

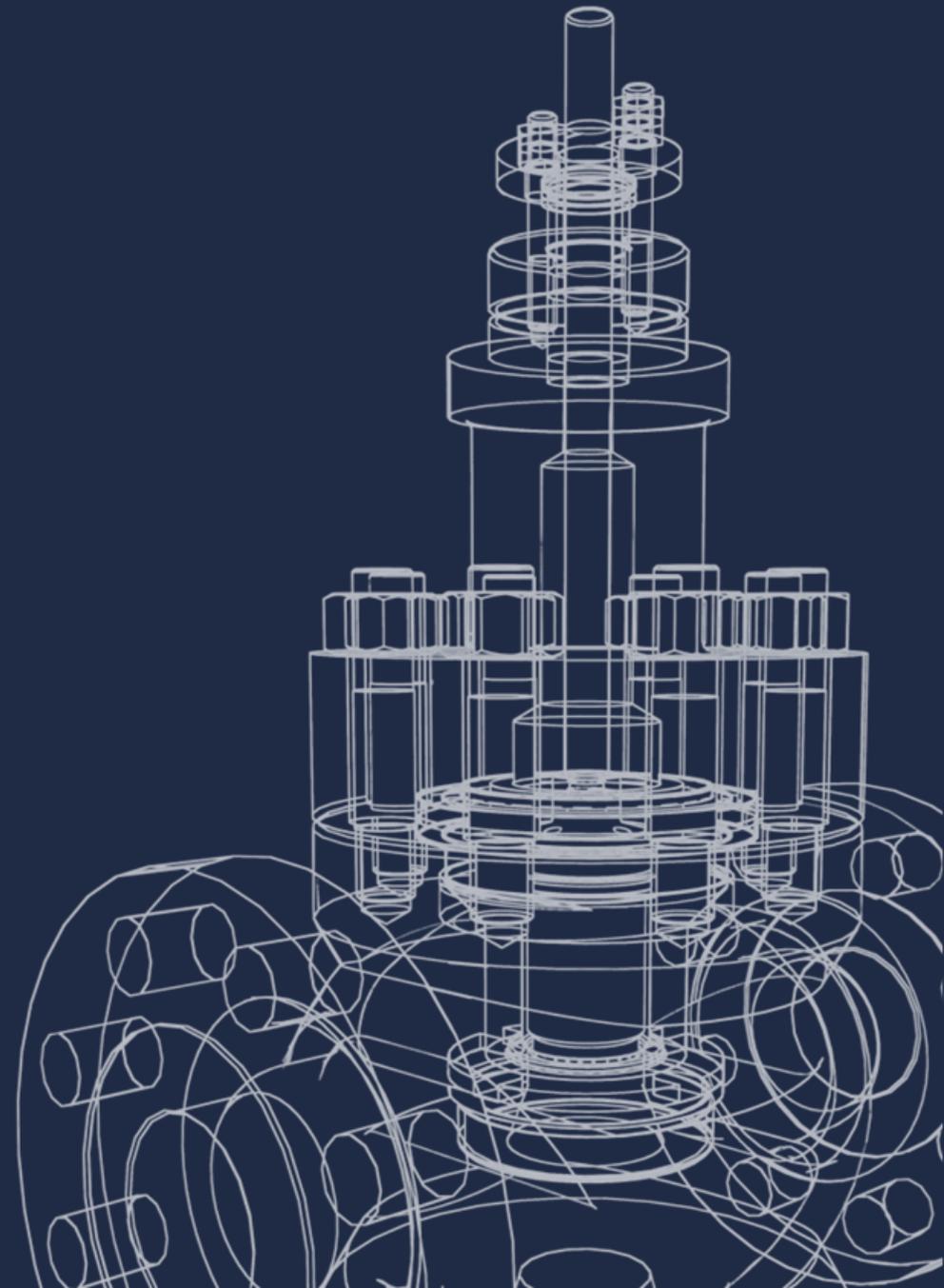


SEVERN
Superior Valve Engineering

Transfer Pricing Policy

An overview of the Policy and how it is applied

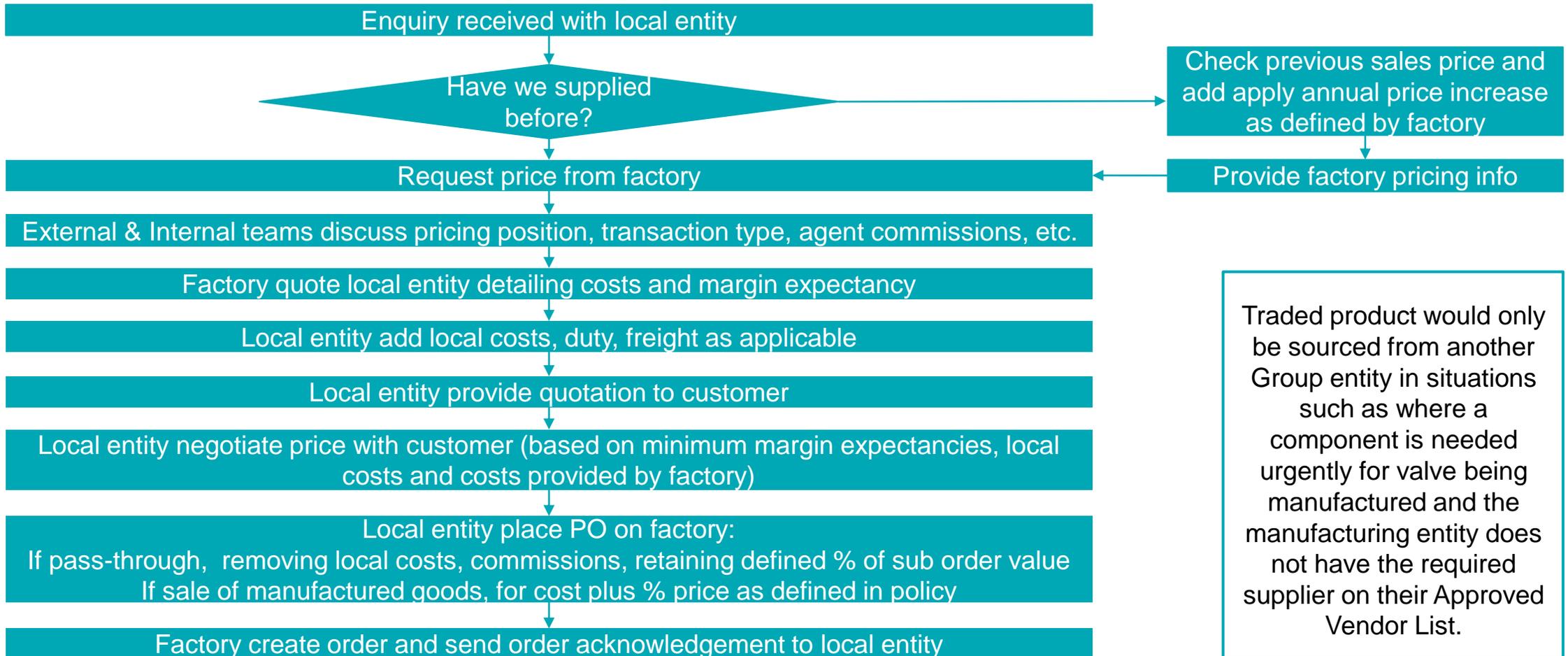
It all flows from expertise.



Introduction

- A framework for dealing with all intercompany transactions within the Group.
- Informed by KPMG report, which followed the context of OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations to determine transfer prices using the arm's length principle.
- The broad categories of transactions encompassed by the Policy are:
 - 1) Valve Sales
 - Sales of manufactured goods
 - Pass-through sales
 - 2) Customer referrals
 - 3) Spares and service sales
 - 4) Provision of valve design, strategic and other support services
 - 5) Provision of manufactured components
 - 6) Warranty support
- Any deviation from this Policy must be approved in writing by the Chief Financial Officer

Process – Products & Service – Manufactured Product



Traded product would only be sourced from another Group entity in situations such as where a component is needed urgently for valve being manufactured and the manufacturing entity does not have the required supplier on their Approved Vendor List.

Transaction Types – Products & Service

- **Valve Sales – Sale of Manufactured Goods** – There is a significant contribution from the order taking entity.
 - Between manufacturing entities only.
 - For Indian manufactured goods – fully loaded cost plus 12%
 - For UK manufactured goods – fully loaded cost plus 8%
 - Margin achieved by order-taking entity is variable dependent on the selling price to the customer versus our total costs. This is expected to be in the region of what is targeted for traded products in the Commercial Management Rules of the Road.
- **Valve Sales – Pass-through** – There is a very little contribution from the order taking entity.
 - A fee of 3% is retained by the order-taking entity
- **Customer referrals** –
 - For all referrals, a referral fee of 5% of the related sales value.
- **Spares Sales** –
 - A fee of 15% is retained by the order-taking entity
- **Service Sales** –
 - A fee of 5% is retained by the order-taking entity where the service work is referred to a different entity
 - A fee of cost plus 5% is charged by an entity which acts as a support function to aid in completion of a customer service order which is led by another entity

Transaction Types – Products & Service

				Supplier of Good or Services				
				Severn Glocon		Bentley	Regions	
				UK Manufacturer	Indian Manufacturer	UK Manufacturer		
Order-taking Entity	Severn Glocon	UK Manufacturer	Valves	Cost plus 8% or 3% Retention	Cost plus 12% or 3% Retention	Cost plus 8% or 3% Retention	N/A	
			Service	5% Retention	5% Retention	5% Retention	5% Retention	
			Spares	15% Retention	15% Retention	15% Retention	N/A	
		Indian Manufacturer	Valves	Cost plus 8% or 3% Retention	N/A	Cost plus 8% or 3% Retention	N/A	
			Service	5% Retention	5% Retention	5% Retention	5% Retention	
			Spares	15% Retention	N/A	15% Retention	N/A	
	Bentley	UK Manufacturer	Valves	Cost plus 8% or 3% Retention	Cost plus 12% or 3% Retention	N/A	N/A	
			Service	5% Retention	5% Retention	N/A	5% Retention	
			Spares	15% Retention	15% Retention	N/A	N/A	
	Regions			Valves	3% Retention	3% Retention	5% Retention	N/A
				Service	5% Retention	5% Retention	5% Retention	5% Retention
				Spares	15% Retention	15% Retention	15% Retention	N/A

Transaction Types - Other

- Provision of Valve Design, Strategic & Other Support Services –
 - International Sales Team & shared resources – defined and agreed during budgeting, recharged at cost plus 5%
 - Senior management, legal & financial services, other support services – recharged at cost plus 5%
 - Valve design and technical support services – recharged at cost plus 15%
 - Ad hoc operational/project requirements
 - Labour/Paint/Administration: £20 / \$28
 - Drawing Office / Fitting / Contracts – £25 / \$35
 - Managerial – £35 / \$50
 - Machining – £56 / \$78
- Provision of Manufactured Components –
 - Cost plus 20%
- Warranty Support –
 - Cost plus 5%

Additional Points

- No charge or credit for less than £100
- Financial check over £250k. Division responsible.
- Currencies should be consistent with the customer PO
- Only two Group entities should be involved in any one chain.
- Order-taking entity responsible for commissions, bonds
- Responsibility for LD's:

Reminders

- Mutually agree the transaction type upfront
- Internal and external teams must discuss pricing position
- Never charge more internally than we would to the customer

Transaction Type		Responsibility
Valve Sales	Sales of manufactured goods	Shared
	Pass-through sales	Manufacturing Entity
Customer referrals		Manufacturing Entity
Spares and service sales		Manufacturing Entity
Provision of valve design, strategic and other support services		Not applicable
Provision of manufactured components		Arbitration approach in the event of a claim
Warranty support		Not applicable