems as a result of bad debts.

Liquidity risk

With market conditions being more changeable, the Group has focussed on controlling capital expenditure and working capital. There has been sound management of cash flow throughout the year. The Group continues to be backed by first class international banks and retains the facilities required to fully support the demands of the business.

Future developments

The Group continues to evaluate alternatives for global expansion and partnering opportunities. The Group also continues to support and strengthen its brand image and reputation for product quality through industry accreditations, adherence to quality standards as well as marketing and exhibition activities. Health and safety remains a key priority.

Kirloskar Brothers Limited ("KBL"), the group's ultimate parent company, has plans to introduce a new global ERP system in 2017-18. This will support the Group's future growth and enhance the continuous improvement efforts being made to streamline processes and reporting. It will also allow the Group to take better advantage of its global strength that comes from being part of the KBL group. Wider KBL group collaboration is increasing and the Group continues to benefit from its close association with KBL, and other companies within the KBL group.

The Group recognises the hard work and dedication of employees.

SPP is strongly positioned to benefit from the recovery in market confidence as and when it arrives, and in the meantime to improve its position by sound financial management and broadening of focus within its core business.

Approved by the Board on 16.03.17 and signed on its behalf by:



.....
A B Naniwadekar
Company secretary

SPP PUMPS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and consolidated financial statements for the year ended 31 December 2016.

Results and dividends

The consolidated profit and loss account is set out on page 9 and shows the loss for the year of £1,277,275 (2015: loss of £890,588). An interim dividend of £nil (2015: £1,000,000) was distributed to members in 2016.

Principal activity

The principal activities of the Group are the design, manufacture, supply and service of pumps, pump packages and associated equipment.

Directors of the group

The directors who held office during the year were as follows:

S C Kirloskar - Chairman

A S Kirloskar

P B Shirke

Going concern

The directors have considered the Company's and Group's financial position, its forecast trading performance, and the current economic environment and have identified no material uncertainties that cast significant doubt about the ability of the Company and the Group to continue as a going concern. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Therefore the directors consider it appropriate to apply the going concern basis of accounting in preparing the consolidated financial statements.

Employee involvement

It is Group policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be consulted on and involved in decisions that affect their current jobs and future prospects.

The achievement of this policy has to be treated flexibly in accordance with the varying circumstances and needs of companies in the group but, in all cases, the emphasis is on communication at the local level.

The Group actively encourages the promotion of safe working conditions and the procedures and the development of practices which secure and enhance the health and welfare at work of employees.

Applications for employment by disabled persons are fully and fairly considered having regard to the abilities of each applicant. Efforts are made to enable any employee who becomes disabled during employment to continue their career with the Group. Training, career development and promotion of disabled persons are, as far as possible, identical to that of other employees who are not disabled.

Overseas branches

The Company has subsidiary companies in the USA and France; and overseas sales offices in the UAE, Czech Republic and Netherlands.

Fixed assets

The directors are of the opinion that the existing value of freehold property is in excess of its current net book value.

Future developments and post balance sheet events

Future developments and post balance sheet events are described in the Strategic Report as permitted under s414C (11) of the Companies Act 2006.

SPP PUMPS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Financial Instruments

The Group finances its operations through a mixture of retained profits and where necessary bank borrowings to fund expansion or capital expenditure programmes. The management's objectives are to:

- retain sufficient liquid funds to enable it to meet its day to day obligations as they fall due whilst maximising returns on surplus funds;
- minimise the Group's exposure to fluctuating interest rates when seeking new borrowings; and
- match the repayment schedule of any external borrowings or overdrafts with the future cash flows expected to arise from the Group's trading activities.

The Group uses forward currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material receipts and payments in a foreign currency.

Group borrowings are obtained from standard bank loan accounts.

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to be reappointed as auditor. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 16.03.17 and signed on its behalf by:



A B Nañiwadekar
Company secretary

SPP PUMPS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report, Strategic 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

SPP PUMPS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPP PUMPS LIMITED

We have audited the financial statements of SPP Pumps Limited for the year ended 31 December 2016, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 6), 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 to the financial statements.

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 Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

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

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

SPP PUMPS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPP PUMPS 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Simon Olsen FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Chartered Accountants and Statutory Auditor

Abbots House
Abbey Street
Reading
RG1 3BD

Date: 16 March 2017

SPP PUMPS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £	2015 £
Turnover	4	68,461,440	73,686,174
Cost of sales		<u>(51,998,893)</u>	<u>(58,163,946)</u>
Gross profit		16,462,547	15,522,228
Distribution costs		(7,065,160)	(6,839,936)
Administrative expenses		(9,944,770)	(9,106,380)
Other operating income		<u>721,722</u>	<u>318,459</u>
Operating profit/(loss)	7	174,339	(105,629)
Net finance costs	8	(376,968)	(357,762)
Loss on currency valuation	9	<u>(1,333,545)</u>	<u>(319,393)</u>
Loss before tax		(1,536,174)	(782,784)
Taxation	10	<u>258,899</u>	<u>(107,804)</u>
Loss for the financial year		<u>(1,277,275)</u>	<u>(890,588)</u>
Loss attributable to:			
Owners of the company		<u>(1,277,275)</u>	<u>(890,588)</u>

The above results were derived from continuing operations.

The notes on pages 17 to 36 form an integral part of these financial statements.

SPP PUMPS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31
DECEMBER 2016**

	Note	2016 £	2015 £
Loss for the year		(1,277,275)	(890,588)
Foreign currency translation gains		<u>615,144</u>	<u>161,658</u>
Total comprehensive income for the year		<u>(662,131)</u>	<u>(728,930)</u>
Total comprehensive income attributable to:			
Owners of the company		<u>(662,131)</u>	<u>(728,930)</u>

The notes on pages 17 to 36 form an integral part of these financial statements.

SPP PUMPS LIMITED

(REGISTRATION NUMBER: 04839607)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

	Note	2016 £	2015 £
Fixed assets			
Intangible assets	13	649,176	608,230
Tangible assets	14	<u>11,594,964</u>	<u>11,513,956</u>
		<u>12,244,140</u>	<u>12,122,186</u>
Current assets			
Stocks	16	14,467,341	10,706,870
Debtors	17	26,424,485	25,540,717
Cash at bank and in hand		<u>585,540</u>	<u>1,630,861</u>
		<u>41,477,366</u>	<u>37,878,448</u>
Creditors: Amounts falling due within one year	18	<u>(28,734,080)</u>	<u>(24,912,473)</u>
Net current assets		<u>12,743,286</u>	<u>12,965,975</u>
Total assets less current liabilities		24,987,426	25,088,161
Creditors: Amounts falling due after more than one year	18	(3,491,449)	(3,199,244)
Provisions for liabilities	20	<u>(2,456,931)</u>	<u>(2,187,740)</u>
Net assets		<u>19,039,046</u>	<u>19,701,177</u>
Capital and reserves			
Called up share capital	23	1,950,000	1,950,000
Capital redemption reserve		50,000	50,000
Profit and loss account		<u>17,039,046</u>	<u>17,701,177</u>
Equity attributable to owners of the company		<u>19,039,046</u>	<u>19,701,177</u>
Shareholders' funds		<u>19,039,046</u>	<u>19,701,177</u>

The consolidated financial statements of SPP Pumps Limited (registered number: 04839607) were approved by the directors and authorised for issue on 16.03.17

They were signed on its behalf by:



A S Kirloskar
Managing Director

The notes on pages 17 to 36 form an integral part of these financial statements.

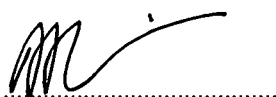
SPP PUMPS LIMITED

(REGISTRATION NUMBER: 04839607)
COMPANY BALANCE SHEET AS AT 31 DECEMBER 2016

	Note	2016 £	2015 £
Fixed assets			
Tangible assets	14	6,352,714	7,034,128
Investments	15	<u>382,688</u>	<u>286,515</u>
		<u>6,735,402</u>	<u>7,320,643</u>
Current assets			
Stocks	16	10,470,131	7,006,131
Debtors	17	20,704,000	19,847,176
Cash at bank and in hand		<u>272,227</u>	<u>1,220,902</u>
		31,446,358	28,074,209
Creditors: Amounts falling due within one year	18	<u>(20,301,811)</u>	<u>(16,222,367)</u>
Net current assets		<u>11,144,547</u>	<u>11,851,842</u>
Total assets less current liabilities		17,879,949	19,172,485
Creditors: Amounts falling due after more than one year	18	(417,958)	(631,038)
Provisions for liabilities	20	<u>(1,666,563)</u>	<u>(1,551,995)</u>
Net assets		<u>15,795,428</u>	<u>16,989,452</u>
Capital and reserves			
Called up share capital	23	1,950,000	1,950,000
Capital redemption reserve		50,000	50,000
Profit and loss account		<u>13,795,428</u>	<u>14,989,452</u>
Shareholders' funds		<u>15,795,428</u>	<u>16,989,452</u>

The financial statements of SPP Pumps Limited (registered number: 04839607) were approved by the directors and authorised for issue on

They were signed on its behalf by:



A S Kirloskar
Managing Director

The notes on pages 17 to 36 form an integral part of these financial statements.

SPP PUMPS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £	Capital redemption reserve £	Profit and loss account £	Total £
At 1 January 2015	1,950,000	50,000	19,430,107	21,430,107
Loss for the year	-	-	(890,588)	(890,588)
Other comprehensive income	-	-	161,658	161,658
Total comprehensive income	-	-	(728,930)	(728,930)
Dividends	-	-	(1,000,000)	(1,000,000)
At 31 December 2015	1,950,000	50,000	17,701,177	19,701,177

	Share capital £	Capital redemption reserve £	Profit and loss account £	Total £
At 1 January 2016	1,950,000	50,000	17,701,177	19,701,177
Loss for the year	-	-	(1,277,275)	(1,277,275)
Foreign currency translation gains	-	-	615,144	615,144
Total comprehensive income	-	-	(662,131)	(662,131)
At 31 December 2016	1,950,000	50,000	17,039,046	19,039,046

The notes on pages 17 to 36 form an integral part of these financial statements.

SPP PUMPS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £	Capital redemption reserve £	Profit and loss account £	Total £
At 1 January 2015	1,950,000	50,000	17,430,001	19,430,001
Loss for the year	-	-	(1,440,549)	(1,440,549)
Dividends	-	-	(1,000,000)	(1,000,000)
At 31 December 2015	<u>1,950,000</u>	<u>50,000</u>	<u>14,989,452</u>	<u>16,989,452</u>

	Share capital £	Capital redemption reserve £	Profit and loss account £	Total £
At 1 January 2016	1,950,000	50,000	14,989,452	16,989,452
Loss for the year	-	-	(1,194,024)	(1,194,024)
At 31 December 2016	<u>1,950,000</u>	<u>50,000</u>	<u>13,795,428</u>	<u>15,795,428</u>

The notes on pages 17 to 36 form an integral part of these financial statements.

SPP PUMPS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
Loss for the year before taxation		(1,536,174)	(782,784)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	7	1,519,920	1,479,699
Finance income		(15,700)	(3,972)
Finance costs		392,668	361,734
Foreign exchange (gains) / losses		301,060	(154,535)
Valuation of forward contracts loss/(gain)		472,185	319,393
		<u>1,133,959</u>	<u>1,219,535</u>
Working capital adjustments			
Increase in stocks	16	(3,760,471)	(2,126,748)
(Increase)/decrease in trade debtors	17	(599,608)	8,875,360
Increase/(decrease) in trade creditors	18	192,655	(3,101,794)
(Decrease)/increase in provisions	20	(241,930)	81,991
		<u>(3,275,395)</u>	<u>4,948,344</u>
Cash generated from operations			
Income taxes received/(paid)	10	66,605	(912,220)
Net cash flow from operating activities		<u>(3,208,790)</u>	<u>4,036,124</u>
Cash flows from investing activities			
Interest received		15,700	3,972
Acquisition of intangible assets	13	(16,091)	(1,818)
Acquisitions of tangible assets		(609,689)	(2,103,132)
Proceeds from sale of tangible assets		-	206
Disposal of investments		-	200,000
		<u>(610,080)</u>	<u>(1,900,772)</u>
Net cash flows from investing activities			
Cash flows from financing activities			
Interest paid		(392,668)	(361,734)
Dividends paid		-	(1,000,000)
New hire purchase contracts		-	419,341
Repayments under hire purchase contracts		(257,784)	(317,576)
New bank loan		477,560	727,139
Loan repayment		(955,356)	(1,234,253)
		<u>(1,128,248)</u>	<u>(1,767,083)</u>
Net cash flows from financing activities			
Net (decrease)/increase in cash and cash equivalents		(4,947,118)	368,269
Cash and cash equivalents at 1 January		404,915	(22,240)
Loss/(gain) from exchange rate fluctuations on cash held		(164,931)	58,886
Cash and cash equivalents at 31 December		<u>(4,707,134)</u>	<u>404,915</u>

The notes on pages 17 to 36 form an integral part of these financial statements.

SPP PUMPS LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £	2015 £
Reconciliation to Cash and cash equivalents category (adjusted for overdrafts)			
Cash and short-term deposits		585,540	1,630,861
Bank overdrafts		<u>(5,292,674)</u>	<u>(1,225,946)</u>
Cash and cash equivalents at 31 December		<u><u>(4,707,134)</u></u>	<u><u>404,915</u></u>

The notes on pages 17 to 36 form an integral part of these financial statements.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1 General information

The company is a private company limited by share capital incorporated and domiciled in England and Wales.

The address of its registered office is:

Crucible Close
Mushet Industrial Park
Coleford
Gloucestershire
GL16 8PS

The nature of the Group's operations and its principal activities are set out in the strategic report on pages 2 to 3.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of SPP Pumps Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

SPP Pumps Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The directors have considered the Company's financial position, its forecast trading performance, and the current economic environment and have identified no material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies (continued)

Turnover

Turnover is recognised:

- In respect of sale of goods, when the risks and rewards of ownership of the goods have passed to the buyer;
- In respect of in house service work, on shipment of completed and repaired product to the customer; and
- In respect of field service work, to the extent that the Group has obtained the right to consideration through its performance.

Government grants

Government grants are recognised based on the accrual model and are measured at the fair value of the amount received or receivable. Grants are classified as relating either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Other exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income; and
- in the case of the consolidated financial statements, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in other comprehensive income and reported under equity.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies (continued)

Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment is measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its expected useful economic life, which is 10 years. Provision is made for any impairment.

Intangible assets - patents and trademarks

Patents and trademarks are included at cost and depreciated in equal annual instalments over a period of 10 years which is their estimated useful economic life.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies (continued)

Tangible fixed assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Freehold buildings	4% straight line basis
Leasehold improvements	5% to 20% straight line basis
Motor vehicles	25% straight line basis
Plant and machinery	5% to 33.33% straight line basis
Tooling and patterns	20% to 25% straight line basis

Stocks

Stocks are valued at the lower of cost and selling price less costs to sell, which is equivalent to the net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition as follows:

Raw materials, consumables and goods for resale - Moving weighted average

Work in progress and finished goods - Cost of direct material and labour plus attributable overheads based on a revised level of activity.

Borrowings

Borrowing costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Provisions

Provisions are recognised when the Group has an obligation at the reporting date as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Warranty

The Group provides for its estimated liability on the warranties given on the sale of products based on experience of past claims on the sales of products from different business units.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Defined contribution pension obligation

Contributions to defined contribution pension schemes operated by Group companies are charged to the profit and loss account in the year in which they become payable.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2 Accounting policies (continued)

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Investments

In the Company balance sheet, investments (including investments in associates) are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Derivative financial instruments

The Group uses forward currency contracts to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes. Derivatives are adjusted to their fair value at each reporting date using mark-to-market reports obtained from the Group's forward contract providers. The resulting gain or loss is recognised in profit or loss.

Fair value measurement

The fair value is estimated with reference to year end exchange rates.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Stock provision

The Group reviews the value of its holding of stock and makes the provision considered necessary to cover losses against aged stock due to obsolescence, corrosion and irreparable damage.

Recoverability of debtors

The Group has made provision for all amounts considered to be at risk of non-recoverability.

Warranty provision

Provision is made for future warranty costs based on management's best estimate of the costs that will be incurred based on past claims experience and contractual requirements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies in note 2 contain details of key accounting judgements made in the preparation of these financial statements.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4 Turnover

An analysis of the Group's turnover by class of business is as follows:

	2016	2015
	£	£
Engineered Products	23,232,734	27,142,107
Standard Products	29,318,154	30,534,058
Spares and Servicing	15,910,552	16,010,009
	<u>68,461,440</u>	<u>73,686,174</u>

An analysis of the Group's turnover by geographical market is as follows:

	2016	2015
	£	£
United Kingdom	16,719,683	22,071,481
North America	26,336,254	27,102,824
South East Asia and Australia	7,936,168	6,554,154
Europe	8,843,026	8,075,715
Middle East	5,856,617	7,241,557
Rest of World	2,769,692	2,640,443
	<u>68,461,440</u>	<u>73,686,174</u>

5 Staff costs

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

	2016	2015
	No.	No.
Management and administration	77	81
Manufacturing	283	289
Sales and distribution	112	106
	<u>472</u>	<u>476</u>

The 2015 numbers have been re-categorised to enable fair comparison with 2016.

The aggregate payroll costs (including directors' remuneration) were as follows:

	2016	2015
	£	£
Wages and salaries	17,347,642	16,444,530
Social security costs	1,578,045	1,219,857
Pension costs, defined contribution scheme	786,421	686,750
	<u>19,712,108</u>	<u>18,351,137</u>

The Employment Benefit Trust was closed on 20th January 2016.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

6 Directors' remuneration

The directors' remuneration for the year was as follows:

	2016	2015
	£	£
Remuneration	202,040	237,727
Benefits in kind	19,427	21,574
Payments to defined contribution pension schemes	1,500	1,501
	<u>222,967</u>	<u>260,802</u>

In respect of the highest paid director:

	2016	2015
	£	£
Remuneration	182,040	187,406
Benefits in kind	19,427	18,032
Payments to defined contribution pension schemes	1,500	1,501
	<u>202,967</u>	<u>206,939</u>

Contributions were made to defined contribution pension schemes on behalf of one (2015: one) director.

7 Loss before tax

This is arrived at after charging/(crediting)

	2016	2015
	£	£
Depreciation of owned tangible fixed assets	1,219,279	1,188,626
Depreciation of assets held under hire purchase contracts	203,987	199,561
Operating leases - land and buildings	536,645	391,507
Operating leases - other	295,940	248,755
Amortisation of patents and trademarks	72,862	71,682
Amortisation of goodwill	23,792	19,830
Government grants repayable	-	290,019
Research and development cost	370,115	519,840
Research and development expenditure credit	(32,071)	(42,229)
Auditor's remuneration - audit of these financial statements	48,600	48,600
Audit of accounts of subsidiaries pursuant to legislation	71,911	38,602
- other services relating to taxation	10,000	11,000
- all other services	7,750	44,000
Foreign exchange differences	<u>(1,333,545)</u>	<u>(319,393)</u>

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8 Finance income and costs

Other interest receivable and similar income

	2016 £	2015 £
Interest income on investments	15,700	-
Bank interest receivable	-	3,972
	<u>15,700</u>	<u>3,972</u>

Interest payable and similar charges

	2016 £	2015 £
Interest on bank overdrafts and borrowings	(251,470)	(248,446)
Interest on obligations under finance leases and hire purchase contracts	(42,676)	(51,873)
Other interest payable	(36,673)	(41,765)
Interest payable to group undertakings	(61,849)	(19,650)
	<u>(392,668)</u>	<u>(361,734)</u>

9 Loss on currency valuation

The Company hedges all sales and purchase orders denominated in US Dollars and Euros using forward contracts with expiry dates to match the expected dates of cash receipt and payment. This is an effective strategy to minimise the risk of foreign exchange movements. The Company has very little trade in other currencies.

The reported currency movement arises mainly because forward contracts are taken out when a sales order is received. For Engineered Products, there is often a significant lead time between receiving an order and the invoicing of that order, so at any point in time, there is a significant value of forward contracts for un-invoiced sales orders. At the year-end, approximately half of all forward contracts refer to orders not invoiced. However, FRS102 requires the company to value all forward contract liabilities, even where the corresponding asset is not yet included in the company's balance sheet, as the work is not yet invoiced.

The reported loss on currency valuation is therefore mainly a notional accounting adjustment and for individual trades the calculated loss will reverse as the sales orders are invoiced and as cash is ultimately received.

The Company's subsidiary companies do not have any significant foreign currency transactions.

The lower value of GBP against USD at the 2016 year end compared with 2015, has meant a corresponding increase in value of the company's subsidiary companies based in the USA. In the Consolidated Statement of Changes in Equity on Page 13, a foreign exchange gain of £615,144 has arisen on translation of US assets at the closing exchange rate compared with the year-end rate at 31 December 2015. This mitigates much of the currency valuation loss reported in the consolidated profit and loss account.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

10 Taxation

Tax charged/(credited) in the income statement

	2016 £	2015 £
Current taxation		
UK corporation tax	11,498	(219,802)
Overseas corporation tax on profits in the year	9,588	(270,188)
Adjustment in respect of prior years	(218)	64,329
	<u>20,868</u>	<u>(425,661)</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(276,736)	503,468
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(3,031)	29,997
	<u>(279,767)</u>	<u>533,465</u>
Total deferred taxation	<u>(279,767)</u>	<u>533,465</u>
Tax (credit)/charge in the income statement	<u>(258,899)</u>	<u>107,804</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2015 - higher than the standard rate of corporation tax in the UK) of 20% (2015 - 20.25%).

The differences are reconciled below:

	2016 £	2015 £
Loss before tax	<u>(1,536,174)</u>	<u>(782,784)</u>
Corporation tax at standard rate	(307,235)	(158,514)
Effects of:		
Expenses not deductible for tax purposes	96,745	133,567
Effect of overseas branch exemption	(38,110)	-
Depreciation for period in excess of capital allowances	31,583	52,230
Short-term timing differences	-	3,232
Other tax effects for reconciliation between accounting profit and tax credit	1,118	-
Adjustment in respect of prior years	(3,249)	94,326
Difference in tax rates	<u>(39,751)</u>	<u>(17,037)</u>
Total tax (credit)/charge	<u>(258,899)</u>	<u>107,804</u>

A reduction in the rate of UK corporation tax took place on 1 April 2015 from 21% to 20%.

The Group's overseas tax rates are higher than those in the UK primarily because the profits earned by SPP Pumps Inc. and SyncroFlo Inc. are taxed in the USA at 34% (2015: 34%).

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

10 Taxation (continued)

Deferred tax

Group

Deferred tax assets and liabilities

2016	Asset £	Liability £
Accelerated depreciation	(96,845)	(749,009)
Intangible assets	-	(162,455)
Trading losses carried forward	226,035	368,189
Short term timing differences	363,662	1,413
	<u>492,852</u>	<u>(541,862)</u>

2015	Asset £	Liability £
Accelerated depreciation	-	(632,938)
Intangible assets	-	(222,332)
Trading losses carried forward	-	245,934
Short term timing differences	217,244	106,410
	<u>217,244</u>	<u>(502,926)</u>

Company

Deferred tax assets and liabilities

2016	Asset £
Accelerated depreciation	(96,845)
Trading losses carried forward	226,035
Short term timing differences	46,928
	<u>176,118</u>

2015	Liability £
Accelerated depreciation	(143,352)
Trading losses carried forward	-
Short term timing differences	106,410
	<u>(36,942)</u>

Deferred tax assets have been recognised at the substantively enacted rates at the date of the balance sheet, in the UK this is 17%.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

11 Loss attributable to the Company

The loss for the financial year dealt with in the financial statements of the parent Company was £1,194,024 (2015: loss of £1,440,549). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

12 Dividends

	2016 £	2015 £
Interim dividend of £0.00 (2015: £0.513) per ordinary share	-	1,000,000

13 Intangible assets

Group

	Goodwill £	Trademarks, patents and licenses £	Total £
Cost			
At 1 January 2016	198,310	659,632	857,942
Additions acquired separately	-	16,091	16,091
Foreign exchange movements	39,624	130,989	170,613
At 31 December 2016	237,934	806,712	1,044,646
Amortisation			
At 1 January 2016	36,355	213,357	249,712
Amortisation charge	23,792	72,862	96,654
Foreign exchange movements	7,263	41,841	49,104
At 31 December 2016	67,410	328,060	395,470
Carrying amount			
At 31 December 2016	170,524	478,652	649,176
At 31 December 2015	161,955	446,275	608,230

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

14 Tangible assets

Group

	Freehold land and buildings £	Leasehold improvements £	Motor vehicles £	Plant and machinery £	Tooling and patterns £	Total £
Cost						
At 1 January 2016	7,298,209	527,481	52,435	10,845,881	1,198,104	19,922,110
Additions	119,248	1,945	10,080	342,280	136,136	609,689
Foreign exchange movements	761,990	14,049	5,348	347,456	-	1,128,843
At 31 December 2016	8,179,447	543,475	67,863	11,535,617	1,334,240	21,660,642
Depreciation						
At 1 January 2016	1,198,978	156,846	34,923	6,067,788	949,619	8,408,154
Charge for the year	221,945	29,921	8,943	1,022,700	139,757	1,423,266
Foreign exchange movements	59,487	2,752	2,820	169,199	-	234,258
At 31 December 2016	1,480,410	189,519	46,686	7,259,687	1,089,376	10,065,678
Carrying amount						
At 31 December 2016	6,699,037	353,956	21,177	4,275,930	244,864	11,594,964
At 31 December 2015	6,099,231	370,635	17,512	4,778,093	248,485	11,513,956

Freehold land & buildings includes land at a cost of £2,013,864 (2015: £1,802,558) which is not being depreciated. The change in value relates to foreign exchange movements. The above assets are subject to debentures that form security for bank loans and bank borrowing facilities.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

14 Tangible assets (continued)

Company	Freehold land and buildings £	Leasehold improvements £	Motor vehicles £	Plant and machinery £	Tooling and patterns £	Total £
Cost						
At 1 January 2016	3,479,559	457,168	23,380	9,092,697	1,198,104	14,250,908
Additions	-	-	-	245,060	94,729	339,789
At 31 December 2016	<u>3,479,559</u>	<u>457,168</u>	<u>23,380</u>	<u>9,337,757</u>	<u>1,292,833</u>	<u>14,590,697</u>
Depreciation						
At 1 January 2016	896,261	143,073	20,078	5,207,749	949,619	7,216,780
Charge for the year	99,049	20,035	2,200	795,299	104,620	1,021,203
At 31 December 2016	<u>995,310</u>	<u>163,108</u>	<u>22,278</u>	<u>6,003,048</u>	<u>1,054,239</u>	<u>8,237,983</u>
Carrying amount						
At 31 December 2016	<u>2,484,249</u>	<u>294,060</u>	<u>1,102</u>	<u>3,334,709</u>	<u>238,594</u>	<u>6,352,714</u>
At 31 December 2015	<u>2,583,298</u>	<u>314,095</u>	<u>3,302</u>	<u>3,884,948</u>	<u>248,485</u>	<u>7,034,128</u>

Freehold land & buildings includes land at a cost of £745,000 (2015: £745,000) which is not being depreciated.

The above assets are subject to a debenture that forms security for a bank borrowing facility.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

14 Tangible assets (continued)

Hire purchase agreements

Group

Included within the amounts for plant and machinery above is net book value of £1,383,252 (2015: £1,596,138) relating to assets held under hire purchase agreements.

Depreciation charged to the financial statements in the year in respect of such assets amounted to £203,987 (2015: £199,561).

Company

Included within the amounts for plant and machinery above is net book value of £1,318,641 (2015: £1,506,708) relating to assets held under hire purchase agreements.

Depreciation charged to the financial statements in the year in respect of such assets amounted to £188,067 (2015: £177,251).

Hire purchase agreements (Group and Company) mainly comprise financing for machine tools.

15 Investments

Company

	2016 £	2015 £
Investments in subsidiaries brought forward	286,515	286,515
Investment additions	96,173	-
	<u>382,688</u>	<u>286,515</u>

Group

Details of undertakings

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

Undertaking	Country of incorporation	Proportion of voting rights and shares held	
		2016	2015
Subsidiary undertakings			
SPP Pumps Inc.	USA	100%	100%
SPP France SAS	France	100%	100%
SPP Real Estate LLC *	USA	100%	100%
SyncroFlo, Inc. *	USA	100%	100%
Certified Engines Limited	England and Wales	0%	100%

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

15 Investments (continued)

The principal activity of SPP Pumps Inc. is Supply of pumps and related equipment

The principal activity of SPP France SAS is Supply and servicing of pumps and related equipment

The principal activity of SPP Real Estate LLC * is Real Estate

The principal activity of SyncroFlo, Inc. * is Supply of pumping equipment

The principal activity of Certified Engines Limited is Dormant

An exemption has been taken not to prepare accounts for Certified Engines Limited under s394 Companies Act 2006 and under s448 Companies Act 2006 not to file accounts at Companies house.

* SPP Real Estate LLC and SyncroFlo, Inc. are subsidiaries of SPP Pumps Inc.

SPP Pumps Inc. and its subsidiaries are based in Atlanta, Georgia. SPP France SAS has its main office in Us, Val - d'Oise.

Sale of subsidiary undertaking

On 27 September 2016, the Group sold its 100% interest in the ordinary share capital of Certified Engines Limited to its immediate holding company Kirloskar Brothers International BV for consideration of £1. Its carrying value recognised was £nil.

16 Stocks

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Raw materials and consumables	7,631,666	4,869,932	4,674,202	2,884,521
Work in progress	6,212,155	4,066,318	5,578,958	3,661,062
Finished goods and goods for resale	623,520	1,770,620	216,971	460,548
	<u>14,467,341</u>	<u>10,706,870</u>	<u>10,470,131</u>	<u>7,006,131</u>

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

17 Debtors

		Group		Company	
	Note	2016	2015	2016	2015
		£	£	£	£
Trade debtors		21,966,252	22,271,872	16,767,366	16,501,884
Amounts owed by related parties	25	1,223,135	709,819	1,946,826	1,960,334
Other debtors		1,598,872	1,277,776	931,029	558,543
Prepayments		1,143,374	1,064,006	882,661	826,415
Deferred tax assets	10	492,852	217,244	176,118	-
Total current trade and other debtors		<u>26,424,485</u>	<u>25,540,717</u>	<u>20,704,000</u>	<u>19,847,176</u>

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

18 Creditors

		Group		Company	
	Note	2016 £	2015 £	2016 £	2015 £
Due within one year					
Loans and borrowings	19	463,421	869,311	-	400,000
Bank overdrafts		5,292,674	1,225,946	3,378,831	-
Trade creditors		11,615,510	10,644,837	7,990,067	7,267,786
Amounts due to related parties	25	3,062,919	2,584,279	2,152,495	480,277
Social security and other taxes		99,434	423,676	-	336,047
Obligations under hire purchase contracts		228,302	260,188	207,246	240,428
Other creditors		20,046	558,430	20,046	14,478
Accrued expenses and deferred income		7,951,774	8,345,806	6,553,126	7,483,351
		<u>28,734,080</u>	<u>24,912,473</u>	<u>20,301,811</u>	<u>16,222,367</u>
Due after one year					
Loans and borrowings	19	3,045,072	2,526,969	-	-
Obligations under hire purchase contracts		446,377	672,275	417,958	631,038
		<u>3,491,449</u>	<u>3,199,244</u>	<u>417,958</u>	<u>631,038</u>

19 Loans and borrowings

		Group		Company	
		2016 £	2015 £	2016 £	2015 £
Current loans and borrowings					
Bank loans		463,421	869,311	-	400,000
Bank overdrafts		5,292,674	1,225,946	3,378,831	-
Hire purchase contracts		228,302	260,188	207,246	240,428
		<u>5,984,397</u>	<u>2,355,445</u>	<u>3,586,077</u>	<u>640,428</u>

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

19 Loans and borrowings (continued)

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Non-current loans and borrowings				
Bank loans:				
Between one and two years	467,409	208,748	-	-
Between two and five years	423,038	403,377	-	-
After five years	2,154,625	1,914,844	-	-
Hire purchase contracts:				
Between one and two years	228,690	213,934	207,246	196,384
Between two and five years	217,687	458,341	210,712	434,654
	<u>3,491,449</u>	<u>3,199,244</u>	<u>417,958</u>	<u>631,038</u>

Bank loans:

SPP Pumps Limited had a short-term bank loan at 31 December 2015 of £400,000. This was secured by a guarantee from the ultimate parent company.

SPP Pumps Inc. and subsidiaries have term loans to finance the purchase of certain buildings, equipment and vehicles:

Term Loan	Secured by	Interest Rate	Due Date	2016	2015
				£	£
A	Building	3.75%	27 Jun 23	2,834,412	2,462,046
B	Stock & Debtors	3.26%	30 Aug 18	354,624	267,419
C	Equipment	3.75%	23 Jul 18	136,775	182,526
D	Building	4.65%	16 Aug 18	58,333	76,003
E	Vehicle	4.11%	30 Nov 17	4,790	7,484
F	Land improvement	4.27%	30 Aug 22	119,559	-
				<u>3,508,493</u>	<u>2,995,478</u>

Bank overdrafts:

SPP Pumps Limited has an overdraft facility of £5.5million to finance working capital requirements. This is secured by a charge over the Company's assets.

SPP Pumps Inc. and subsidiaries have lines of credit totalling \$4.0million to finance working capital requirements. The lines of credit and term loans are collateralised by substantially all of the Company's assets.

Hire purchase contracts:

Obligations under hire purchase contracts are secured on the assets to which they relate.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

20 Deferred tax and other provisions

Group

	Warranties £	Deferred tax £	Forward contract valuation £	Total £
At 1 January 2016	1,144,711	502,926	540,103	2,187,740
Increase/(decrease) in existing provisions	(228,180)	(269,361)	472,185	(25,356)
Provisions used	(51,707)	-	-	(51,707)
Increase due to foreign exchange differences	37,957	86,501	-	124,458
Increase from transfers and other changes	-	221,796	-	221,796
At 31 December 2016	<u>902,781</u>	<u>541,862</u>	<u>1,012,288</u>	<u>2,456,931</u>

Company

	Warranties £	Deferred tax £	Forward contract valuation £	Total £
At 1 January 2016	974,950	36,942	540,103	1,551,995
Increase/(decrease) in existing provisions	(320,675)	(202,654)	472,185	(51,144)
Increase from transfers and other changes	-	165,712	-	165,712
At 31 December 2016	<u>654,275</u>	<u>-</u>	<u>1,012,288</u>	<u>1,666,563</u>

Warranties

The provision for warranties relates to expected warranty claims on products sold in the last three years. It is expected that the majority of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date.

Deferred tax

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Group.

Forward contract valuation

In accordance with FRS 102, the Company's forward exchange contracts have been valued at the year end using Mark-to-Market valuations provided by the forward contract providers. These contracts are used to hedge against currency exchange fluctuations for debtor and creditor balances denominated in overseas currencies and are typically held for a period of 6-9 months.

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

21 Contingent liabilities

Performance bonds and guarantees remain outstanding at 31 December 2016. These arose in the normal course of business and amount to £9,612,111 (2015 - £8,282,054).

22 Pension and other schemes

Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from the assets of the Company and are administered and managed professionally. The pension cost for the year was £786,421 (2015 - £686,750).

23 Called-up share capital and reserves

Allotted, called up and fully paid shares

	2016		2015	
	No.	£	No.	£
A ordinary shares of £1 each	50,000	50,000	50,000	50,000
C ordinary shares of £1 each	1,900,000	1,900,000	1,900,000	1,900,000
	<u>1,950,000</u>	<u>1,950,000</u>	<u>1,950,000</u>	<u>1,950,000</u>

The share classes rank pari passu in all respects.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

The capital redemption reserve of £50,000 arose from the Company's purchase of own shares on 25 August 2009 when B ordinary shares were redeemed for £123,100.

24 Obligations under leases and hire purchase contracts

Group

Operating leases

The total of future minimum lease payments is as follows:

	2016	2015
	£	£
Not later than one year	579,508	525,979
Later than one year and not later than five years	1,363,244	1,204,670
Later than five years	150,180	322,618
	<u>2,092,932</u>	<u>2,053,267</u>

SPP PUMPS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the Financial Statements (continued)

25 Related party transactions

The Company has taken advantage of the exemption available under FRS 102, section 33.1A not to disclose transactions with other wholly-owned members of the Group.

26 Financial instruments

Group and Company

Categorisation of financial instruments

	2016 £	2015 £
Forward contract valuation through profit and loss	<u>(472,185)</u>	<u>(319,393)</u>
Forward contract valuation included in provision for liabilities and charges	<u>(1,012,288)</u>	<u>(540,103)</u>

27 Parent and ultimate parent undertaking

The ultimate parent company of SPP Pumps Limited is Kirloskar Brothers Limited, whose registered office is Udyog Bhavan, Tilak Road, Pune, India.

The intermediate parent company of SPP Pumps Limited is Kirloskar Brothers International BV, a company incorporated in the Netherlands.

The parent undertaking of the largest group of which the Company is a member and for which group financial statements are prepared for is Kirloskar Brothers Limited, a publicly listed company incorporated in India. Copies of these group financial statements can be obtained from the company's registered office at Udyog Bhavan, Tilak Road, Pune, India, or online at www.kirloskarpumps.com.