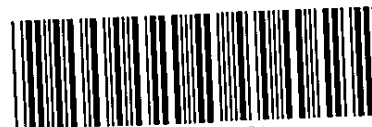


WEIR ENGINEERING SERVICES LIMITED

Report and Financial Statements

28 December 2012

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COMPANIES HOUSE

Weir Engineering Services Limited

Directors

P Crookes
W Currie
F Park

Secretary

M Murphy

Registered number

SC033381

Auditors

Ernst & Young LLP
5 George Square
Glasgow
G2 1DY

Bankers

The Royal Bank of Scotland
10 Gordon Street
Glasgow
G1 3PL

Registered office

Pegasus House
Bramah Avenue
Scottish Enterprise Technology Park
East Kilbride
G75 0RD

Weir Engineering Services Limited

DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements of Weir Engineering Services Limited (Registered Number SC033381) for the 52 week period ended 28 December 2012.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The Company is principally engaged in the provision of services on equipment in the power, oil and gas, industrial and water and waste water markets. Our service offering includes the overhaul, repair and upgrade process of critical pumps, valves, turbomachinery and hydro turbines in targeted geographical territories including major global refurbishment projects through key account relationship management and widening our global reach for servicing of P&I divisional product and continued support of O&G product in the North Sea.

In 2012 turnover for continuing operations remained constant. Whilst the majority of service revenue continues to be earned in core UK markets, an increasing proportion is derived from overseas markets. In particular revenues in Asia Pacific grew to 15% of the total business compared to 6% in the prior year. Operating profitability improved reflecting growth in main markets but was offset by the suspension of project work in Libya and reduced administration and distribution costs.

Taking into account the above there are various provisions in 2011 and dividends received in 2012 that are also reflected in the following KPI's:

	2012	2011	Change
	£000	£000	%
Turnover	85,329	85,609	-0.03%
Operating profit/(loss)	4,612	(475)	1071%
Profit/(loss) on ordinary activities before taxation	13,065	(3,206)	508%
Profit/(loss) for the financial year	11,952	(2,339)	611%
Net current assets as a percentage of sales	46%	43%	3%
Average number of employees	569	660	-14%

Going forward, opportunities exist to expand current service offerings such as actuators, coatings and engineered parts and service engineering innovation across territories and power sector. In addition, part of our service offering is management and execution of major power plant refurbishments.

Widening our service offering further through engineering innovation, supporting the aftermarket opportunities on the P&I Divisional product (mainly valves and speciality pumps) and collaborating with Weir businesses who have existing customer relationships that we can offer complementary service support.

Weir Engineering Services Limited

DIRECTORS' REPORT CONTINUED

RESULTS AND DIVIDEND

The profit for the year after tax amounted to £11,952,000 (2011: loss of £2,339,000) and has been transferred to reserves. Interim dividends were paid during the financial year of £9,466,000 (2011: £nil).

GOING CONCERN

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

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

The Company is ultimately owned by The Weir Group PLC and it participates in the group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries.

As a consequence, the Company depends, in part, on the ability of the group to continue as a going concern. The directors have considered the Company's funding relationship with The Weir Group PLC to date and have considered available relevant information relating to The Weir Group PLC's ability to continue as a going concern. In addition, the directors have no reason to believe that The Weir Group PLC will not continue to fund the Company, should it become necessary, to enable it to continue in operational existence.

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

PRINCIPAL RISKS

Risk is inherent in the business's activities and as a consequence of operating a sound risk management process the Company has identified the following principal risks and uncertainties, which it believes could have a materially adverse effect on its business, turnover, profit, assets, liquidity, resources and reputation.

The nature of risk is such that no list can be comprehensive and it is possible that other risks may arise, or that risks not currently considered material may become so in the future. The Company's parent company, The Weir Group PLC, operates controls as described in its Directors report to mitigate against these risks.

Political risks

The Company and its customers operate around the world including in the Middle East and Asia. While benefiting from the opportunities in these regions, the Company and its customers are exposed to the political and business risks associated with international operations, such as sudden changes in regulation, expropriation of assets, imposition of trade barriers and limits on the export of currency.

Product liability claims

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

DIRECTORS' REPORT CONTINUED

PRINCIPAL RISKS (CONTINUED)

Employee issues

Company performance depends on the skills and efforts of its employees and management team across all aspects of its business. The Company recognises that failing to attract new talent and retain existing expertise, knowledge and skills in design, operations and product areas could have a negative impact on its business.

Health & safety

The Company operates long established working practices and controls to minimise damage and injury. The Company has developed quality and safety processes that are regularly audited.

Customer relationships and supply chain

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

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments, as well as financial derivatives, comprise bank overdrafts, loans, and cash. The main purpose of these financial instruments is to manage the Company's funding and liquidity requirements. The Company has other financial instruments such as trade receivables and trade payables which arise directly from its operations. The principal financial risks to which the Company is exposed are those relating to foreign currency, commodity price, credit and liquidity. These risks are managed in accordance with Board approved policies.

Foreign currency risk

The Company buys and sells goods and services in currencies other than its functional currency. As a result, the Company's non sterling revenues, profits, assets, liabilities and cash flows can be affected by movements in exchange rates. The Company seeks to minimise its transaction exposure by maintaining a policy that forward foreign currency contracts are used to eliminate exposures on material committed transactions. It is Company policy not to engage in any speculative transaction of any kind.

Commodity price risk

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

Credit risk

The credit risk on liquid funds and derivative financial instruments is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies. The Company's credit risk is primarily attributable to its trade receivables and amounts due under completed contract work. The Company is exposed to risk over a large number of countries and customers and there is no significant concentration of risk. Where appropriate, the Company endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance. Credit worthiness checks are also undertaken before entering into contracts with new customers and credit limits are set as appropriate. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is an identifiable loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and inter group loans.

Weir Engineering Services Limited

DIRECTORS' REPORT CONTINUED

BOARD OF DIRECTORS

The directors of the Company during the year and at the date of this report were:

P Crookes
W Currie
F Park

DIRECTORS' INDEMNITIES

The Company's Articles of Association contain a provision that every director or other officer shall be indemnified against all losses and liabilities which they may incur in the course of acting as directors (or officers as the case may be) permitted by the Companies Act 2006, s.234 and s.235. These indemnities are uncapped in amount. The Company's holding company maintained directors and officers liability insurance throughout 2012 in respect of the Company's directors and officers.

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 correct invoice. At 28 December 2012, the Company had an average of ninety five days purchases outstanding in trade creditors.

RESEARCH AND DEVELOPMENT

Expenditure on research and development was directed to the expansion and efficiency improvements of existing product ranges.

EMPLOYEE INVOLVEMENT

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

EMPLOYMENT OF DISABLED PERSONS

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

BRANCHES OUTSIDE THE UK

The Company continues to operate a branch in Libya.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

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

Weir Engineering Services Limited

DIRECTORS' REPORT CONTINUED

AUDITORS

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'William Currie', with a stylized flourish at the end.

W Currie
Director

31 July 2013

Weir Engineering Services Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that 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 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 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 WEIR ENGINEERING SERVICES LIMITED

We have audited the financial statements of Weir Engineering Services Limited for the 52 weeks ended 28 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profit and Losses, the Balance Sheet and the related notes 1 to 26. 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).

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 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 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 Report and Financial Statements 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 28 December 2012 and of its profit for the 52 weeks 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 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 TO THE MEMBERS OF WEIR
ENGINEERING SERVICES LIMITED (CONTINUED)

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.

Ernst & Young LLP

Ian McDowall (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Glasgow

31 July 2013

Weir Engineering Services Limited

PROFIT AND LOSS ACCOUNT

for the 52 weeks ended 28 December 2012

	<i>Notes</i>	<i>2012 £000</i>	<i>2011 £000</i>
TURNOVER			
– Continuing operations	2	85,329	85,609
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS			
– Continuing operations	3	4,612	1,525
Provision for Libyan working capital balances	3	-	(2,000)
OPERATING PROFIT/(LOSS)			
– Continuing operations	3	4,612	(475)
Non-operating exceptional items:			
Provision for impairment of investment		-	(902)
Loss on discontinued operations	6	-	(1,785)
Restructuring costs		(875)	-
Dividends received		9,391	-
PROFIT/(LOSS) BEFORE INTEREST AND TAX		13,128	(3,162)
Interest payable	4	(63)	(44)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX		13,065	(3,206)
Tax (charge)/credit on profit on ordinary activities	5	(1,113)	867
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	20	11,952	(2,339)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 52 weeks ended 28 December 2012

	<i>2012 £000</i>	<i>2011 £000</i>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	11,952	(2,339)
Amortisation of property revaluation surplus	(36)	(135)
Adjustment to revaluation reserve	(1,205)	-
TOTAL RECOGNISED GAINS AND LOSSES FOR THE FINANCIAL YEAR	10,711	(2,474)

Weir Engineering Services Limited

NOTE OF HISTORICAL COST PROFITS AND LOSSES for the 52 weeks ended 28 December 2012

	<i>2012</i> <i>£000</i>	<i>2011</i> <i>£000</i>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX	13,065	(3,206)
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the re-valued amount	36	135
HISTORICAL COST PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX	<u>13,101</u>	<u>(3,071)</u>
HISTORICAL COST PROFIT/(LOSS) FOR THE FINANCIAL YEAR	<u>11,988</u>	<u>(3,197)</u>

Weir Engineering Services Limited

BALANCE SHEET

at 28 December 2012

	Notes	2012 £000	2011 £000
FIXED ASSETS			
Intangible assets	9	1,649	1,846
Tangible assets	10	9,693	10,608
Investments in subsidiary companies	11	44,519	44,519
		<u>55,861</u>	<u>56,973</u>
CURRENT ASSETS			
Stocks	12	5,992	7,375
Debtors	13	30,914	28,033
Loans to group companies	14	7,594	-
Other amounts owed by group companies	14	2,230	1,291
Cash at bank and in hand		21,081	30,273
		<u>67,811</u>	<u>66,972</u>
CREDITORS : amounts falling due within one year			
Other creditors	15	(24,831)	(25,651)
Loans from group companies	16	(2,378)	(3,130)
Other amounts owed to group companies	17	(1,048)	(1,714)
		<u>(28,257)</u>	<u>(30,495)</u>
NET CURRENT ASSETS		<u>39,554</u>	<u>36,477</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>95,415</u>	<u>93,450</u>
PROVISIONS FOR LIABILITIES	18	(1,082)	(1,586)
ACCRUALS AND DEFERRED INCOME			
Deferred government grants		(7)	(24)
		<u>(1,089)</u>	<u>(1,610)</u>
		<u>94,326</u>	<u>91,840</u>
CAPITAL AND RESERVES			
Called up share capital	19	7,413	7,413
Share premium account	20	1,966	1,966
Revaluation reserve	20	92	1,333
Profit and loss account	20	84,855	81,128
SHAREHOLDERS' FUNDS	21	<u>94,326</u>	<u>91,840</u>

On behalf of the Board



W Currie
Director

31 July 2013

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 28 December 2012

1. ACCOUNTING POLICIES

Basis of preparation

The company financial statements have been prepared in accordance with UK GAAP and applicable accounting standards. The true and fair override provisions of the Companies Act 2006 have been invoked, see 'investment properties' below.

The financial statements are prepared under the historical cost convention modified to include the revaluation of investment properties.

As permitted by s400 of the Companies Act 2006, consolidated financial statements have not been prepared, as the Company is a wholly owned subsidiary of The Weir Group PLC.

Cash flow

The company is exempt from the requirement to prepare a cash flow statement under FRS1 (revised) on the grounds that it is a wholly owned subsidiary.

Fixed assets

Intangible

Goodwill is amortised through the profit and loss account by equal annual instalments over the estimate of its useful economic life.

Tangible

Freehold land and buildings are stated at valuation in 1978 with subsequent additions at cost. Other fixed assets are stated at cost. Depreciation is calculated to write off the cost or valuation of each tangible fixed asset over its estimated useful life by equal annual instalments, at the following rates:

Freehold land	nil
Freehold buildings	2.5%
Plant and equipment	5% to 25%

Investment property

In December 2011, the company disposed of the former Weir Pumps site at Cathcart, which had been treated as an investment property since the disposal of the Weir Pumps business in 2007, to SPX Clyde UK Limited. Up to the date of disposal, rental income was generated from Clyde Union Ltd. The rental income included in the income statement amounts to £nil (2011: £2.25m).

Government grants

Grants related to expenditure on tangible assets are credited to profit at the same rate as depreciation is charged on the assets to which the grants relate. The grants shown in the balance sheet consist of the total grants receivable to date, less the amounts so far credited to profit.

Grants of a revenue nature are credited to income in the period to which they relate.

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks of raw materials, components and short term work-in-progress are stated at the lower of cost and net realisable value. Provision is made for all foreseeable losses and, in the case of stocks of raw materials and components, due allowance is made for obsolete and slow moving items. Claims for progress payments received and receivable are deducted from the value of work-in-progress, or, to the extent that they exceed cost or net realisable value, are disclosed separately under other creditors as payments received on account.

Cost comprises direct materials, on a first-in, first-out basis, and direct labour plus attributable production overheads based on a normal level of activity. Net realisable value is based on estimated selling price less anticipated costs to disposal.

Contracts

A contract is defined as short term where the supply is completed within one year. The supply of separately identifiable assets/services under a contract is regarded as the completion of these assets/services under separate contracts. When these assets/services are completed, the amounts which are receivable including related profit, but which are not yet due in terms of contracts with customers, are separately disclosed as completed contract work.

Retentions on work completed are included in trade debtors.

Experimental and product development expenditure

Experimental and product development expenditure is written off in the year in which it is incurred.

Leasing

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

Share-based payments

Equity settled share-based incentives are provided to certain employees of the company under a long-term incentive plan operated by its ultimate parent company, The Weir Group PLC. The company recognises an expense in respect of shares awarded under the plan. This expense, which is based on the fair value of the awards, is recognised in the profit and loss account.

The fair value of the awards is determined at the date of grant and is not subsequently re-measured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using appropriate option pricing models and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or non-market performance conditions.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Profits and losses of branches which have currencies of operation other than sterling are translated into sterling at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated at the year end exchange rates. Exchange differences arising from the retranslation of the opening net assets of branches which have currencies of operation other than sterling and any related loans are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end.

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

1. ACCOUNTING POLICIES (continued)

Deferred tax

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, joint ventures and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Retirement benefits

The company and other UK subsidiaries of The Weir Group PLC participate in multi-employer defined benefit pension plans which are set up under separate trusts. These plans are operated on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities and, in accordance with FRS17, the company accounts for its contributions to these plans as if they are defined contribution plans. Contributions to defined contribution plans are charged to the profit and loss account when they become payable.

Revenue recognition

For the sale of goods revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

For services revenue is recognised by reference to stage completion. The stage completion of contracts is measured by reference to costs incurred to date as a percentage of total estimated costs for the contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

2. TURNOVER AND PROFIT BEFORE TAXATION

Turnover represents the amount invoiced to third parties in respect of goods sold and services provided excluding value added tax. In the case of contracts, it represents the value of work completed during the year.

An analysis of turnover by geographical market has not been disclosed. The directors are of the opinion that to disclose such information could be seriously prejudicial to the interests of the company.

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

3. PROFIT BEFORE INTEREST AND TAX – CONTINUING OPERATIONS

	2012 £000	2011 £000
(a) Movement between turnover and profit:		
Turnover	85,329	85,609
Cost of sales	(73,097)	(74,176)
Gross profit	12,232	11,433
Distribution costs	(4,575)	(3,780)
Administrative expenses	(2,932)	(7,235)
Other operating (expense)/income	(113)	1,107
Profit before interest and tax	4,612	1,525
Provision for Libyan working capital balances	-	(2,000)
Operating profit/(loss)	4,612	(475)

A provision for £2m was recognised on the net working capital of certain contracts being undertaken in Libya.

(b) Profit before interest and tax is after charging/(crediting):

	2012 £000	2011 £000
Depreciation of owned assets	1,681	1,707
Government grant credits	(17)	(17)
Amortisation of intangible assets	197	197
Gain on disposal of fixed assets	(47)	(7)
Auditors' remuneration and expenses - audit services	49	49

	2012 £000	2011 £000
(c) Operating lease rentals:		
The profit before interest and tax is after charging operating lease rentals of	1,733	1,781
of which hire of plant and machinery amounts to	1,051	1,036

4. INTEREST PAYABLE

	2012 £000	2011 £000
Interest payable on borrowings repayable within 1 year:		
Loans from group companies	4	33
Other interest payable	59	11
	63	44

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

5. TAXATION

(a) Tax on profit/(loss) on ordinary activities

The tax charge/(credit) is made up as follows:

	2012 £000	2011 £000
Current tax:		
UK corporation tax		
For current year	486	(118)
Under/(over) provided in previous years	536	(85)
Total current tax charge/(credit)	1,022	(203)
Deferred tax:		
Origination and reversal of timing differences and adjustments to deferred tax assets	58	(660)
Impact of reduction in tax rate	33	(4)
Total deferred tax	91	(664)
Tax charge/(credit) on profit/(loss) on ordinary activities	1,113	(867)

(b) Factors affecting the current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%). The differences are reconciled below.

	2012 £000	2011 £000
Profit/(loss) on ordinary activities before tax	13,065	(3,206)
Profit/(loss) on ordinary activities multiplied by standard rate of		
Corporation tax in the UK of 24.5% (2011 – 26.5%)	3,201	(850)
Permanent differences	(2,736)	(143)
Timing differences	21	875
Taxation under/(over) provided in previous years:		
UK corporation tax	536	(85)
Total current tax charge/(credit) (Note 5(a))	1,022	(203)

(c) Factors that may affect future tax charges

A number of changes to the UK corporation tax system were announced in the March 2012 Budget Statement such that the main rate of corporation tax will be reduced by 2% (to 24%) with effect from 1 April 2012. As of that date this change has been substantively enacted. Further 1% cuts have been announced which are expected to result in a 22% rate by April 2014. We expect that these further reductions will not have a material effect on the effective tax rate or on the profit for the year in future periods.

The proposed reduction to 24% is not expected to have a material impact.

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

5. TAXATION (CONTINUED)

(d) Balance sheet - deferred tax (note 13)

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

	2012 £000	2011 £000
Accelerated capital allowances	(264)	(320)
Other timing differences	822	969
Deferred tax receivable	<u>558</u>	<u>649</u>

6. DISCONTINUED OPERATIONS

In December 2011, the company disposed of the former Weir Pumps site at Cathcart to SPX Clyde UK Limited for cash proceeds of £25.0m. This resulted in 2011 in a net loss on disposal of £1,785,000 after taking account of disposal costs and other costs arising from discontinued operations. Since the property was used by the Weir Pumps business, which was sold in 2007, the net loss is shown as a loss from discontinued operations.

7. DIRECTORS AND EMPLOYEES

	2012 No.	2011 No.
Average number of persons employed:		
Direct	307	388
Indirect	<u>262</u>	<u>272</u>
	<u>569</u>	<u>660</u>
	£000	£000
Staff costs:		
Wages and salaries	31,025	31,433
Social security costs	3,224	3,468
Other pension costs	<u>576</u>	<u>1,108</u>
	<u>34,825</u>	<u>36,009</u>

The share awards are conditional awards to acquire free shares, subject to The Weir Group PLC's performance. In 2012, conditional awards of performance shares were made worth 47% (2011: 45%) of salary to the employees that participate. The shares only vest if a highly demanding performance condition is achieved.

For awards granted in 2010, 2011 and 2012, the performance condition was 50% based on the growth in the Group's TSR over a single three year performance period (three consecutive financial years, beginning with the year in which the award is made) relative to the growth in the TSR of a comparator group and 50% based on earnings per share growth (adjusted to exclude intangibles amortisation and exceptional items).

Only if the company's TSR ranks in the upper quintile of a comparator group will the full awards be receivable. This reduces on a sliding scale so that for median performance, 25% of the awards will be receivable. For below median performance, none of the awards will be receivable.

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

7. DIRECTORS AND EMPLOYEES (CONTINUED)

The EPS targets for awards made in 2010, 2011 and 2012 are as follows:

2010			2011			2012		
EPS Growth	% of portion of the award that vests	EPS that	EPS Growth	% of portion of the award that vests	EPS that	EPS Growth	% of portion of the award that vests	EPS that
11% p.a.	100%		15% p.a.	100%		15% p.a.	100%	
4% p.a.	25%		7% p.a.	25%		7% p.a.	25%	
Less than 4% p.a.	0%		Less than 7% p.a.	0%		Less than 7% p.a.	0%	

The total expense recognised for the period in relation to share-based payments was £68,192 (2011: £161,629).

The fair value of the conditional under the LTIP has been estimated using the Monte Carlo simulation model. The following table gives the assumptions made during 2011 and 2012.

	2012	2011
Weighted average dividend yield (%)	-	-
Weighted average expected volatility (%)	40.00	50.00
Weighted average expected life (years)	3.00	3.00
Weighted average risk free rate (%)	0.53	1.66
Weighted average share price (£)	19.43	16.13
Weighted average fair value (£)	14.32	12.69

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may also not necessarily be the actual outcome. Market related performance conditions have been taken into account in the calculation of fair values.

Full details of the group long-term incentive plan are provided in the Annual Report of The Weir Group PLC, a copy of which can be obtained from the address given in note 26.

	2012 £000	2011 £000
Aggregate emoluments of directors	662	563
Aggregate compensation for loss of office	-	101
Aggregate company contributions to defined benefit pension plans	35	35
Aggregate company contributions to defined contribution pension plans	15	6
Aggregate payments in respect of long term incentive schemes	281	293

	2012 No.	2011 No.
Number of directors to whom retirement benefits are accruing under:		
Money purchase schemes	1	1
Defined benefit schemes	1	1
Number of directors exercising share options in the year	3	4

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

7. DIRECTORS AND EMPLOYEES (CONTINUED)

	2012	2011
Emoluments (£)	295,639	244,461
Share options exercised during the year	118,855	59,355

8. RETIREMENT BENEFITS

The Company participates in the defined benefit plan arrangements within The Weir Group Pension and Retirement Savings Scheme and The Weir Group 1972 Pensions and Life Assurance Plan for Senior Executives. These defined benefit plans are funded multi employer plans which are operated by The Weir Group PLC and which are run on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities. In accordance with FRS17, the Company accounts for its contributions to these plans as if they were defined contribution plans. While assets and liabilities in respect of these plans are not reflected on the Company's balance sheet, details of these are set out below.

Pension contributions are determined with the advice of independent qualified actuaries on the basis of annual valuations using the projected unit method. The Weir Group PLC made special contributions of £7,500,000 in 2012 (2011: £6,600,000) in addition to the employers' regular contributions. The special contributions for 2013 are expected to be £12,100,000, reducing to £9,600,000 in 2014. The total contributions to the defined benefit plans in 2013 are expected to be £14,353,000.

Plan assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers forecasts to each category of plan assets and allowing for plan expenses. The actual return on plan assets in the year was a gain of £63,530,000 (2011: £31,749,000).

The assets and liabilities of the plans and the long term expected rates of return are:

	2012 %	2012 £000	2011 %	2011 £000
Equities	6.8	156,811	7.6	150,224
Bonds	3.4	121,289	3.4	91,418
Real Estate	-	-	4.3	1,855
Insurance policy	4.3	348,220	4.8	335,419
Other	0.5	7,643	2.6	12,814
Fair value of plan assets		633,963		591,730
Present value of plan liabilities		(708,557)		(660,992)
Net deficit in the plans		(74,594)		(69,262)

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

8. RETIREMENT BENEFITS (CONTINUED)

	2012 £000	2011 £000
<i>Recognised in the profit & loss account</i>		
Current service cost	2,051	1,384
Past service gain	-	(19,000)
Expected return on plan assets	(30,451)	(32,228)
Interest cost on plan liabilities	31,045	33,002
Other finance costs	594	774
	2012 £000	2011 £000
<i>Taken to the statement of total recognised gains & losses</i>		
Actual return on plan assets	63,530	31,749
Less: expected return on plan assets	(30,451)	(32,228)
	33,079	(479)
Other actuarial losses	(45,300)	(41,678)
Actuarial losses recognised in the statement of total recognised gains & losses	(12,221)	(42,157)

The major assumptions used by the actuary were as follows

	2012 %	2011 %
Rate of increase in salaries	2.9	3.1
Rate of increase for pensions in payment		
Pre 6 April 2006 service	2.9	2.9
Post 6 April 2006 service	2.1	1.9
Discount rate	4.3	4.8
Retail Prices Inflation assumption	2.9	3.1
Consumer Prices Inflation assumption	2.2	2.2

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

8. RETIREMENT BENEFITS (CONTINUED)

The mortality assumptions used were as follows

	2012 Years	2011 Years
Post-retirement mortality		
Current pensioners at 65 - male	21.8	20.9
Current pensioners at 65 - female	24.3	23.7
Future pensioners at 65 - male	23.6	23.0
Future pensioners at 65 - female	26.3	25.8

The post-retirement mortality assumptions allow for expected increases in longevity. The "current" disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with "future" being that relating to an employee retiring in 2032 (in 20 years time).

Changes in the present value of the defined benefit obligations are analysed as follows.

	2012 £000	2011 £000
Opening defined benefit obligations	660,992	632,590
Current service cost	2,051	1,384
Past service gain	-	(19,000)
Interest cost	31,045	33,002
Benefits paid	(30,886)	(29,452)
Contributions by employees	55	790
Actuarial losses	45,300	41,678
Closing defined benefit obligations	<u>708,557</u>	<u>660,992</u>

Changes in the fair value of plan assets are analysed as follows.

	2012 £000	2011 £000
Opening plan assets	591,730	580,621
Expected return on plan assets	30,451	32,228
Employer contributions	9,534	8,022
Contributions by employees	55	790
Benefits paid	(30,886)	(29,452)
Actuarial gains	33,079	(479)
Closing plan assets	<u>633,963</u>	<u>591,730</u>

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

8. RETIREMENT BENEFITS (CONTINUED)

The past service gain for 2011 of £19.0m was as a result of a decision by the Trustees of The Weir Group Pension and Retirement Saving Scheme that, following the Government's recent change in legislation, certain elements of pension will now increase in line with Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This decision was announced to the members of the scheme in July 2011. The past service gain has been recognised as an exceptional item in The Weir Group PLC's Consolidated Income Statement.

History of experience gains & losses

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Fair value of plan assets	633,963	591,730	580,621	539,825	487,759
Present value of defined benefit obligation	(708,557)	(660,992)	(632,590)	(599,162)	(500,302)
(Deficit)/surplus in the plans	(74,594)	(69,262)	(51,969)	(59,337)	(12,543)
Experience adjustments arising on plan liabilities	14,547	865	(2,793)	(10,576)	(9,998)
Changes in assumptions underlying plan liabilities	(59,847)	(42,543)	(22,309)	(111,475)	70,620
Experience adjustments arising on plan assets	33,079	(479)	24,011	64,443	(119,801)

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £264,956,000 (2011 £252,735,000).

9. INTANGIBLE ASSETS

	£000
Cost of goodwill:	
At 31 December 2011 and 28 December 2012	<u>3,856</u>
Amortisation:	
At 31 December 2011	2,010
Charge for the period	<u>197</u>
At 28 December 2012	<u>2,207</u>
Net book value:	
At 28 December 2012	<u>1,649</u>
At 31 December 2011	<u>1,846</u>

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

10. TANGIBLE ASSETS

	<i>Freehold land and buildings £000</i>	<i>Plant and equipment £000</i>	<i>Total tangible assets £000</i>
Cost or valuation:			
At 31 December 2011	8,036	13,902	21,938
Additions	125	683	808
Disposals	(9)	(97)	(106)
Transfers	-	-	-
At 28 December 2012	<u>8,152</u>	<u>14,488</u>	<u>22,640</u>
Whereof:			
Cost	8,088	-	8,088
Valuation (1978)	64	-	64
	<u>8,152</u>	<u>-</u>	<u>8,152</u>
Aggregate depreciation:			
At 31 December 2011	2,339	8,991	11,330
Charge for year	330	1,350	1,680
Disposals	(1)	(62)	(63)
Transfers	-	-	-
At 28 December 2012	<u>2,668</u>	<u>10,279</u>	<u>12,947</u>
Net book value:			
At 28 December 2012	<u>5,484</u>	<u>4,209</u>	<u>9,693</u>
At 31 December 2011	<u>5,697</u>	<u>4,911</u>	<u>10,608</u>

In December 2011, the company disposed of the former Weir Pumps site at Cathcart, which has been treated as an investment property since the disposal of the Weir Pumps business in 2007, to SPX Clyde UK Limited. Up to the date of disposal, rental income was generated from Clyde Union Ltd. The rental income included in the income statement amounts to £nil (2011: £2.25m).

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED For the 52 weeks ended 28 December 2012

11. INVESTMENT IN SUBSIDIARY COMPANIES AND ASSOCIATED UNDERTAKINGS

	£000
Cost of Investments:	
At 31 December 2011 & at 28 December 2012	44,519
Provision for impairment	
Provided during the financial year	-
At 28 December 2012	-
At 28 December 2012	44,519
At 30 December 2011	44,519

At the year end, the Company held an interest in the following companies:

<i>Subsidiaries and associated undertakings</i>	<i>Country of incorporation</i>	<i>Class of shares held</i>	<i>Percentage held</i>
Weir Pumps Limited	UK	Ordinary	100%
PSL International Limited	UK	Ordinary	100%
CH Warman Asia Limited	Malta	Ordinary	29.45%

The Company also indirectly owns a number of subsidiary undertakings. The Company has taken advantage of the exemption under s410 of the Companies Act 2006 from disclosure of all subsidiary and associated undertakings. A complete list of subsidiary and associated undertakings will be attached to the next annual return of the Company to be filed at Companies House.

12. STOCKS

	2012 £000	2011 £000
The main categories of stocks are:		
Raw materials and components	1,774	1,458
Short term work-in-progress	4,218	5,917
	5,992	7,375

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

13. DEBTORS

	2012 £000	2011 £000
Trade debtors	21,079	19,166
Other debtors	8,073	7,315
Prepayments and accrued income	1,204	785
Current corporation tax	-	118
Deferred corporation tax (note 5(d))	558	649
	<u>30,914</u>	<u>28,033</u>

Within the above, there are no trade debtors receivable after more than one year (2011 - £ nil).

14. OTHER AMOUNTS OWED BY GROUP COMPANIES

	2012 £000	2011 £000
Parent undertakings	600	58
Fellow subsidiary undertakings	<u>1,630</u>	<u>1,233</u>
	<u>2,230</u>	<u>1,291</u>

LOANS FROM GROUP COMPANIES

	2012 £000	2011 £000
Unsecured:		
Amounts falling due within one year		
Parent undertakings	<u>7,594</u>	<u>-</u>
	<u>7,594</u>	<u>-</u>

Other loans are non-interest bearing and repayable on demand.

15. OTHER CREDITORS

	2012 £000	2011 £000
Payments received in advance	1,479	3,196
Trade creditors	13,436	11,713
Other taxes and social security costs	827	915
Other creditors	2,098	2,211
Accruals and deferred income	6,370	7,616
Corporation tax	<u>621</u>	<u>-</u>
	<u>24,831</u>	<u>25,651</u>

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

16. LOANS TO GROUP COMPANIES

	2012 £000	2011 £000
Unsecured:		
Amounts falling due within one year		
Subsidiary undertaking	1,519	1,519
Fellow subsidiary undertakings	859	1,611
	<u>2,378</u>	<u>3,130</u>

Other loans are non-interest bearing and repayable on demand.

17. OTHER AMOUNTS OWED TO GROUP COMPANIES

	2012 £000	2011 £000
Parent undertaking	-	643
Fellow subsidiary undertakings	1,048	1,071
	<u>1,048</u>	<u>1,714</u>

18. PROVISIONS FOR LIABILITIES

	Warranties £000	Other £000	Total £000
At 31 December 2011	373	1,213	1,586
Additions	304	-	304
Released - utilised	(230)	(536)	(766)
- unutilised	(42)	-	(42)
At 28 December 2012	<u>405</u>	<u>677</u>	<u>1,082</u>

Warranty provisions include provisions for expected warranty and contract penalty claims on products sold and services provided. It is expected that all costs related to such claims will have been incurred within five years of the balance sheet date. The "Other" provisions are for Discontinued operations and will be utilised by the end of 2014

19. SHARE CAPITAL

	2012 £000	2011 £000
Allotted, called up and fully paid:		
Ordinary shares of £1 each	<u>7,413</u>	<u>7,413</u>

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

20. RESERVES

	<i>Share premium account £000</i>	<i>Revaluation reserve £000</i>	<i>Profit and loss account £000</i>
At 31 December 2011	1,966	1,333	81,128
Amortisation of property revaluation surplus	-	(36)	36
Profit for the financial year	-	-	11,952
Dividends paid in the year			(9,466)
Adjustment to revaluation reserve		(1,205)	1,205
At 28 December 2012	<u>1,966</u>	<u>92</u>	<u>84,855</u>

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>2012 £000</i>	<i>2011 £000</i>
Opening shareholders' funds	91,840	94,179
Profit/(loss) for the financial year	11,952	(2,339)
Dividends paid	(9,466)	-
Closing shareholders' funds	<u>94,326</u>	<u>91,840</u>

22. CAPITAL COMMITMENTS

	<i>2012 £000</i>	<i>2011 £000</i>
Outstanding capital commitments, before deduction of government grants, were as follows:		
Contracted but not provided	<u>33</u>	<u>Nil</u>

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

23. LEASING COMMITMENTS

	2012 £000	2011 £000
Operating leases		
As at 28 December 2012 committed payments for 2012 under operating leases amounted to:		
Buildings	2,967	585
Other	1,541	825
	<u>4,508</u>	<u>1,410</u>
of which payable in respect of commitments ending:		
within one year	1,351	181
between one and two years	1,069	218
between two and five years	1,644	532
after five years	444	479
	<u>4,508</u>	<u>1,410</u>

24. CONTINGENT LIABILITIES

The company has given guarantees in relation to the bank and other borrowings of certain subsidiary companies. The net debt of the other companies party to these facilities at 28 December 2012 amounted to £16,286,000 (2011 - £29,635,000).

25. RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of The Weir Group PLC group. The total amount of transactions which have been entered into with non wholly owned related parties for the relevant financial year and outstanding balances at the period end are as follows :

	2012 £000	2011 £000
Weir SOS :		
Sales	3	28
Management charges	160	178
	<u>163</u>	<u>206</u>
Total transactions		
	<u>7</u>	<u>18</u>

Weir Engineering Services Limited

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the 52 weeks ended 28 December 2012

25. RELATED PARTY DISCLOSURES (CONTINUED)

	<i>2012</i> <i>£000</i>	<i>2011</i> <i>£000</i>
Weir International :		
Sales	-	-
Management charges	312	-
Total transactions	312	-
Amounts due	312	-

26. ULTIMATE PARENT COMPANY

The directors report that The Weir Group PLC (registered in Scotland) is the company's ultimate parent company. This is the only parent undertaking for which group accounts are drawn up and of which the company is a member. The address from which copies of these accounts are available to the public is:

The Weir Group PLC, 4th Floor, Clydesdale Bank Exchange, 20 Waterloo Street, Glasgow, G2 6DB.