

# The Weir Group PLC Financial Statements

for the 52 weeks ended 28 December 2007

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# Directors Statement of Responsibilities

The directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent Auditors Report

## Independent auditors report to the members of The Weir Group PLC

We have audited the Group financial statements of The Weir Group PLC for the 52 weeks ended 28 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income & Expense and the related notes 1 to 32. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Company financial statements of The Weir Group PLC for the 52 weeks ended 28 December 2007 and on the information in the Remuneration Committee Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors 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 & auditors

The directors responsibilities for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Directors Statement of Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors Report is consistent with the financial statements. The information given in the Directors Report includes information that is contained in the Chairman's Statement, the Chief Executive's Review, the Operational Review, the Financial Review and the Corporate Social Responsibility Report that is cross referred from the Directors Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Financial Highlights 2007, 2007 Highlights, the Chairman's Statement, Our Geographic Footprint, the Chief Executive's Review, the Operational Review, the Financial Review, the Board of Directors, the Directors Report, the Corporate Governance Statement, the Audit Committee Report, the Nomination Committee Report, the unaudited part of the Remuneration Committee Report and the Corporate Social Responsibility Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

## Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 28 December 2007 and of its profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors Report is consistent with the Group financial statements.

## Ernst & Young LLP

Registered Auditor  
Glasgow  
11 March 2008

# Consolidated Income Statement

for the 52 weeks ended 28 December 2007

	Notes	52 weeks ended 28 December 2007			52 weeks ended 29 December 2006		
		Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation (note 5) £m	Total £m	Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation (note 5) £m	Total £m
<b>Continuing operations</b>							
<b>Revenue</b>	3	<b>1,060.6</b>	-	<b>1,060.6</b>	870.4	-	870.4
<b>Continuing operations</b>							
Operating profit		<b>118.7</b>	<b>(6.2)</b>	<b>112.5</b>	75.3	13.4	88.7
Share of results of joint ventures	15	<b>3.4</b>	-	<b>3.4</b>	2.4	-	2.4
<b>Operating profit</b>		<b>122.1</b>	<b>(6.2)</b>	<b>115.9</b>	77.7	13.4	91.1
Finance costs	6	<b>(12.7)</b>	-	<b>(12.7)</b>	(10.8)	-	(10.8)
Finance income	6	<b>7.6</b>	-	<b>7.6</b>	5.3	-	5.3
Other finance income - retirement benefits	24	<b>3.2</b>	-	<b>3.2</b>	4.9	-	4.9
<b>Profit before tax from continuing operations</b>		<b>120.2</b>	<b>(6.2)</b>	<b>114.0</b>	77.1	13.4	90.5
Tax expense	7	<b>(33.8)</b>	<b>2.1</b>	<b>(31.7)</b>	(19.6)	(2.0)	(21.6)
<b>Profit for the period from continuing operations</b>		<b>86.4</b>	<b>(4.1)</b>	<b>82.3</b>	57.5	11.4	68.9
Profit for the period from discontinued operations	8	<b>11.8</b>	<b>80.9</b>	<b>92.7</b>	12.8	(0.1)	12.7
<b>Profit for the period</b>		<b>98.2</b>	<b>76.8</b>	<b>175.0</b>	70.3	11.3	81.6
Attributable to							
Equity holders of the Company		<b>98.1</b>	<b>76.8</b>	<b>174.9</b>	70.3	11.3	81.6
Minority interests		<b>0.1</b>	-	<b>0.1</b>	-	-	-
		<b>98.2</b>	<b>76.8</b>	<b>175.0</b>	70.3	11.3	81.6
<b>Earnings per share</b>	9						
Basic - total operations				<b>83.8p</b>			39.4p
Basic - continuing operations		<b>41.4p</b>		<b>39.4p</b>	27.8p		33.3p
Diluted - total operations				<b>82.9p</b>			38.8p
Diluted - continuing operations		<b>40.9p</b>		<b>39.0p</b>	27.4p		32.8p

# Consolidated Balance Sheet

at 28 December 2007

	Notes	28 December 2007 £m	29 December 2006 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant & equipment	11	<b>136.3</b>	116.6
Investment property	11	<b>4.8</b>	-
Intangible assets	12	<b>503.2</b>	180.1
Investments in joint ventures & associate	15	<b>7.2</b>	33.5
Deferred tax assets	23	<b>3.1</b>	19.3
Retirement benefit plan surpluses	24	<b>45.5</b>	7.8
Derivative financial instruments	30	<b>1.2</b>	4.9
<b>Total non-current assets</b>		<b>701.3</b>	362.2
<b>Current assets</b>			
Inventories	16	<b>173.5</b>	120.9
Trade & other receivables	17	<b>255.2</b>	203.8
Construction contracts	18	<b>32.8</b>	34.9
Derivative financial instruments	30	<b>10.6</b>	6.5
Income tax receivable		<b>1.8</b>	0.1
Cash & short-term deposits	19	<b>54.2</b>	146.3
<b>Total current assets</b>		<b>528.1</b>	512.5
<b>Total assets</b>		<b>1,229.4</b>	874.7
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Interest-bearing loans & borrowings	20	<b>8.5</b>	7.5
Trade & other payables	21	<b>257.8</b>	212.4
Construction contracts	18	<b>55.9</b>	46.3
Derivative financial instruments	30	<b>11.8</b>	3.0
Income tax payable		<b>20.8</b>	19.4
Provisions	22	<b>22.8</b>	27.3
<b>Total current liabilities</b>		<b>377.6</b>	315.9
<b>Non-current liabilities</b>			
Interest-bearing loans & borrowings	20	<b>217.0</b>	145.9
Derivative financial instruments	30	<b>5.1</b>	1.8
Provisions	22	<b>22.6</b>	13.6
Deferred tax liabilities	23	<b>53.3</b>	13.9
Retirement benefit plan deficits	24	<b>8.6</b>	11.7
<b>Total non-current liabilities</b>		<b>306.6</b>	186.9
<b>Total liabilities</b>		<b>684.2</b>	502.8
<b>NET ASSETS</b>		<b>545.2</b>	371.9
<b>CAPITAL &amp; RESERVES</b>			
Share capital	25	<b>26.5</b>	26.4
Share premium	25	<b>37.7</b>	35.4
Treasury shares	25	<b>(9.3)</b>	(10.7)
Capital redemption reserve	25	<b>0.5</b>	0.5
Foreign currency translation reserve	25	<b>0.2</b>	(2.9)
Hedge accounting reserve	25	<b>3.5</b>	3.5
Retained earnings	25	<b>485.6</b>	319.3
<b>Shareholders equity</b>		<b>544.7</b>	371.5
Minority interest	25	<b>0.5</b>	0.4
<b>TOTAL EQUITY</b>		<b>545.2</b>	371.9

Approved by the Board of Directors on 11 March 2008



**Mark Selway** Director



**Keith Cochrane** Director

# Consolidated Cash Flow Statement

for the 52 weeks ended 28 December 2007

	Notes	52 weeks ended 28 December 2007 £m	52 weeks ended 29 December 2006 £m
<b>Continuing operations</b>			
<b>Cash flows from operating activities</b>			
	26		
Cash generated from operations		<b>151.8</b>	111.0
Additional pension contributions paid		<b>(6.5)</b>	(7.0)
Fundamental restructuring costs paid		<b>(0.4)</b>	(3.3)
Income tax paid		<b>(33.1)</b>	(16.5)
<b>Net cash generated from operating activities</b>		<b>111.8</b>	84.2
<b>Continuing operations</b>			
<b>Cash flows from investing activities</b>			
	26		
Acquisitions of subsidiaries	26	<b>(317.8)</b>	(2.1)
Disposals of subsidiaries & associate	26	<b>127.3</b>	(1.8)
Purchases of property, plant & equipment & intangible assets		<b>(43.5)</b>	(24.7)
Exceptional proceeds on sale of property		-	8.3
Other proceeds from sale of property, plant & equipment & intangible assets		<b>3.2</b>	0.8
Interest received		<b>7.5</b>	5.3
Dividend received from discontinued associate		<b>2.5</b>	-
Other dividends received		<b>3.7</b>	1.5
<b>Net cash used in investing activities</b>		<b>(217.1)</b>	(12.7)
<b>Continuing operations</b>			
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		<b>2.4</b>	3.1
Proceeds from borrowings		<b>124.3</b>	90.7
Repayments of borrowings		<b>(73.7)</b>	(110.2)
Interest paid		<b>(12.6)</b>	(10.2)
Dividends paid to equity holders of the Company		<b>(31.1)</b>	(27.7)
<b>Net cash generated from (used in) financing activities</b>		<b>9.3</b>	(54.3)
<b>Net (decrease) increase in cash &amp; cash equivalents from continuing operations</b>		<b>(96.0)</b>	17.2
Net increase in cash & cash equivalents from discontinued operations - operating activities		<b>1.4</b>	22.9
Net decrease in cash & cash equivalents from discontinued operations - investing activities		<b>(0.5)</b>	(2.7)
Cash & cash equivalents at beginning of period		<b>139.1</b>	104.0
Foreign currency translation differences		<b>2.1</b>	(2.3)
<b>Cash &amp; cash equivalents at end of period</b>	19	<b>46.1</b>	139.1

# Consolidated Statement of Recognised Income & Expense

for the 52 weeks ended 28 December 2007

	Note	<b>52 weeks ended 28 December 2007 £m</b>	52 weeks ended 29 December 2006 £m
<b>Income &amp; expense recognised directly in equity</b>			
Gains taken to equity on cash flow hedges		<b>6.2</b>	11.5
Exchange differences on translation of foreign operations		<b>3.1</b>	(12.8)
Actuarial gains on defined benefit plans		<b>29.5</b>	33.0
Share of associate's actuarial gain on defined benefit plans		-	4.4
<b>Transfers to the income statement</b>			
On cash flow hedges		<b>(1.9)</b>	(1.1)
On cash flow hedges - discontinued operations		<b>(4.3)</b>	-
<b>Tax on items taken directly to or transferred from equity</b>	7	<b>(7.0)</b>	(12.5)
<b>Net income recognised directly in equity</b>			
Profit for the period		<b>175.0</b>	81.6
<b>Total recognised income &amp; expense for the period</b>		<b>200.6</b>	104.1
Attributable to			
Equity holders of the Company		<b>200.5</b>	104.1
Minority interests		<b>0.1</b>	-
		<b>200.6</b>	104.1

# Notes to the Group Financial Statements

## 1. Authorisation of financial statements & statement of compliance

The consolidated financial statements of The Weir Group PLC for the 52 weeks ended 28 December 2007 were approved and authorised for issue in accordance with a resolution of the directors on 11 March 2008. The comparative information is presented for the 52 weeks ended 29 December 2006. For practical reasons, the Group prepares its financial statements to the week ending closest to the Company reference date of 31 December. The results on this basis are unlikely to be materially different from those that would be presented for a period of one year. The Weir Group PLC is a limited company incorporated in Scotland and is listed on the London Stock Exchange.

The consolidated financial statements of The Weir Group PLC have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of The Companies Act 1985.

The principal activities of the Group are described in note 3.

## 2. Accounting policies

### Basis of preparation

The accounting policies which follow set out those policies which have been applied consistently to all periods presented in these financial statements. These financial statements are presented in sterling. All values are rounded to the nearest 0.1 million pounds (£m) except when otherwise indicated.

In preparing these financial statements the Group has applied IAS40 "Investment Property", IFRS7 "Financial Instruments: Disclosures" and IAS1 "Amendment to IAS1: Capital Disclosures". Following the disposal of Weir Pumps, a property held by the company now meets the definition of investment property. The application of IAS40 resulted in a reclassification, amounting to £4.8m, from property, plant & equipment to investment property in the balance sheet. The directors have chosen to apply the cost model within IAS40, therefore there has been no adjustment necessary to the measurement basis of the property and as such there is no other impact from the adoption of this accounting policy, which is detailed below, in these financial statements. The adoption of IFRS7 resulted in the Group disclosing additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to including greater detail on the fair value of its financial instruments and its risk exposure. The adoption of the IAS1 amendment resulted in the Group disclosing additional information about its capital structure. There has been no effect on reported income or net assets from the adoption of IFRS7 or the IAS1 amendment.

The format of the consolidated income statement presented in these consolidated financial statements differs from that used in the Group's consolidated financial statements for the 52 weeks ended 29 December 2006 and the Group's 2007 Interim Report. The format of the consolidated income statement included within these consolidated financial statements, which now presents intangibles amortisation in a separate column with exceptional items, has been adopted as it presents information in a format that is more relevant to users of the financial statements by improving the visibility of the impact that increased acquisition activity has had on intangible assets. In addition, the analysis of expenses has been transferred from the face of the income statement to the notes to the financial statements in order to present the key performance indicators more clearly to users of the financial statements. The comparative information has been reclassified accordingly, resulting in the reclassification of intangibles amortisation of £2.3m.

The format of the consolidated cash flow statement presented in these financial statements differs from that used in the Group's consolidated financial statements for the 52 weeks ended 29 December 2006. The format of the consolidated cash flow statement included within these financial statements, which presents cash flows for continuing operations only, has been adopted as it presents information in a format that is more relevant to users of the financial statements. The comparative information has been restated accordingly, resulting in £22.9m of cash inflows from operating activities and £2.7m of cash outflows from investing activities being reclassified as relating to discontinued operations.

### Use of estimates & judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

Details of the significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described on page 21.

### Basis of consolidation

The consolidated financial statements include the results, cash flows and assets and liabilities of The Weir Group PLC ("the Company") and its subsidiaries (together, "the Group"), and the Group's share of its joint ventures and associate's results. The financial statements of subsidiaries, joint ventures and associate's are prepared for the same reporting period as the Company using consistent accounting policies.

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The results of a subsidiary acquired during the period are included in the Group's results from the effective date on which control is transferred to the Group. The results of a subsidiary sold during the period are included in the Group's results up to the effective date on which control is transferred out of the Group. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separately from the Company shareholders equity.

### Joint ventures & associates

The Group has a number of long-term contractual arrangements with other parties which represent joint ventures. These all take the form of agreements to share control over other entities ("jointly controlled entities"). The Group's interests in the results and assets and liabilities of its jointly controlled entities are accounted for using the equity method. An associate is an entity over which the Company, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling or jointly controlling, the financial and operating policies of the entity. Associates are accounted for using the equity method.

These investments are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets less any impairment in value. The income statement reflects the share of results of operations of these investments after tax. Where there has been a change recognised directly in the investee's equity, the Group recognises its share of any changes and discloses this when applicable in the statement of recognised income and expense.

Any goodwill arising on the acquisition of a joint venture or associate, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the joint venture or associate's identifiable assets, liabilities and contingent liabilities, is included in the carrying amount of the joint venture or associate and is not amortised. To the extent that the net fair value of the joint venture or associate's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the Group's share of the joint venture or associate's profit or loss in the period in which the investment is acquired.

### Foreign currency translation

The financial statements for each of the Group's subsidiaries, joint ventures and associate are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates.

At entity level, transactions denominated in foreign currencies are translated into the entity's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised in the income statement except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

On consolidation, the results of foreign operations are translated into sterling at the average exchange rate for the period and their assets and liabilities are translated into sterling at the exchange rate ruling on the balance sheet date. Currency translation differences, including those on monetary items that form part of a net investment in a foreign operation, are recognised in the foreign currency translation reserve.

In the event that a foreign operation is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation. As permitted by IFRS1, the Group elected to deem cumulative currency translation differences to be £nil as at 27 December 2003. Accordingly, the gain or loss on disposal of a foreign operation does not include currency translation differences arising before 27 December 2003.

In the cash flow statement, the cash flows of foreign operations are translated into sterling at the average exchange rate for the period.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, and can be reliably measured. Revenue from the sales of services and revenue from construction contracts is recognised by reference to the stage of completion. The stage of completion of a contract is determined either by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, or by reference to the completion of a physical proportion of the contract work. The basis used is dependent upon the nature of the underlying contract and takes into account the degree to which the physical proportion of the work is subject to formal customer acceptance procedures.

A construction contract is defined as a contract that is specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Where the time taken to complete such contracts extends over different accounting periods, revenue is recognised by reference to the stage of completion of the contract activity at the balance sheet date where the outcome can be estimated reliably, otherwise it is recognised to the extent costs are incurred. Losses on contracts are recognised in the period when such losses become probable.

### Exceptional items

Material items of income and expense which, because of the nature and infrequency of the events giving rise to them, merit separate presentation to allow a better understanding of the elements of the Group's financial performance for the period, are presented as exceptional items on the face of the income statement to facilitate comparisons with prior periods and assessment of trends in financial performance.

### Goodwill

Business combinations on or after 27 December 2003 are accounted for under IFRS3 using the purchase method.

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets, liabilities and contingent liabilities determined at the date of acquisition. Goodwill in respect of an acquired subsidiary is recognised as an intangible asset. Goodwill is tested at least annually for impairment and carried at cost less any recognised impairment losses.

# Notes to the Group Financial Statements (Continued)

Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the consideration paid, the excess is recognised immediately as a gain in the income statement.

Goodwill recognised as an asset as at 27 December 2003 is recorded at its carrying amount at that date and is not amortised. The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit. Goodwill that was written-off directly to reserves under UK GAAP is not taken into account in determining the gain or loss on disposal of acquired businesses on or after 27 December 2003.

## Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and any recognised impairment losses.

Intangible assets acquired separately are measured on initial recognition at cost. An intangible resource acquired in a business combination is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be measured reliably. An intangible asset with a finite life is amortised on a straight-line basis so as to charge its cost which, in respect of an acquired intangible asset, represents its fair value at the acquisition date, to the income statement over its expected useful life. An intangible asset with an indefinite life is not amortised but is tested at least annually for impairment and carried at cost less any recognised impairment losses.

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Amortisation is provided on a straight-line basis so as to charge the cost of the software to the income statement over its expected useful life.

The expected useful lives of intangible assets are as follows

Brand names	-	indefinite life
Customer relationships	-	10 - 25 years
Purchased software	-	4 - 8 years
Intellectual property & trade marks	-	6 - 15 years
Other	-	up to 6 years

## Research & development costs

All research expenditure is charged to the income statement in the period in which it is incurred.

Development expenditure is charged to the income statement in the period in which it is incurred unless it relates to the development of a new product and it is incurred after the technical feasibility and commercial viability of the product has been proven, the development costs can be measured reliably, future economic benefits are probable and the Group intends to and has sufficient resources to complete the development and to use or sell the asset. Any such capitalised development expenditure will be amortised on a straight-line basis so that it is charged to the income statement over the expected life of the resulting product.

## Property, plant & equipment

The Group elected to use previous UK GAAP revaluations of land and buildings, amounting to £10.5m, prior to 27 December 2003 as deemed cost at the date of the revaluation.

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment losses. Freehold land and assets under construction are not depreciated.

Depreciation of property, plant and equipment, other than freehold land and assets under construction, is provided on a straight-line basis so as to charge the cost less residual value, based on prices prevailing at the balance sheet date, to the income statement over the expected useful life of the asset concerned, which is in the following ranges

Freehold buildings, long leasehold land & buildings	-	10 - 40 years
Short leasehold land & buildings	-	duration of lease
Plant & equipment	-	3 - 20 years

Borrowing costs attributable to assets under construction are charged to the income statement in the period in which they are incurred.

## Investment property

The Group has one property which is currently being held to earn rentals and for capital appreciation rather than for use in the production or supply of goods and services and as such this property is classified as investment property. Investment property is stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over 40 years.

## Leases

Leases which transfer to the Group substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are included within property, plant and equipment, initially measured at their fair value or, if lower, the present value of the minimum lease payments and a corresponding liability is recognised within obligations under finance leases. Subsequently, the assets are depreciated on a basis consistent with similar owned assets or the lease term if shorter. At the inception of the lease, the lease rentals are apportioned between an interest element and a capital element so as to produce a constant periodic rate of interest on the outstanding liability. Subsequently, the interest element is recognised as a charge to the income statement while the capital element is applied to reduce the outstanding liability.

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

#### **Impairment of non-current assets**

All non-current assets are tested for impairment whenever events or circumstances indicate that their carrying values might be impaired. Additionally, goodwill, intangible assets with an indefinite life and any capitalised development expenditure are subject to an annual impairment test.

An impairment loss is recognised to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's fair value less costs to sell and its value in use. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is conducted for the cash-generating unit to which it belongs. Similarly, the recoverable amount of goodwill is determined by reference to the discounted future cash flows of the cash-generating units to which it is allocated.

Impairment losses are recognised in the income statement. Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of an asset shall not be increased above the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. Impairment losses recognised in respect of goodwill are not reversed.

#### **Inventories**

Inventories are valued at the lower of cost and net realisable value, with due allowance for any obsolete or slow moving items. Cost represents the expenditure incurred in bringing inventories to their existing location and condition and comprises the cost of raw materials, direct labour costs, other direct costs and related production overheads. Raw material cost is generally determined on a first in, first out basis. Net realisable value is the estimated selling price less costs to complete and sell.

#### **Trade & other receivables**

Trade receivables, which generally are of a short dated nature, are recognised and carried at original invoice amount less an allowance for estimated irrecoverable amounts. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### **Cash & cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits available on demand, other short-term highly liquid investments with a maturity on acquisition of three months or less, bank overdrafts and short-term borrowings with a maturity on acquisition of three months or less. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

#### **Interest-bearing loans & borrowings**

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

#### **Provisions**

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, the obligation can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **Derecognition of financial assets & liabilities**

The Group's principal financial assets and liabilities comprise bank overdrafts and short-term borrowings, loans, cash and short-term deposits as well as financial derivatives. The Group also has other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations.

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

# Notes to the Group Financial Statements (Continued)

## Financial instruments

### (a) Derivative financial instruments

The Group uses derivative financial instruments, principally forward foreign currency contracts and cross currency swaps, to reduce its exposure to exchange rate movements. The Group does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. The fair value of forward foreign currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of cross currency swap contracts is calculated by reference to market values. Changes in their fair values have been recognised in the income statement, except where hedge accounting is used, provided the conditions specified by IAS39 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IAS39 and practical to do so. When hedge accounting is used, the relevant hedging relationships will be classified as fair value hedges, cash flow hedges or net investment hedges.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss will be recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument.

Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged item results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

### (b) Embedded derivatives

Derivatives embedded in non-derivative host contracts are recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

## Post-employment benefits

Post-employment benefits comprise pension benefits provided to employees throughout the world and other benefits, primarily post-retirement healthcare, provided to certain employees in the United States.

For defined benefit plans, the cost is calculated using the projected unit credit method and is recognised over the average expected remaining service lives of participating employees, in accordance with the advice of qualified actuaries. Past service costs resulting from enhanced benefits are recognised on a straight-line basis over the vesting period, or immediately if the benefits have vested. Actuarial gains and losses, which represent differences between the expected and actual returns on the plan assets and the effect of changes in actuarial assumptions, are recognised in full in the statement of recognised income and expense in the period in which they occur. The defined benefit liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation, using a discount rate based on appropriate high quality corporate bonds, at the balance sheet date, minus any past service costs not yet recognised, minus the fair value of the plan assets, if any, at the balance sheet date. Where a plan is in surplus, the asset recognised is limited to the amount of any unrecognised past service costs and the present value of any amount which the Group expects to recover by way of refunds or a reduction in future contributions.

For defined contribution plans, the cost represents the Group's contributions to the plans and this is charged to the income statement in the period in which they fall due.

## Share-based payments

Equity settled share-based incentives are provided to employees under the Group's executive share option scheme, the savings-related share option scheme and the Long Term Incentive Plan. The Group recognises a compensation cost in respect of these schemes that is based on the fair value of the awards. For equity settled schemes, the fair value is determined at the date of grant and is not subsequently remeasured 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.

As permitted by IFRS1, the Group has applied IFRS2 "Share-based Payment" retrospectively only to equity settled awards that were granted on or after 7 November 2002 and had not vested as at 1 January 2005.

## Taxation

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

Deferred tax is recognised, on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base with the following exceptions.

- (a) Deferred tax arising from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination, that, at the time of the transaction, affects neither accounting nor taxable profit or loss, is not recognised.
- (b) Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.
- (c) A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, the carry forward of unutilised tax losses and the carry forward of unused tax credits. Deferred tax is measured on an undiscounted basis using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Current and deferred tax is recognised in the income statement except if it relates to an item recognised directly in equity, in which case it is recognised directly in equity.

## Treasury shares

The Weir Group PLC shares held by the Company are classified in shareholders equity as 'treasury shares' and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken directly to revenue reserves. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

## New standards & interpretations

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

International Accounting Standards (IAS/IFRS)	Effective date for periods commencing	
IFRS2	Amendment to IFRS2 Share Based Payment: Vesting Conditions and Cancellations *	1 January 2009
IFRS3	Revised IFRS3 Business Combinations *	1 July 2009
IFRS8	Operating Segments	1 January 2009
IAS1	Amendments to IAS1 Presentation of Financial Statements: A Revised Presentation *	1 January 2009
IAS23	Amendments to IAS23 Borrowing Costs	1 January 2009
IAS27	Amendments to IAS27 Consolidated and Separate Financial Statements *	1 July 2009

## International Financial Reporting Interpretations Committee (IFRIC)

IFRIC11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC12	Service Concession Arrangements	1 January 2008
IFRIC13	Customer Loyalty Programmes*	1 July 2008
IFRIC14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	1 January 2008

\* not yet adopted for use in the European Union

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

IAS23 requires borrowing costs attributable to the acquisition or construction of certain assets to be capitalised. The option currently taken by the Group of charging such costs to the income statement in the period in which they are incurred will no longer be available prospectively from 1 January 2009.

IFRS3 will apply to business combinations arising from 1 January 2010. This will require recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill. In addition, transaction costs will be required to be recognised immediately in the income statement.

# Notes to the Group Financial Statements (Continued)

## 3. Segment information

The Group's primary reporting format is business segments, as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. The Group's secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Engineering Products segment comprises the manufacture of pumps and valves for flow control applications. The Engineering Services segment provides equipment maintenance, process support and asset management services. The Defence, Nuclear & Gas segment comprises the defence and liquid gas handling businesses which provide specialist design and project management of complex engineering contracts.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

The Group's geographical segments are determined by the location of the Group's assets and operations.

### Business segments

The following tables present revenue and profit information and certain asset and liability information on the Group's continuing operations for the 52 weeks ended 28 December 2007 and 52 weeks ended 29 December 2006 analysed by business segment.

	Engineering Products		Engineering Services		Defence, Nuclear & Gas		Total continuing operations	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
<b>Revenue</b>								
Sales to external customers								
- existing operations	<b>632.9</b>	538.0	<b>231.4</b>	225.2	<b>117.6</b>	107.2	<b>981.9</b>	870.4
- acquisitions	<b>78.7</b>	-	-	-	-	-	<b>78.7</b>	-
Sales to external customers	<b>711.6</b>	538.0	<b>231.4</b>	225.2	<b>117.6</b>	107.2	<b>1,060.6</b>	870.4
Inter-segment sales	<b>22.1</b>	22.4	<b>1.2</b>	1.6	-	-	<b>23.3</b>	24.0
Segment revenue	<b>733.7</b>	560.4	<b>232.6</b>	226.8	<b>117.6</b>	107.2	<b>1,083.9</b>	894.4
Sales to external customers - existing operations - at 2007 average exchange rates	<b>632.9</b>	525.5	<b>231.4</b>	221.7	<b>117.6</b>	107.3	<b>981.9</b>	854.5
<b>Result</b>								
Segment result before exceptional items & intangibles amortisation								
- existing operations	<b>79.6</b>	59.9	<b>18.5</b>	12.9	<b>10.4</b>	10.0	<b>108.5</b>	82.8
- acquisitions	<b>19.1</b>	-	-	-	-	-	<b>19.1</b>	-
Exceptional income (net) - existing operations	-	5.0	-	-	-	-	-	5.0
Intangibles amortisation								
- existing operations	<b>(1.7)</b>	(1.5)	<b>(0.5)</b>	(0.5)	<b>(0.2)</b>	(0.2)	<b>(2.4)</b>	(2.2)
- acquisitions	<b>(3.7)</b>	-	-	-	-	-	<b>(3.7)</b>	-
Share of results of joint ventures	<b>93.3</b>	63.4	<b>18.0</b>	12.4	<b>10.2</b>	9.8	<b>121.5</b>	85.6
	-	-	<b>3.4</b>	2.4	-	-	<b>3.4</b>	2.4
	<b>93.3</b>	63.4	<b>21.4</b>	14.8	<b>10.2</b>	9.8	<b>124.9</b>	88.0
Unallocated expenses*							<b>(9.0)</b>	(7.6)
Unallocated exceptional income							-	10.7
Operating profit							<b>115.9</b>	91.1
Segment result before exceptional items & intangibles amortisation - existing operations - at 2007 average exchange rates	<b>79.6</b>	58.1	<b>18.5</b>	13.1	<b>10.4</b>	10.0	<b>108.5</b>	81.2

\*Unallocated expenses include intangibles amortisation of £0.1m (2006: £0.1m).

### 3. Segment information (continued)

	Engineering Products		Engineering Services		Defence, Nuclear & Gas		Total operations	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
<b>Assets &amp; liabilities</b>								
Segment assets	<b>955.7</b>	472.1	<b>110.5</b>	111.4	<b>34.8</b>	29.6	<b>1,101.0</b>	613.1
Investments in joint ventures & associate	-	-	<b>7.2</b>	7.5	-	-	<b>7.2</b>	7.5
	<b>955.7</b>	472.1	<b>117.7</b>	118.9	<b>34.8</b>	29.6	<b>1,108.2</b>	620.6
Segment assets now classified as discontinued operations							-	77.5
Unallocated assets							<b>121.2</b>	176.6
Total assets							<b>1,229.4</b>	874.7
Segment liabilities	<b>216.6</b>	146.5	<b>42.0</b>	44.0	<b>59.4</b>	52.6	<b>318.0</b>	243.1
Segment liabilities now classified as discontinued operations							-	42.6
Unallocated liabilities							<b>366.2</b>	217.1
Total liabilities							<b>684.2</b>	502.8
<b>Other segment information</b>								
Segment capital expenditure	<b>33.4</b>	17.5	<b>8.7</b>	5.7	<b>1.3</b>	1.2	<b>43.4</b>	24.4
Unallocated capital expenditure							<b>0.1</b>	1.1
Total capital expenditure							<b>43.5</b>	25.5
Segment depreciation & amortisation	<b>17.8</b>	12.1	<b>4.7</b>	4.2	<b>0.9</b>	0.9	<b>23.4</b>	17.2
Unallocated depreciation & amortisation							<b>0.3</b>	0.3
Total depreciation & amortisation							<b>23.7</b>	17.5
Warranty expense (net)	<b>4.5</b>	4.1	<b>0.8</b>	0.3	<b>1.3</b>	-	<b>6.6</b>	4.4

Segment assets now classified as discontinued operations represent £51.5m previously included within Engineering Products and £26.0m previously included within Engineering Services.

Segment liabilities now classified as discontinued operations were previously included within Engineering Products. Further details of the Group's discontinued operations can be found in note 8.

# Notes to the Group Financial Statements (Continued)

## 3. Segment information (continued)

### Geographical segments

The following tables present revenue, certain asset and capital expenditure information regarding the Group's geographical segments for the 52 weeks ended 28 December 2007 and the 52 weeks ended 29 December 2006.

52 weeks ended 28 December 2007	North America £m	UK £m	Far East & Asia £m	Australasia £m	South America £m	Middle East £m	Other EU £m	Others £m	Total Operations £m
<b>Revenue</b>									
Sales to external customers	323.9	138.4	123.6	114.2	117.2	83.3	105.9	76.1	1,082.6
Less sales attributable to discontinued operations	(0.2)	(6.5)	(6.2)	(0.1)	(0.2)	(3.7)	(2.0)	(3.1)	(22.0)
Revenue from continuing operations	323.7	131.9	117.4	114.1	117.0	79.6	103.9	73.0	1,060.6
<b>Other segment information</b>									
Segment assets	506.2	146.4	7.5	144.6	63.4	21.0	206.3	18.0	1,113.4
Investments in joint ventures	-	-	-	-	-	7.2	-	-	7.2
	506.2	146.4	7.5	144.6	63.4	28.2	206.3	18.0	1,120.6
Unallocated assets									108.8
Total assets									1,229.4
Total capital expenditure	15.5	6.9	1.6	4.4	4.9	1.8	7.8	1.1	44.0

52 weeks ended 29 December 2006	North America £m	UK £m	Far East & Asia £m	Australasia £m	South America £m	Middle East £m	Other EU £m	Others £m	Total Operations £m
<b>Revenue</b>									
Sales to external customers	241.8	131.0	117.3	111.2	98.7	87.4	74.5	79.0	940.9
Less sales attributable to discontinued operations	(1.3)	(15.1)	(12.6)	(1.0)	(5.2)	(15.3)	(1.9)	(18.1)	(70.5)
Revenue from continuing operations	240.5	115.9	104.7	110.2	93.5	72.1	72.6	60.9	870.4
<b>Other segment information</b>									
Segment assets	131.3	180.0	3.3	119.6	41.3	14.0	168.5	14.9	672.9
Investments in joint ventures & associate	-	26.0	-	-	-	7.5	-	-	33.5
	131.3	206.0	3.3	119.6	41.3	21.5	168.5	14.9	706.4
Unallocated assets									168.3
Total assets									874.7
Total capital expenditure	7.5	7.3	2.6	2.8	2.8	0.2	3.5	1.7	28.4

Unallocated assets primarily comprise cash and short-term deposits, income tax receivable, deferred tax assets and retirement benefit plan surpluses as well as those assets which are used for general head office purposes. Unallocated liabilities primarily comprise interest-bearing loans and borrowings, income tax payable, deferred tax liabilities and retirement benefit plan deficits as well as liabilities relating to general head office activities. The difference between unallocated assets in the business and geographical segments arises as a result of different inter segment eliminations.

#### 4. Revenues & expenses

The following disclosures are given in relation to continuing operations.

	2007 £m	2006 £m
An analysis of the Group's revenue is as follows.		
Sales of goods	754.7	596.4
Rendering of services	202.9	183.5
Revenue from construction contracts	103.0	90.5
Revenue	1,060.6	870.4
Finance income	7.6	5.3
Total revenue	1,068.2	875.7

No revenue was derived from exchanges of goods or services (2006: £nil).

	2007 £m	2006 £m
A reconciliation of revenue to operating profit is as follows.		
Revenue	1,060.6	870.4
Cost of sales	(746.4)	(623.6)
Gross profit	314.2	246.8
Other operating income (note 5)	2.4	6.7
Selling & distribution costs	(115.9)	(110.7)
Administrative expenses (note 5)	(88.2)	(52.3)
Restructuring costs (note 5)	-	(1.8)
Share of results of joint ventures	3.4	2.4
Operating profit	115.9	91.1

	2007 £m	2006 £m
Operating profit is stated after charging		
Costs of inventories recognised as an expense	746.4	623.6
Depreciation	17.5	15.2
Amortisation (note 12)	6.2	2.3
Foreign exchange losses (net)	0.6	-
Impairment of trade receivables (note 17) (included within administrative expenses)	1.5	0.6

The following disclosures are given in relation to total operations.

	2007 £m	2006 £m
<b>Auditors remuneration</b>		
The total fees payable by the Group to Ernst & Young LLP and their associates for work performed in respect of the audit and other services provided to the Company and its subsidiary companies during the period are disclosed below.		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.3	0.3
Fees payable to the Company's auditor and its associates for other services		
- The audit of the Company's subsidiaries pursuant to legislation	0.8	0.6
- Other services pursuant to legislation	0.5	0.1
- Transaction support services	0.7	-
Fees payable in respect of the Group's pension schemes		
- Audit	0.1	0.1

# Notes to the Group Financial Statements (Continued)

## 4. Revenues & expenses (continued)

### Research & development costs

Research & development costs consist of £8.9m (2006: £6.1m) charged directly to cost of sales in the income statement.

### Operating leases

Minimum lease payments under operating leases recognised as an expense in the year were £10.0m (2006: £9.7m).

	2007 £m	2006 £m
<b>Employee benefits expense</b>		
Wages & salaries	234.5	223.0
Social security costs	29.4	28.5
Pension costs (income) - defined benefit plans	4.0	(4.9)
Pension costs - defined contribution plans	6.6	7.0
Share-based payments - equity settled transactions	1.4	1.4
	<b>275.9</b>	255.0

The net pension income of £4.9m in 2006 in respect of defined benefit plans includes the £10.7m pension plan gain referred to in note 5.

	2007 Number	2006 Number
The average monthly number of persons employed by the Company and its subsidiaries is as follows.		
Engineering Products	5,689	4,850
Engineering Services	1,893	1,980
Defence, Nuclear & Gas	583	522
Discontinued operations	194	623
	<b>8,359</b>	7,975

## 5. Exceptional items & intangibles amortisation

	2007 £m	2006 £m
Recognised in arriving at operating profit from continuing operations		
Profit on sale of property (included in other operating income)	-	6.8
Pension plan gain (included in administrative expenses)	-	10.7
Restructuring costs	-	(1.8)
Exceptional items	-	15.7
Intangibles amortisation	(6.2)	(2.3)
Exceptional items & intangibles amortisation	<b>(6.2)</b>	13.4

### Profit on sale of property

A profit of £6.8m was made in 2006 on the sale of the Group's former premises at Huddersfield which were vacated as part of the restructuring of the UK Engineering Products businesses.

### Pension plan gain

The pension plan gain of £10.7m in 2006, which represents a reduction in past service costs, arose on the implementation of amendments to the defined benefit arrangements of the Group's main UK defined benefit pension plan made with effect from November 2006.

### Restructuring costs

During 2005 the Group incurred costs of £21.4m and impairment losses of £3.3m in connection with the previously announced fundamental restructuring activities in the UK Engineering Products businesses. Further costs of £1.8m were incurred in 2006 in connection with this restructuring. The restructuring costs arose from activities that are not considered to fall within the normal function based classifications adopted by the Group when analysing results and, accordingly, they have been disclosed separately.

## 6. Net finance costs

### (a) Finance costs

	2007 £m	2006 £m
Interest payable on bank loans & overdrafts	<b>(12.3)</b>	(9.8)
Finance charges payable under finance leases	-	(0.1)
Finance charges related to committed loan facilities	<b>(0.4)</b>	(0.9)
	<b>(12.7)</b>	(10.8)

### (b) Finance income

	2007 £m	2006 £m
Interest receivable on cash at bank	<b>7.6</b>	5.3

## 7. Tax expense

### (a) Income tax expense

	2007 £m	2006 £m
<b>Consolidated income statement</b>		
Current income tax		
UK corporation tax - continuing operations	<b>(9.1)</b>	(3.2)
- discontinued operations	-	(1.0)
Adjustments in respect of current income tax of previous years	<b>4.6</b>	(0.5)
UK corporation tax	<b>(4.5)</b>	(4.7)
Foreign tax	<b>(21.9)</b>	(23.5)
Adjustments in respect of current income tax of previous years	<b>(1.0)</b>	0.2
Total current income tax	<b>(27.4)</b>	(28.0)
Deferred income tax		
Origination & reversal of temporary differences	<b>(8.3)</b>	(7.7)
Adjustment to estimated recoverable deferred tax assets	<b>2.8</b>	13.1
Effect of changes in tax rates	<b>0.6</b>	-
Total deferred tax *	<b>(4.9)</b>	5.4
Total income tax expense in the consolidated income statement	<b>(32.3)</b>	(22.6)

\* Includes £2.6m of deferred tax charge relating to foreign tax (2006: a credit of £2.3m).

The total income tax expense is disclosed in the consolidated income statement as follows.

Tax expense - continuing operations before exceptional items & intangibles amortisation	<b>(33.8)</b>	(19.6)
- exceptional items	-	(2.7)
- intangibles amortisation	<b>2.1</b>	0.7
- within profit from discontinued operations	<b>(0.6)</b>	(1.0)

UK corporation tax includes £nil (2006: a credit of £0.5m) in respect of the exceptional restructuring costs of £nil (2006: £1.8m) and deferred tax "origination & reversal of temporary differences" includes £nil (2006: a charge of £3.2m) in respect of the exceptional pension plan gain of £nil (2006: £10.7m).

Current tax for 2007 has been reduced by £2.8m (2006: £1.9m) due to the utilisation of deferred tax assets previously not recognised.

The total deferred tax included in the income tax expense is detailed in note 23.

# Notes to the Group Financial Statements (Continued)

## 7. Tax expense (continued)

### (b) Tax relating to items charged or credited to equity

	2007 £m	2006 £m
Tax credit (charge) on actuarial loss (gain) on retirement benefits	-	0.1
Current tax on contributions in excess of costs through the income statement	-	0.1
Deferred tax - origination & reversal of temporary differences	<b>(8.0)</b>	(10.2)
	<b>(8.0)</b>	(10.1)
Deferred tax on hedge gains / losses	-	(3.2)
Deferred tax on share-based payments	<b>0.4</b>	0.3
Current tax on share-based payments	<b>0.5</b>	0.5
Effect of changes in tax rates	<b>0.1</b>	-
Tax charge in the statement of recognised income & expense	<b>(7.0)</b>	(12.5)

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

The tax expense in the consolidated income statement for the year is less than the weighted average of standard rates of corporation tax across the Group of 31.3% (2006: 31.0%). The differences are reconciled below.

	2007 £m	2006 £m
Profit from continuing operations before tax	<b>114.0</b>	90.5
Profit from discontinued operations before tax	<b>93.3</b>	13.7
Accounting profit before tax	<b>207.3</b>	104.2
At the weighted average of standard rates of corporation tax across the Group of 31.3% (2006: 31.0%)	<b>64.8</b>	32.3
Adjustments in respect of previous years - current tax	<b>(3.6)</b>	0.3
- deferred tax	<b>(0.5)</b>	(1.4)
Effect of changes in tax rates	<b>(0.6)</b>	-
Joint ventures & associate	<b>(2.0)</b>	(3.2)
Unrecognised deferred tax assets	<b>(2.8)</b>	(13.1)
Overseas tax on unremitted earnings	<b>1.1</b>	7.6
Permanent differences	<b>0.2</b>	1.1
Gains exempt from tax	<b>(24.3)</b>	(1.0)
At effective tax rate of 15.6% (2006: 21.7%)	<b>32.3</b>	22.6

## 8. Discontinued operations

On 8 May 2007, the Group disposed of its Glasgow-based pump manufacturing operation Weir Pumps for a total cash consideration of £45.5m resulting in a gain on disposal of £26.0m after a tax charge of £nil. Of the disposal proceeds, £1.7m has been allocated to the ongoing lease of the Cathcart site by the purchaser and has been deferred. The net assets disposed of amounted to £13.7m and direct disposal costs and provisions amounted to £8.4m, including estimated costs of £2.6m associated with separating the discontinued operations of Weir Pumps from the remaining Weir Engineering Services and Materials and Foundry operations. The net gain suspended in equity on cash flow hedges, amounting to £4.3m, has been recycled to the income statement as part of the gain on sale in accordance with IAS39.

On 28 June 2007, the Group completed the sale of its 24.5% interest in its associate, Devonport Management Limited, for a total cash consideration of £85.7m. Approval of the sale was obtained from the Ministry of Defence on 26 June 2007, at which time the investment became held for sale. The carrying value of the investment at the date of sale was £26.8m. Costs and provisions associated with the disposal amounted to £4.0m resulting in a gain on disposal of £54.9m after a tax charge of £nil.

The results of Weir Pumps, which were previously included within the Engineering Products segment, and the Group's share of the results of Devonport Management Limited, which were previously reported in the Engineering Services segment, have been included in the consolidated income statement as discontinued operations. The net gain of £80.9m made on these disposals has been recorded as an exceptional item in the consolidated income statement.

Profits recognised in respect of prior years' disposals relate to the negotiated settlement of claims connected to prior period disposals and the release of certain provisions no longer required.

The revenue, results and cash flows relating to discontinued operations are as follows.

	2007 £m	2006 £m
Sale of goods	9.9	29.9
Revenue from construction contracts	12.1	40.6
Revenue	22.0	70.5
Cost of sales	(13.9)	(55.9)
Other operating income	1.2	2.2
Selling & distribution costs	(2.7)	(8.6)
Administrative expenses	(1.4)	(4.0)
Share of results of associate (after tax)	3.3	8.1
Operating profit	8.5	12.3
Income tax	-	(1.0)
Profit after tax	8.5	11.3
Profits recognised in respect of prior years' disposals (after tax)	3.3	1.4
Profit for the period from discontinued operations *	11.8	12.7
Net gain on current year disposals - exceptional items (on which no tax has been provided)	80.9	-
Profit for the period from discontinued operations	92.7	12.7

\* including intangibles amortisation net of tax of £nil (2006: £0.1m)

Loss before net finance costs and tax is stated after charging		
Costs of inventories recognised as an expense	13.9	55.9
Depreciation & amortisation	0.9	2.6
Foreign exchange losses (net)	0.1	-

The income tax is analysed as follows.

On profit on ordinary activities	-	(1.0)
In respect of prior year disposals	(0.6)	-

The cash inflow from current year disposals was as follows.

Consideration	129.5	-
Costs associated with the disposals	(4.3)	-
Net cash inflow	125.2	-

Inter-segment sales	4.2	5.0
Capital expenditure	0.5	2.9
Warranty expense (net)	0.4	2.4

# Notes to the Group Financial Statements (Continued)

## 8. Discontinued operations (continued)

Earnings per share from discontinued operations

	2007 pence	2006 pence
Basic	<b>44.4p</b>	6.1p
Diluted	<b>43.9p</b>	6.0p

These earnings per share figures were derived by dividing the net profit attributable to equity holders of the Company from discontinued operations of £92.7m (2006: £12.7m) by the weighted average number of ordinary shares for both basic and diluted amounts shown in note 9.

The major classes of assets and liabilities disposed of were as follows (2006: nil).

	2007 £m
Property, plant & equipment	<b>9.7</b>
Other intangible assets	<b>0.4</b>
Investment in associate	<b>26.8</b>
Inventories	<b>6.7</b>
Trade & other receivables	<b>13.6</b>
Construction contracts assets	<b>9.7</b>
Forward foreign currency contracts assets	<b>2.9</b>
Trade & other payables	<b>(17.7)</b>
Construction contracts liabilities	<b>(7.5)</b>
Forward foreign currency contracts liabilities	<b>(0.1)</b>
Provisions	<b>(4.0)</b>
	<b>40.5</b>

## 9. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and LTIP awards).

The following reflects the profit and share data used in the calculation of earnings per share.

	2007 £m	2006 £m
Basic earnings per share		
Profit attributable to equity holders of the Company		
- Total operations*	<b>174.9</b>	81.6
- Continuing*	<b>82.2</b>	68.9
- Continuing (before exceptional items & intangibles amortisation)*	<b>86.3</b>	57.5
Weighted average share capital (number of shares, million)	<b>208.6</b>	207.1
Diluted earnings per share		
Profit attributable to equity holders of the Company		
- Total operations*	<b>174.9</b>	81.6
- Continuing*	<b>82.2</b>	68.9
- Continuing (before exceptional items & intangibles amortisation)*	<b>86.3</b>	57.5
Weighted average share capital (number of shares, million)	<b>210.9</b>	210.1

## 9. Earnings per share (continued)

The difference between the weighted average share capital for the purposes of the basic and the diluted earnings per share calculations is analysed as follows.

	<b>2007</b> <b>Shares</b> <b>Million</b>	2006 Shares Million
Weighted average number of ordinary shares for basic earnings per share	<b>208.6</b>	207.1
Effect of dilution: share options	<b>0.4</b>	1.0
LTIP awards	<b>1.9</b>	2.0
Adjusted weighted average number of ordinary shares for diluted earnings per share	<b>210.9</b>	210.1

The profit attributable to equity holders of the Company used in the calculation of both basic and diluted earnings per share on continuing operations before exceptional items and intangibles amortisation is calculated as follows.

	<b>2007</b> <b>£m</b>	2006 £m
Net profit attributable to ordinary shareholders from continuing operations*	<b>82.2</b>	68.9
Exceptional items & intangibles amortisation net of tax	<b>4.1</b>	(11.4)
Net profit attributable to ordinary shareholders from continuing operations before exceptional items & intangibles amortisation*	<b>86.3</b>	57.5

There have been 7,200 (2006: 80,367) share options exercised between the reporting date and the date of signing of these financial statements.

\* adjusted for £0.1m (2006: £nil) attributable to minority interests.

## 10. Dividends paid & proposed

	<b>2007</b> <b>£m</b>	2006 £m
Declared & paid during the period		
Equity dividends on ordinary shares		
Final dividend for 2006: 10.75p (2005: 9.65p)	<b>22.4</b>	19.9
Interim dividend for 2007: 4.15p (2006: 3.75p)	<b>8.7</b>	7.8
	<b>31.1</b>	27.7
Proposed for approval by shareholders at the AGM		
Final dividend for 2007: 12.35p (2006: 10.75p)	<b>25.8</b>	22.3

The proposed dividend is based on the number of shares in issue, excluding treasury shares held, at the date the financial statements were approved and authorised for issue. The final dividend may differ due to increases or decreases in the number of shares in issue between the date of approval of the report and financial statements and the record date for the final dividend.

# Notes to the Group Financial Statements (Continued)

## 11. Property, plant & equipment & Investment property

	Land & buildings £m	Plant & equipment £m	Total property plant & equipment £m	Investment property £m
<b>Cost</b>				
At 30 December 2005	67.4	188.6	256.0	-
Additions	3.6	22.4	26.0	-
Disposals	(2.4)	(16.3)	(18.7)	-
Exchange adjustment	(4.0)	(12.8)	(16.8)	-
At 29 December 2006	64.6	181.9	246.5	-
Additions	8.7	31.4	40.1	-
Acquisitions	2.4	8.7	11.1	-
Disposals	(1.7)	(9.9)	(11.6)	-
Discontinued operations	-	(35.4)	(35.4)	-
Reclassification	(11.8)	-	(11.8)	11.8
Exchange adjustment	3.3	8.5	11.8	-
At 28 December 2007	<b>65.5</b>	<b>185.2</b>	<b>250.7</b>	<b>11.8</b>
<b>Accumulated depreciation &amp; impairment</b>				
At 30 December 2005	23.5	113.3	136.8	-
Depreciation charge for the period	1.6	16.0	17.6	-
Disposals	(0.4)	(15.2)	(15.6)	-
Exchange adjustment	(1.5)	(7.4)	(8.9)	-
At 29 December 2006	23.2	106.7	129.9	-
Depreciation charge for the period	1.8	16.3	18.1	0.2
Disposals	(1.4)	(5.3)	(6.7)	-
Discontinued operations	-	(25.7)	(25.7)	-
Reclassification	(6.8)	-	(6.8)	6.8
Exchange adjustment	1.0	4.6	5.6	-
At 28 December 2007	<b>17.8</b>	<b>96.6</b>	<b>114.4</b>	<b>7.0</b>
Net book value at 30 December 2005	43.9	75.3	119.2	-
Net book value at 29 December 2006	41.4	75.2	116.6	-
Net book value at 28 December 2007	<b>47.7</b>	<b>88.6</b>	<b>136.3</b>	<b>4.8</b>

The carrying value of buildings held under finance leases is £1.6m (2006: £1.6m). The carrying value of plant and equipment held under finance leases is £0.1m (2006: £nil). Leased assets are pledged as security for the related finance lease liabilities. The carrying amount of assets under construction included in plant & equipment is £4.3m (2006: £1.5m). The amount of compensation received from third parties for items of property, plant and equipment that were impaired or lost included in the income statement is £1.2m (2006: £2.1m).

Following the disposal of Weir Pumps, a property held by the company now meets the definition of investment property and rental income is generated from Clyde Pumps Limited. The site is subject to a conditional sale agreement, due for completion in 2009, for a consideration of not less than £25.0m. The rental income included in the income statement amounts to £0.6m.

## 12. Intangible assets

	Goodwill £m	Brand name £m	Customer relationships £m	Purchased software £m	Intellectual property & trade marks £m	Other £m	Total £m
Cost							
At 30 December 2005	160.2	4.7	15.2	14.2	-	0.6	194.9
Additions	0.8	-	-	1.6	-	-	2.4
Disposals	-	-	-	(0.1)	-	-	(0.1)
Exchange adjustment	(7.1)	(0.1)	(0.4)	(0.2)	-	-	(7.8)
At 29 December 2006	153.9	4.6	14.8	15.5	-	0.6	189.4
Additions	-	-	-	1.8	2.1	-	3.9
Acquisitions	178.1	25.1	85.1	0.2	11.0	4.4	303.9
Disposals	-	-	-	(0.2)	-	-	(0.2)
Discontinued operations	-	-	-	(1.6)	-	-	(1.6)
Reclassification	-	-	-	(0.5)	0.5	-	-
Exchange adjustment	16.6	1.1	3.5	0.2	0.7	0.2	22.3
At 28 December 2007	<b>348.6</b>	<b>30.8</b>	<b>103.4</b>	<b>15.4</b>	<b>14.3</b>	<b>5.2</b>	<b>517.7</b>
Accumulated amortisation & impairment							
At 30 December 2005	-	-	0.2	7.2	-	-	7.4
Amortisation charge for the period	-	-	0.6	1.8	-	0.1	2.5
Disposals	-	-	-	(0.1)	-	-	(0.1)
Exchange adjustment	-	-	-	(0.5)	-	-	(0.5)
At 29 December 2006	-	-	0.8	8.4	-	0.1	9.3
Amortisation charge for the period	-	-	2.3	1.9	0.5	1.6	6.3
Disposals	-	-	-	(0.1)	-	-	(0.1)
Discontinued operations	-	-	-	(1.2)	-	-	(1.2)
Reclassification	-	-	-	(0.5)	0.5	-	-
Exchange adjustment	-	-	-	0.1	0.1	-	0.2
At 28 December 2007	-	-	<b>3.1</b>	<b>8.6</b>	<b>1.1</b>	<b>1.7</b>	<b>14.5</b>
Net book value at 30 December 2005	160.2	4.7	15.0	7.0	-	0.6	187.5
Net book value at 29 December 2006	153.9	4.6	14.0	7.1	-	0.5	180.1
Net book value at 28 December 2007	<b>348.6</b>	<b>30.8</b>	<b>100.3</b>	<b>6.8</b>	<b>13.2</b>	<b>3.5</b>	<b>503.2</b>

Brand names have been assigned an indefinite useful life and as such are not amortised. The brand name value of £30.8m comprises three brands, Gabbioneta £5.0m, SPM £23.1m and Multiflo £2.7m, all of which were recognised at fair value at their respective dates of acquisition. Both the Gabbioneta and SPM brands have long histories in the oil & gas markets where they are both considered to be market leaders. The carrying value is tested annually for impairment.

Customer relationships of £100.3m comprise £14.9m acquired as part of the Group's acquisition of Pompe Gabbioneta SpA in 2005 and £85.4m acquired as part of the Group's acquisition of SPM Flow Control, Inc. in 2007. The remaining amortisation period of these assets as at 28 December 2007 is 23 years and an average of 24 years respectively.

The carrying value of purchased software held under finance leases is £nil (2006: £0.4m). The amortisation charge for the period is included in the income statement as follows.

	2007 £m	2006 £m
Cost of sales	<b>0.4</b>	0.4
Selling & distribution costs	<b>0.1</b>	0.1
Administrative expenses	<b>5.7</b>	1.8
Profit for the period from discontinued operations	<b>0.1</b>	0.2
	<b>6.3</b>	2.5

# Notes to the Group Financial Statements (Continued)

## 13. Business combinations

On 19 July 2007, the Group acquired 100% of the share capital of SPM Flow Control, Inc., a company based in Fort Worth, Texas, specialising in the manufacture of high-pressure well service pumps and related flow control equipment which operate in abrasive, high-wear applications in oil & gas drilling and extraction. The total cash consideration was £321.9m. On 21 August 2007, the Group acquired Multiflo, a privately owned specialist mine dewatering pump business based in Caloundra, Australia. The total cash consideration was £9.3m. Both acquisitions have been accounted for on a provisional basis as a limited number of fair values have still to be finalised.

The provisional fair values of the identifiable assets and liabilities at the relevant dates of acquisition are as follows.

	2007 Carrying values	2007 Recognised on acquisition	2007 Carrying values	2007 Recognised on acquisition	2007 Recognised on acquisition
	Multiflo £m	Multiflo £m	SPM £m	SPM £m	Total £m
Property, plant & equipment	0.1	0.2	11.5	10.9	11.1
Intangible assets	-	4.4	-	121.4	125.8
Inventories	1.3	0.3	29.6	37.2	37.5
Trade & other receivables	1.5	1.5	36.8	35.6	37.1
Cash & cash equivalents	-	-	13.5	13.5	13.5
Interest-bearing loans & borrowings	-	-	(0.2)	(0.2)	(0.2)
Trade & other payables	(2.1)	(1.4)	(21.7)	(21.9)	(23.3)
Provisions	(0.1)	(0.1)	(1.0)	(2.7)	(2.8)
Income tax	-	-	(0.2)	(4.2)	(4.2)
Deferred tax	-	-	0.8	(41.4)	(41.4)
Fair value of net assets	0.7	4.9	69.1	148.2	153.1
Goodwill arising on acquisition		4.4		173.7	178.1
<b>Total consideration</b>		<b>9.3</b>		<b>321.9</b>	<b>331.2</b>
Consideration		9.2		319.3	328.5
Costs associated with the acquisition		0.1		2.6	2.7
<b>Total consideration</b>		<b>9.3</b>		<b>321.9</b>	<b>331.2</b>

The cash outflow on acquisition was as follows.

Cash & cash equivalents acquired	-	13.5	13.5
Cash paid	(9.3)	(321.9)	(331.2)
<b>Net cash outflow</b>	<b>(9.3)</b>	<b>(308.4)</b>	<b>(317.7)</b>

From the date of the acquisition SPM Flow Control, Inc. contributed £9.8m to the 2007 profit for the period from continuing operations of the Group. The results of Multiflo were not significant. The combined revenue and profit of the Group, assuming that SPM Flow Control, Inc. and Multiflo had been acquired at the start of 2007, would have been £1164.9m and £98.5m respectively.

On 16 February 2006, the Group acquired the business and certain trading assets of Loftyman Engineering Limited, a company registered in Hong Kong. The amount payable for the goodwill associated with the business was £0.8m and a total of £0.4m was payable for the trading assets.

Included in the £178.1m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies and an assembled workforce.

#### 14. Impairment testing of goodwill & intangible assets with indefinite lives

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated at acquisition to the cash-generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as per the table below. The amount allocated to "Other" is not considered significant in comparison to the total carrying amount of goodwill.

	2007 £m	2006 £m
Weir SPM	178.0	-
Warman companies	94.7	88.5
Weir Gabbioneta	52.7	48.2
Other	23.2	17.2
	<b>348.6</b>	<b>153.9</b>

The Warman companies were acquired in 1999 and form part of the Group's Engineering Products business segment. Weir Gabbioneta, which also forms part of the Group's Engineering Products business segment, relates to the acquisition of Pompe Gabbioneta SpA in 2005.

The carrying amount of intangible assets with indefinite lives (brand names) have been allocated as follows.

	2007 £m	2006 £m
Weir SPM	23.1	-
Weir Multiflo	2.7	-
Weir Gabbioneta	5.0	4.6
	<b>30.8</b>	<b>4.6</b>

The increase of £0.4m in the carrying value of the Gabbioneta brand name results from exchange movements.

The Group tests goodwill and intangible assets with indefinite lives annually for impairment, or more frequently if there are indications that these might be impaired.

The recoverable amounts of the CGU are determined from value in use calculations using cash flow forecasts based on the latest strategic five year plan projections approved by the Board. These projections are based on historical performance and the most recent financial forecasts available. The main assumptions used in the value in use calculations relate to selling price, sales volume and cost increases. The strategic five year plans of each CGU incorporate third-party demand projections for the specific market segments which they serve. These market demand projections contain both volume and pricing assumptions but generally the pricing assumption assumes growth in line with inflation. Beyond sales volume effects, operating cost increases are projected in line with long-run inflation expectations for the relevant territory that the CGU operates in.

Cash flows beyond the period of the projections are extrapolated based on expected growth rates for the geographical area. The growth rates do not exceed the average long-term growth rates for these areas. Weighted average growth rates used were 2.6% for Weir SPM, 2.9% (2006: 2.9%) for the Warman companies, 2.0% (2006: 2.0%) for Weir Gabbioneta and 2.8% (2006: 2.6%) for Other. The discount rates applied to the cash flow forecasts are based on the weighted average, nominal, risk adjusted pre-tax cost of capital in the various geographical regions. The weighted average discount rates used were 14.8% for Weir SPM, 15.5% (2006: 14.8%) for the Warman companies, 14.3% (2006: 13.6%) for Weir Gabbioneta and 14.0% (2006: 13.5%) for Other.

In assessing the value in use of the CGUs, management have considered the potential impact of reasonably possible changes in the main assumptions used and believe that there are no such changes that would cause the carrying value of the units to exceed their recoverable amounts.

# Notes to the Group Financial Statements (Continued)

## 15. Investments in joint ventures & associate

The significant investments in joint ventures & associate are as follows.

	Joint ventures £m	Associate £m	Total £m
At 30 December 2005	7.4	13.5	20.9
Share of results	2.4	8.1	10.5
Share of dividends	(1.5)	-	(1.5)
Share of actuarial gain on defined benefit plans	-	4.4	4.4
Exchange adjustment	(0.8)	-	(0.8)
At 29 December 2006	7.5	26.0	33.5
Share of results	3.4	3.3	6.7
Share of dividends	(3.7)	(2.5)	(6.2)
Discontinued operations	-	(26.8)	(26.8)
At 28 December 2007	<b>7.2</b>	-	<b>7.2</b>

Details of the Group's share of the balance sheets, revenue and profits of its joint ventures & associate are given below.

	2007 £m	2006 £m
Share of joint ventures' balance sheet		
Goodwill	<b>2.6</b>	2.7
Current assets	<b>6.8</b>	7.0
Non-current assets	<b>2.0</b>	1.4
Current liabilities	<b>(3.7)</b>	(3.2)
Non-current liabilities	<b>(0.5)</b>	(0.4)
Net assets	<b>7.2</b>	7.5
Share of joint ventures' revenue & profit		
Revenue	<b>13.7</b>	12.1
Cost of sales	<b>(8.7)</b>	(8.4)
Selling & distribution costs	<b>(0.4)</b>	(0.5)
Administrative expenses	<b>(0.6)</b>	(0.4)
Income tax expense	<b>(0.6)</b>	(0.4)
Profit after tax	<b>3.4</b>	2.4
Carrying value of investments in joint ventures	<b>7.2</b>	7.5
Share of associate's balance sheet		
Current assets	-	30.2
Non-current assets	-	42.8
Current liabilities	-	(40.3)
Non-current liabilities	-	(6.7)
Net assets	-	26.0
Share of associate's revenue & profit		
Revenue	<b>55.0</b>	111.1
Profit after tax	<b>3.3</b>	8.1
Carrying value of investment in associate	-	26.0
Total carrying value of investments in joint ventures & associate	<b>7.2</b>	33.5

The Group's significant investments in joint ventures are listed on page 107.

## 16. Inventories

	2007 £m	2006 £m
Raw materials	46.8	30.3
Work in progress	48.3	41.6
Finished goods	78.4	49.0
	<b>173.5</b>	<b>120.9</b>

The carrying amount of inventory at fair value less costs to sell is £43.8m (2006:£36.6m). Write downs of inventory occur regularly in the general course of business and the amounts are considered to be insignificant. These are included in cost of sales in the income statement.

## 17. Trade & other receivables

	2007 £m	2006 £m
Trade receivables	220.7	172.1
Allowance for doubtful debts	(4.2)	(3.2)
	<b>216.5</b>	<b>168.9</b>
Other debtors	21.5	17.9
Sales tax receivable	6.8	5.7
Accrued income	2.8	4.2
Amounts owed by joint ventures & associate	-	0.2
Prepayments	7.6	6.9
	<b>255.2</b>	<b>203.8</b>

The average credit period on sales of goods is 54 days (2006: 59 days).

### Analysis of trade receivables

	2007 £m	2006 £m
Neither impaired nor past due	172.5	139.6
Past due but not impaired	44.0	29.3
Impaired	4.2	3.2
	<b>220.7</b>	<b>172.1</b>

### Ageing of past due but not impaired trade receivables

	2007 £m	2006 £m
Up to 3 months	36.6	21.9
Between 3 and 6 months	5.7	6.1
More than 6 months	1.7	1.3
	<b>44.0</b>	<b>29.3</b>

# Notes to the Group Financial Statements (Continued)

## 17. Trade & other receivables (continued)

### Movement in the allowance for doubtful debts

	2007 £m	2006 £m
Balance at beginning of period	(3.2)	(4.2)
Impairment losses recognised on receivables	(2.0)	(1.2)
Discontinued operations	0.3	-
Amounts written off as uncollectible	0.3	1.5
Amounts recovered during the year	0.3	0.3
Impairment losses reversed	0.2	0.3
Exchange adjustment	(0.1)	0.1
Balance at end of period	(4.2)	(3.2)

### Ageing of impaired trade receivables

	2007 £m	2006 £m
Up to 3 months	0.1	0.1
Between 3 and 6 months	0.3	0.3
More than 6 months	3.8	2.8
	4.2	3.2

## 18. Construction contracts

	2007 £m	2006 £m
Gross amount due from customers for contract work (included in current assets)	32.8	34.9
Gross amount due to customers for contract work (included in current liabilities)	55.9	46.3

For contracts in progress at the balance sheet date, the amount of contract costs incurred plus recognised profits less recognised losses to date was £188.2m (2006: £238.6m). The amount of retentions held by customers for contract work amounted to £1.0m (2006: £0.1m) and the amount of advances received from customers for contract work amounted to £152.5m (2006: £44.3m).

## 19. Cash & short-term deposits

	2007 £m	2006 £m
Cash at bank & in hand	51.6	43.6
Short-term deposits	2.6	102.7
	54.2	146.3

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

	2007 £m	2006 £m
Cash & short-term deposits	54.2	146.3
Bank overdrafts & short-term borrowings (note 20)	(8.1)	(7.2)
	46.1	139.1

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

## 20. Interest-bearing loans & borrowings

	2007 £m	2006 £m
Current		
Bank overdrafts	2.7	7.2
Short-term borrowings	5.4	-
	<b>8.1</b>	7.2
Bank loans	0.1	0.1
Obligations under finance leases (note 27)	0.3	0.2
	<b>8.5</b>	7.5
Non-current		
Bank loans	216.5	145.3
Obligations under finance leases (note 27)	0.5	0.6
	<b>217.0</b>	145.9
Bank loans comprise the following:		
C\$ variable rate loans 2009	89.5	76.7
A\$ variable rate loans 2009	76.9	68.4
US\$ variable rate loan 2009	50.1	-
Euro 5.4% fixed rate loan 2009	0.1	0.3
	<b>216.6</b>	145.4
Less: current instalments due on bank loans	<b>(0.1)</b>	(0.1)
	<b>216.5</b>	145.3

The A\$ and US\$ variable rate loans are borrowings under the Group's £300m five year syndicated multi-currency revolving credit facility which was entered into in July 2004. The A\$ loans bear interest at rates based on the bank bill swap rate or Australian dollar LIBOR. The current weighted average effective interest rate on the A\$ loans is 7.72% per annum (2006: 6.84% per annum).

The US\$ loan bears interest at rates based on US dollar LIBOR. The current effective interest rate on the US\$ loan is 5.42% per annum (2006: n/a).

The C\$ variable rate loans represent borrowings under four separate credit facilities. These loans bear interest at rates based on Canadian dollar LIBOR. The current weighted average effective interest rate on the C\$ loans is 5.46% per annum (2006: 4.75% per annum).

As at 28 December 2007, the undrawn committed facilities amounted to £173.0m (2006: £231.6m) on the £300m five year multi-currency revolving credit facility and C\$5.0m (2006: C\$5.0m) on the Canadian dollar credit facilities. The Group has further undrawn committed facilities under an additional revolving credit facility amounting to £85.0m.

The Euro loan is fixed at 5.4% and is repayable in quarterly instalments. The loan is secured over certain of the Group's local assets.

## 21. Trade & other payables

	2007 £m	2006 £m
Trade payables	142.1	128.4
Other creditors	14.0	8.5
Other taxes & social security costs	14.2	11.3
Accruals	61.4	48.0
Deferred income	26.1	16.2
	<b>257.8</b>	212.4

# Notes to the Group Financial Statements (Continued)

## 22. Provisions

	Warranties £m	Employee related £m	Discontinued operations warranty & indemnity £m	Rationalisation £m	Onerous sales contracts £m	Other £m	Total £m
At 29 December 2006	14.8	6.1	11.4	3.4	1.3	3.9	40.9
Additions	8.9	6.1	4.9	1.9	1.3	2.0	25.1
Acquisitions	2.7	0.1	-	-	-	-	2.8
Discontinued operations	(4.0)	-	-	-	-	-	(4.0)
Utilised	(3.9)	(1.0)	(6.4)	(2.6)	(0.5)	(1.9)	(16.3)
Unused	(1.9)	(0.5)	(1.2)	(0.3)	-	(0.6)	(4.5)
Exchange adjustment	1.0	0.3	-	-	(0.3)	0.4	1.4
At 28 December 2007	<b>17.6</b>	<b>11.1</b>	<b>8.7</b>	<b>2.4</b>	<b>1.8</b>	<b>3.8</b>	<b>45.4</b>
Current 2007	12.7	2.1	2.7	2.3	1.8	1.2	22.8
Non-current 2007	4.9	9.0	6.0	0.1	-	2.6	22.6
	<b>17.6</b>	<b>11.1</b>	<b>8.7</b>	<b>2.4</b>	<b>1.8</b>	<b>3.8</b>	<b>45.4</b>
Current 2006	11.0	2.0	7.3	2.8	1.3	2.9	27.3
Non-current 2006	3.8	4.1	4.1	0.6	-	1.0	13.6
	<b>14.8</b>	<b>6.1</b>	<b>11.4</b>	<b>3.4</b>	<b>1.3</b>	<b>3.9</b>	<b>40.9</b>

### Warranties

Provision has been made in respect of actual warranty and contract penalty claims on goods sold and services provided and allowance has been made for potential warranty claims based on past experience for goods and services sold with a warranty guarantee. It is expected that all costs related to such claims will have been incurred within five years of the balance sheet date.

### Employee related

Employee related provisions arise from legal obligations and claims primarily in the UK, Australia, South America and Europe. These provisions are based on management's best estimates of the likely costs. It is expected that the costs will be incurred in the period up to 2021.

### Discontinued operations warranty & indemnity

During 2005, the Company provided in full for residual liabilities of discontinued operations for which the Company retains responsibility. Provisions amounting to £6.4m were utilised during 2007 (2006: £2.1m) and, following the expiry of certain warranty periods, an amount of £1.2m has been released to the income statement as it is no longer required. Provisions have increased by £4.9m during 2007 in respect of the current year disposals (note 8).

The provision as at 28 December 2007 is based on management's current best estimate of the remaining liabilities. The actual outcome may differ, and in some cases, this may be dependent on the outcome of legal proceedings. It is expected that the majority of these costs will be incurred within two years of the balance sheet date with the remaining costs expected to be incurred within five years of the balance sheet date.

### Rationalisation

Rationalisation provisions relate primarily to costs associated with various ongoing restructuring activities across the Group. It is expected that the majority of the provision will be utilised in 2008 with remaining costs being incurred in the period up to 2010.

### Onerous sales contracts

Provision has been made in respect of sales contracts entered into for the sale of goods in the normal course of business where the unavoidable costs of meeting the obligations under the contracts exceeds the economic benefits expected to be received from the contracts. Provision is made immediately when it becomes apparent that expected costs will exceed the expected benefits of the contract. It is expected that the costs will be incurred within one year of the balance sheet date.

### Other

Other provisions relate principally to an environmental clean up programme in the United States, for a company acquired in 1992. The environmental provision is based on management's current best estimate of the expected costs under the programme. It is expected that these costs will be incurred in the period up to 2019.

### 23. Deferred tax

	2007 £m	2006 £m
<b>Consolidated balance sheet</b>		
Deferred income tax assets		
Post-employment benefits	<b>3.2</b>	3.5
Decelerated depreciation for tax purposes	<b>0.2</b>	0.3
Tax losses	-	2.6
US deferred interest deductions	<b>0.4</b>	3.2
Untaxed reserves	<b>20.1</b>	14.5
Offset against liabilities	<b>(20.8)</b>	(4.8)
Gross deferred income tax assets	<b>3.1</b>	19.3
Deferred income tax liabilities		
Post-employment benefits	<b>(12.8)</b>	(1.7)
Accelerated depreciation for tax purposes	<b>(3.0)</b>	(2.7)
Overseas tax on unremitted earnings	<b>(9.1)</b>	(7.6)
Intangible assets	<b>(47.8)</b>	(4.8)
Other temporary differences	<b>(1.4)</b>	(1.9)
Offset against assets	<b>20.8</b>	4.8
Gross deferred income tax liabilities	<b>(53.3)</b>	(13.9)
Net deferred income tax (liability) asset	<b>(50.2)</b>	5.4

The movement in deferred income tax asset and liabilities during the year is as follows.

	Post employment benefits £m	Accelerated depreciation for tax purposes £m	Tax losses £m	US deferred interest deductions £m	Overseas tax on unremitted earnings £m	Intangible assets £m	Other temporary differences £m	Total £m
At 30 December 2005	19.3	(1.5)	0.6	-	-	(4.8)	(0.1)	13.5
(Charged) credited to the income statement	(7.0)	(1.0)	2.1	3.2	(7.6)	0.1	15.6	5.4
Charged to equity	(10.1)	-	-	-	-	-	(2.9)	(13.0)
Exchange adjustment	(0.4)	0.1	(0.1)	-	-	(0.1)	-	(0.5)
At 29 December 2006	1.8	(2.4)	2.6	3.2	(7.6)	(4.8)	12.6	5.4
(Charged) credited to the income statement	(3.4)	(0.4)	(2.7)	(2.7)	(1.1)	2.1	3.3	(4.9)
(Charged) credited to equity	(7.9)	-	-	-	-	-	0.4	(7.5)
Acquisition of subsidiary	-	-	-	-	-	(43.7)	2.3	(41.4)
Exchange adjustment	(0.1)	-	0.1	(0.1)	(0.4)	(1.4)	0.1	(1.8)
At 28 December 2007	<b>(9.6)</b>	<b>(2.8)</b>	-	<b>0.4</b>	<b>(9.1)</b>	<b>(47.8)</b>	<b>18.7</b>	<b>(50.2)</b>

Untaxed reserves primarily relate to temporarily disallowed inventory / debtor provisions and accruals / provisions for liabilities where the tax allowance is deferred until the cash expense occurs.

Deferred tax asset balances for unused tax losses of £8.2m (2006: £9.5m) and deductible temporary differences of £4.0m (2006: £2.4m) have not been recognised on the grounds that there is insufficient evidence that these assets will be recoverable. These assets will be recovered when future tax charges are sufficient to absorb these tax benefits. Deferred tax asset balances for capital losses in the UK amounting to £16.1m (2006: £17.6m) have not been recognised but would be available in the event of future capital gains being incurred by the Group.

# Notes to the Group Financial Statements (Continued)

## 23. Deferred tax (continued)

### Temporary differences associated with Group investments

The Group has determined that the unremitted earnings of the South American subsidiaries will be distributed in the foreseeable future and accordingly, a deferred tax liability of £9.1m (2006: £7.6m) has been recognised in respect of taxes arising from such a distribution. As at 28 December 2007, this is the only recognised deferred tax liability in respect of taxes on unremitted earnings as the Group does not foresee a distribution of unremitted earnings from other subsidiaries or joint ventures which would result in a reversal of deferred tax.

The temporary differences associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognised aggregate to £465.8m (2006: £211.3m).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 24. Pensions & other post-employment benefit plans

The Group has six defined benefit pension plans in the UK and North America, all of which, with the exception of the main UK plan, are final salary pension plans. With effect from 23 November 2006, contribution salary in respect of the Group's main UK plan will increase in line with RPI up to a maximum of 5% per annum. The most significant of the defined benefit plans are the two UK plans and the Canadian plan. All defined benefit plans are closed to new members. For these closed plans, the current service cost is expected to increase under the projected unit method as the members of the plan approach retirement. The Group also provides certain additional post-retirement healthcare benefits to senior employees in the United States. These benefits are unfunded.

The assets and liabilities of the plans are as follows.

### 52 weeks ended 28 December 2007

	UK pensions £m	North American pensions £m	Post retirement healthcare £m	Total £m
Plans in surplus at 28 December 2007	44.0	1.5	-	45.5
Plans in deficit at 28 December 2007	(1.1)	(3.1)	(4.4)	(8.6)
	42.9	(1.6)	(4.4)	36.9
Plan assets at fair value				
Equities	208.5	4.6	-	213.1
Bonds	159.2	33.9	-	193.1
Insurance policy	218.5	18.3	-	236.8
Other	-	0.7	-	0.7
Fair value of plan assets	586.2	57.5	-	643.7
Present value of plan liabilities	(543.3)	(59.1)	(4.4)	(606.8)
Net pension asset (liability)	42.9	(1.6)	(4.4)	36.9

### 52 weeks ended 29 December 2006

	UK pensions £m	North American pensions £m	Post retirement healthcare £m	Total £m
Plans in surplus at 29 December 2006	5.9	1.9	-	7.8
Plans in deficit at 29 December 2006	(3.4)	(3.4)	(4.9)	(11.7)
	2.5	(1.5)	(4.9)	(3.9)
Plan assets at fair value				
Equities	396.7	26.0	-	422.7
Bonds	188.0	21.6	-	209.6
Other	-	0.9	-	0.9
Fair value of plan assets	584.7	48.5	-	633.2
Present value of plan liabilities	(582.2)	(50.0)	(4.9)	(637.1)
Net pension liability	2.5	(1.5)	(4.9)	(3.9)

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

## 24. Pensions & other post-employment benefit plans (continued)

The amounts recognised in the Group income statement and in the Group statement of recognised income and expense for the year are analysed as follows.

### 52 weeks ended 28 December 2007

	UK pensions £m	North American pensions £m	Post retirement healthcare £m	Total £m
<b>Recognised in the income statement</b>				
Current service cost	2.9	1.1	-	4.0
Expected return on plan assets	(33.1)	(3.0)	-	(36.1)
Interest cost on plan liabilities	29.8	2.8	0.3	32.9
Other finance (income) cost	(3.3)	(0.2)	0.3	(3.2)
<b>Taken to the statement of recognised income &amp; expense</b>				
Actual return on plan assets	13.5	2.9	-	16.4
Less: expected return on plan assets	(33.1)	(3.0)	-	(36.1)
	(19.6)	(0.1)	-	(19.7)
Other actuarial gains (losses)	50.2	(1.4)	0.4	49.2
Actuarial gains (losses) recognised in the statement of recognised income & expense	30.6	(1.5)	0.4	29.5

### 52 weeks ended 29 December 2006

	UK pensions £m	North American pensions £m	Post retirement healthcare £m	Total £m
<b>Recognised in the income statement</b>				
Current service cost	4.5	1.3	-	5.8
Negative past service cost	(10.7)	-	-	(10.7)
	(6.2)	1.3	-	(4.9)
Expected return on plan assets	(33.2)	(3.0)	-	(36.2)
Interest cost on plan liabilities	28.2	2.8	0.3	31.3
Other finance (income) cost	(5.0)	(0.2)	0.3	(4.9)
<b>Taken to the statement of recognised income &amp; expense</b>				
Actual return on plan assets	45.3	4.9	-	50.2
Less: expected return on plan assets	(33.2)	(3.0)	-	(36.2)
	12.1	1.9	-	14.0
Other actuarial gains	16.9	1.8	0.3	19.0
Actuarial gains recognised in the statement of recognised income & expense	29.0	3.7	0.3	33.0

# Notes to the Group Financial Statements (Continued)

## 24. Pensions & other post-employment benefit plans (continued)

Pension contributions are determined with the advice of independent qualified actuaries on the basis of annual valuations using the projected unit method. The Group made contributions of £6.5m in 2007 (2006: £7.0m) in addition to the employers' regular contributions. The total contributions to the defined benefit plans in 2008 are expected to be £5.5m. 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.

	UK pensions		North American pensions		Post-retirement healthcare	
	2007 %	2006 %	2007 %	2006 %	2007 %	2006 %
Main assumptions						
Rate of salary increase	<b>3.3</b>	3.1	<b>3.1</b>	3.1	<b>n/a</b>	n/a
Rate of increase in pensions in payment						
Pre 6 April 2006 service	<b>3.3</b>	2.8	<b>n/a</b>	n/a	<b>n/a</b>	n/a
Post 6 April 2006 service	<b>2.5</b>	2.5	<b>n/a</b>	n/a	<b>n/a</b>	n/a
Discount rate	<b>5.9</b>	5.2	<b>5.7</b>	5.4	<b>6.4</b>	5.8
Expected rates of return on plan assets						
Equities	<b>7.7</b>	7.7	<b>8.0</b>	7.4	<b>n/a</b>	n/a
Bonds	<b>4.3</b>	4.5	<b>4.2</b>	4.2	<b>n/a</b>	n/a
Insurance policy	<b>5.9</b>	n/a	<b>5.5</b>	n/a	<b>n/a</b>	n/a
Other	<b>n/a</b>	n/a	<b>2.5</b>	3.0	<b>n/a</b>	n/a
Inflation assumption	<b>3.3</b>	3.1	<b>2.3</b>	2.3	<b>2.5</b>	2.5
Rate of increase in healthcare costs	<b>n/a</b>	n/a	<b>n/a</b>	n/a	*	*

\* 9.5% per annum decreasing to 5% per annum and remaining static at that level from 2010 onwards.

	2007 Years	2006 Years	2007 Years	2006 Years	2007 Years	2006 Years
Post-retirement mortality						
Current pensioners at 65 - male	<b>18.1</b>	18.1	<b>19.2</b>	17.5	<b>18.1</b>	18.1
Current pensioners at 65 - female	<b>20.9</b>	20.9	<b>21.7</b>	21.3	<b>20.5</b>	20.5
Future pensioners at 65 - male	<b>19.6</b>	19.6	<b>22.4</b>	23.8	<b>18.1</b>	18.1
Future pensioners at 65 - female	<b>22.3</b>	22.3	<b>22.5</b>	27.7	<b>20.5</b>	20.5

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 2037 (in 30 years time).

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects.

	Increase 2007 £m	Decrease 2007 £m	Increase 2006 £m	Decrease 2006 £m
Effect on defined benefit obligation	<b>0.4</b>	<b>(0.3)</b>	0.4	(0.3)

## 24. Pensions & other post-employment benefit plans (continued)

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

	UK pensions £m	North American pensions £m	Post retirement healthcare £m	Total £m
As at 30 December 2005	596.5	57.1	6.1	659.7
Current service cost	4.5	1.3	-	5.8
Negative past service cost	(10.7)	-	-	(10.7)
Interest cost	28.2	2.8	0.3	31.3
Benefits paid	(21.9)	(3.2)	(0.4)	(25.5)
Contributions by employees	2.5	0.6	-	3.1
Actuarial gains & losses	(16.9)	(1.8)	(0.3)	(19.0)
Exchange adjustment	-	(6.8)	(0.8)	(7.6)
As at 29 December 2006	582.2	50.0	4.9	637.1
Current service cost	2.9	1.1	-	4.0
Interest cost	29.8	2.8	0.3	32.9
Benefits paid	(23.3)	(3.0)	(0.3)	(26.6)
Contributions by employees	1.9	0.5	-	2.4
Actuarial gains & losses	(50.2)	1.4	(0.4)	(49.2)
Exchange adjustment	-	6.3	(0.1)	6.2
As at 28 December 2007	<b>543.3</b>	<b>59.1</b>	<b>4.4</b>	<b>606.8</b>

The defined benefit obligation comprises £5.5m (2006: £5.9m) arising from unfunded plans and £601.3m (2006: £631.2m) from plans that are wholly or partially funded.

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

	UK pensions £m	North American pensions £m	Post retirement healthcare £m	Total £m
As at 30 December 2005	548.0	50.1	-	598.1
Expected return on plan assets	33.2	3.0	-	36.2
Employer contributions	10.8	2.5	0.4	13.7
Contributions by employees	2.5	0.6	-	3.1
Benefits paid	(21.9)	(3.2)	(0.4)	(25.5)
Actuarial gains & losses	12.1	1.9	-	14.0
Exchange adjustment	-	(6.4)	-	(6.4)
As at 29 December 2006	584.7	48.5	-	633.2
Expected return on plan assets	33.1	3.0	-	36.1
Employer contributions	9.4	2.0	0.3	11.7
Contributions by employees	1.9	0.5	-	2.4
Benefits paid	(23.3)	(3.0)	(0.3)	(26.6)
Actuarial gains & losses	(19.6)	(0.1)	-	(19.7)
Exchange adjustment	-	6.6	-	6.6
As at 28 December 2007	<b>586.2</b>	<b>57.5</b>	<b>-</b>	<b>643.7</b>

# Notes to the Group Financial Statements (Continued)

## 24. Pensions & other post-employment benefit plans (continued)

History of experience gains & losses

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
<b>UK pensions</b>					
Fair value of plan assets	586.2	584.7	548.0	463.5	419.8
Present value of defined benefit obligation	(543.3)	(582.2)	(596.5)	(548.2)	(511.3)
Surplus (deficit) in the plans	42.9	2.5	(48.5)	(84.7)	(91.5)
Experience adjustments arising on plan liabilities	1.6	(0.4)	1.1	0.4	
Changes in financial assumptions underlying plan liabilities	48.6	17.3	(37.1)	(19.9)	
Experience adjustments arising on plan assets	(19.6)	12.1	60.2	14.6	
<b>North American pensions</b>					
Fair value of plan assets	57.5	48.5	50.1	38.5	32.5
Present value of defined benefit obligation	(59.1)	(50.0)	(57.1)	(43.2)	(40.4)
Deficit in the plans	(1.6)	(1.5)	(7.0)	(4.7)	(7.9)
Experience adjustments arising on plan liabilities	(1.9)	(0.1)	(0.4)	0.5	
Changes in financial assumptions underlying plan liabilities	0.5	1.9	(4.8)	(2.1)	
Experience adjustments arising on plan assets	(0.1)	1.9	2.9	2.3	
<b>Post-retirement healthcare</b>					
Present value of defined benefit obligation	(4.4)	(4.9)	(6.1)	(5.9)	(7.0)
Experience adjustments arising on plan liabilities	(0.1)	-	0.1	(0.9)	
Changes in financial assumptions underlying plan liabilities	0.5	0.3	0.1	1.7	

The cumulative amount of actuarial gains and losses recognised in the Group statement of recognised income and expense since 28 December 2003 is a gain of £81.2m (2006: a gain of £51.7m).

The directors are unable to determine how much of the pension plan deficits are attributable to actuarial gains and losses since inception of those pension plans. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised on an IFRS basis in the Group statements of recognised income and expense before 27 December 2003.

## 25. Share capital & reserves

	2007 Number Million	2006 Number Million
<b>Authorised share capital</b>		
Ordinary shares of 12.5p each	288.0	288.0
The Company has one class of ordinary share which carries no rights to fixed income.		
<b>Issued &amp; fully paid share capital</b>		
At beginning of period	211.0	209.7
Issued during the year for cash on exercise of share options	0.9	1.3
Issued during the year in respect of LTIP awards	0.2	-
At end of period	212.1	211.0
	2007 £m	2006 £m
<b>Shares allotted</b>		
Aggregate nominal value of share options exercised	0.1	0.2
Share premium	2.3	2.9
Consideration received on exercise of share options	2.4	3.1

## 25. Share capital & reserves (continued)

	2007 Number Million	2006 Number Million
<b>Treasury shares</b>		
At beginning of period	3.3	3.3
Issued during the year in respect of LTIP awards	(0.4)	-
At end of period	2.9	3.3

### Reconciliation of movements in equity

	Attributable to equity holders of the Company					Minority interest	Total equity
	Share capital £m	Share premium £m	Treasury shares £m	Reserves £m	Total £m	£m	£m
At 30 December 2005	26.2	32.5	(10.7)	242.6	290.6	0.4	291.0
Total recognised income & expense for the period	-	-	-	104.1	104.1	-	104.1
Cost of share-based payments	-	-	-	1.4	1.4	-	1.4
Dividends	-	-	-	(27.7)	(27.7)	-	(27.7)
Exercise of options	0.2	2.9	-	-	3.1	-	3.1
At 29 December 2006	26.4	35.4	(10.7)	320.4	371.5	0.4	371.9
Total recognised income & expense for the period	-	-	-	200.5	200.5	0.1	200.6
Cost of share-based payments	-	-	-	1.4	1.4	-	1.4
Dividends	-	-	-	(31.1)	(31.1)	-	(31.1)
Exercise of options & LTIP awards	0.1	2.3	1.4	(1.4)	2.4	-	2.4
At 28 December 2007	<b>26.5</b>	<b>37.7</b>	<b>(9.3)</b>	<b>489.8</b>	<b>544.7</b>	<b>0.5</b>	<b>545.2</b>

# Notes to the Group Financial Statements (Continued)

## 25. Share capital & reserves (continued)

	Capital redemption reserve £m	Foreign currency translation reserve £m	Hedge accounting reserve £m	Retained earnings £m	Total reserves £m
At 30 December 2005	0.5	9.9	(3.7)	235.9	242.6
Total recognised income & expense for the period	-	(12.8)	7.2	109.7	104.1
Cost of share-based payments	-	-	-	1.4	1.4
Dividends	-	-	-	(27.7)	(27.7)
At 29 December 2006	0.5	(2.9)	3.5	319.3	320.4
Total recognised income & expense for the period	-	3.1	-	197.4	200.5
Cost of share-based payments	-	-	-	1.4	1.4
Dividends	-	-	-	(31.1)	(31.1)
LTIP awards	-	-	-	(1.4)	(1.4)
At 28 December 2007	<b>0.5</b>	<b>0.2</b>	<b>3.5</b>	<b>485.6</b>	<b>489.8</b>

### Capital redemption reserve

The capital redemption reserve was created by a repurchase and cancellation of own shares during the 53 weeks ended 1 January 1999.

### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations. Included in the £3.1m movement in the year is a charge of £7.9m (2006: £nil) in respect of the Group's hedge of its net investment in foreign operations.

### Hedge accounting reserve

This reserve records the portion of the gains or losses on hedging instruments used as cash flow hedges that are determined to be effective. Gains (net) transferred from equity into profit or loss during the period are included in the following line items in the income statement.

	2007 £m	2006 £m
Revenue	<b>0.4</b>	-
Cost of sales	<b>1.3</b>	-
Profit for the period from discontinued operations (revenue)	<b>0.2</b>	1.1
Profit for the period from discontinued operations (exceptional items)	<b>4.3</b>	-
	<b>6.2</b>	1.1

## 26. Additional cash flow information

	2007 £m	2006 £m
<b>Continuing operations</b>		
<b>Net cash generated from operations</b>		
Operating profit	<b>115.9</b>	91.1
Exceptional items	-	(15.7)
Share of results of joint ventures	<b>(3.4)</b>	(2.4)
Depreciation & amortisation	<b>23.7</b>	17.5
(Gains) losses on disposal of property, plant & equipment & investments	<b>(0.6)</b>	0.2
Funding of pension & post-retirement costs	<b>(1.2)</b>	(0.9)
(Gains) losses on derivatives that have been taken to operating profit	<b>(1.9)</b>	-
Employee share schemes	<b>1.4</b>	1.4
Increase in provisions	<b>7.3</b>	1.9
Increase in inventories	<b>(16.1)</b>	(6.6)
Increase in trade & other receivables & construction contracts & derivative financial instruments	<b>(20.7)</b>	(20.1)
Increase in trade & other payables & construction contracts & derivative financial instruments	<b>47.4</b>	44.6
Cash generated from operations	<b>151.8</b>	111.0
Additional pension contributions paid	<b>(6.5)</b>	(7.0)
Fundamental restructuring costs paid	<b>(0.4)</b>	(3.3)
Income tax paid	<b>(33.1)</b>	(16.5)
Net cash generated from operating activities	<b>111.8</b>	84.2
<b>Acquisitions of subsidiaries</b>		
Current year acquisitions (note 13)	<b>(317.7)</b>	(0.8)
Previous year acquisitions deferred consideration paid	<b>(0.1)</b>	(1.3)
	<b>(317.8)</b>	(2.1)
<b>Disposals of subsidiaries &amp; associate</b>		
Current year disposals (note 8)	<b>125.2</b>	-
Previous year disposals	<b>2.1</b>	(1.8)
	<b>127.3</b>	(1.8)
<b>Reconciliation of net (decrease) increase in cash &amp; cash equivalents to movement in net debt</b>		
Net (decrease) increase in cash & cash equivalents from continuing operations	<b>(96.0)</b>	17.2
Net increase in cash & cash equivalents from discontinued operations	<b>0.9</b>	20.2
Net (increase) decrease in debt	<b>(50.6)</b>	19.5
Change in net debt resulting from cash flows	<b>(145.7)</b>	56.9
Lease acquired	<b>(0.2)</b>	-
Foreign currency translation differences	<b>(18.3)</b>	12.4
Change in net debt during the period	<b>(164.2)</b>	69.3
Net debt at beginning of period	<b>(7.1)</b>	(76.4)
Net debt at end of period	<b>(171.3)</b>	(7.1)
<b>Net debt comprises the following</b>		
Cash & short term deposits (note 19)	<b>54.2</b>	146.3
Current interest-bearing loans & borrowings (note 20)	<b>(8.5)</b>	(7.5)
Non-current interest-bearing loans & borrowings (note 20)	<b>(217.0)</b>	(145.9)
	<b>(171.3)</b>	(7.1)

# Notes to the Group Financial Statements (Continued)

## 27. Commitments & contingencies

### Operating lease commitments

The Group has entered into commercial leases for land and buildings, motor vehicles and plant and equipment. Land and building leases have an average term of between three and ten years, motor vehicles leases have an average term of between three and four years and plant and equipment leases have an average term of between five and six years. Certain leases have terms of renewal, at the option of the lessee, but there are no purchase options or escalation clauses. Future minimum rentals payable under non-cancellable operating leases are as follows.

	2007 £m	2006 £m
Within one year	8.1	6.5
After one year but not more than five years	18.3	12.8
More than five years	6.1	2.3
	<b>32.5</b>	<b>21.6</b>

### Finance lease commitments

The Group has finance leases for various items of plant and equipment and purchased software. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows.

	2007 Minimum payments £m	2007 Present value of payments £m	2006 Minimum payments £m	2006 Present value of payments £m
Within one year	0.3	0.3	0.3	0.2
After one year but not more than five years	0.6	0.5	0.5	0.5
More than five years	-	-	0.1	0.1
Total minimum lease payments	<u>0.9</u>		<u>0.9</u>	
Less amounts representing finance charges	<u>(0.1)</u>		<u>(0.1)</u>	
Present value of minimum lease payments	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>

It is the Group's policy to lease certain of its assets under finance leases. The weighted average outstanding lease term is 3.48 years (2006: 4.45 years). For the 52 weeks ended 28 December 2007, the weighted average effective borrowing rate was 5.55% (2006: 5.55%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

### Capital commitments

	2007 £m	2006 £m
Outstanding capital commitments contracted but not provided for - property, plant & equipment	<b>6.8</b>	2.5

The Group's share of the capital commitments of its joint ventures amounted to £0.3m (2006: £0.1m).

### Legal claims

The company and certain subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the normal course of business. To the extent not already provided for, the directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

## 28. Equity settled share-based payments

### LTIP

Three types of award may be made under the LTIP to senior executives: performance shares, matching shares and investment shares. All awards vest over a three year period.

### Performance shares

Performance shares are conditional awards to acquire free shares subject to Group performance. In 2007, conditional awards of performance shares were made worth 70% (2006: 70%) of salary to the chief executive, 45% (2006: 100%) of salary to the Group finance director and 80% (2006: 45%) to the legal and commercial director. Other conditional awards of performance shares made in 2007 were 40% (2006: 40%) of salary to other senior executives who participate in the matching shares awards, and 25% (2006: 25%) of salary to other senior executives who do not participate in that plan. At the 2008 annual general meeting of the Company, shareholder approval will be sought to amend the terms of the LTIP to (i) increase the annual limit on performance shares from 80% of salary to 100% of salary and (ii) provide flexibility to increase such limit to 150% of salary in such circumstances as the Remuneration Committee determine exceptional (currently the exceptional limit is restricted for use in connection with recruitment). The changes are being proposed following the Remuneration Committee concluding that the current annual limits constrain the Company's ability to make market competitive performance share awards. No other changes to the terms of the LTIP are envisaged.

### Matching & investment shares

Matching shares are conditional awards to acquire free shares, subject to Group performance. The chief executive, other executive directors and senior executives are required to compulsorily defer an element of any Group bonus earned for the preceding financial year in exchange for which they are awarded investment shares. They are also allowed to voluntarily invest the balance of the Group bonus (subject to any cap imposed by the Remuneration Committee, currently 20%) in shares. In return, they receive a conditional award of matching shares worth a maximum of 2.5 times the pre-tax value of the bonus invested.

The value of shares for this purpose will be the average published closing price of a share for the three dealing days immediately preceding the date of grant of the award of shares.

The conditional awards of performance shares and matching shares only vest if a highly demanding performance condition is achieved. For awards granted in 2004, 2005, 2006 and 2007, the performance condition is based on the growth in the Company's Total Shareholder Return ("TSR") over a single three year performance period (three consecutive financial years beginning with the year in which the grant is made) relative to the growth in the TSR of a comparator group, to comprise the following 20 companies: AGA Foodservice Group, Bodycote International, Cookson Group, Domnick Hunter Group, Enodis, FKI, Halma, IMI, Kidde, Meggitt, Mitie Group, Morgan Crucible Company, Rolls-Royce, Rotork, Senior, Smiths Group, Spirax-Sarco Engineering, Tomkins, Wood Group and WS Atkins, except that Domnick Hunter Group and Kidde were not included in the comparator group for the 2006 and 2007 awards as they were de-listed from the London Stock Exchange in December 2005 and April 2005 respectively. Only if the Company's TSR ranks in the upper quintile of this group will the full awards vest. This reduces on a sliding scale so that for median performance, 25% of the awards will vest. For below median performance, none of the awards will vest.

In addition to TSR performance, for any of the performance and matching shares to vest, the growth in the Company's earnings per share over the performance period must be equal to or greater than the growth in the UK Retail Price Index over the same period.

The following table illustrates the number and weighted average share prices (WASP) of shares awarded under the LTIP.

	2007 Number Million	2007 WASP	2006 Number Million	2006 WASP
Outstanding at the beginning of the period	2.3	£3.55	1.7	£3.15
Awarded during the period	0.5	£7.27	0.7	£4.45
Exercised during the period	(0.6)	£7.22	-	-
Forfeited during the period	(0.3)	£6.01	(0.1)	£4.15
Outstanding at the end of the period	1.9	£4.75	2.3	£3.55

An amount of £1.4m (2006: £1.3m) has been charged to the income statement in respect of the number of awards which are expected to be made at the end of the vesting period. This comprises an amount of £0.5m (2006: £0.4m) in respect of parent company employees and £0.9m (2006: £0.9m) in respect of employees of subsidiaries. Subsidiary companies made a cash contribution to the parent company of £0.9m (2006: £0.9m) in the year in respect of their LTIP awards.

The remaining contractual lives of the outstanding LTIP awards at the end of the period are as follows.

Year of award	2007 Number Million	2007 Remaining contractual life	2006 Number Million	2006 Remaining contractual life
2004	-	-	0.8	5 months
2005	0.7	3 months	0.8	15 months
2006	0.7	15 months	0.7	27 months
2007	0.5	30 months	-	-

# Notes to the Group Financial Statements (Continued)

## 28. Equity settled share-based payments (continued)

### Share option schemes

The Company operated a discretionary executive share option scheme ("the Executive Scheme") under which options could be granted to those senior executives of the Group whose skills and experience the Remuneration Committee believed to be important to the success of the Group.

The Executive Scheme, which was approved in 1994, expired in May 2004. Under the rules of the Scheme, share options could be granted up to a maximum value of four times a participant's earnings. Options were granted at the mid market price of the share at the date of grant. The right to exercise an Executive Scheme option is subject to performance conditions as determined by the Committee at the date of grant.

The performance criteria applicable for the options granted after 2000 were for the growth in the Company's normalised earnings per share over a three year period, to either exceed by nine percent the growth in the retail price index of the UK over that three year period, or exceed the weighted average growth during that three year period of the normalised earnings per share of those companies in the FTSE All Share Industrial Engineering sector. This is re-tested every year from the third anniversary of the grant of the option to the date the option lapses.

In addition, the Company operated a savings-related share option scheme in the UK which was not subject to performance criteria. This scheme was closed in 2004.

The following table illustrates the number and weighted average exercise prices (WAEP) of share options.

	2007 Number Million	2007 WAEP	2006 Number Million	2006 WAEP
Outstanding at the beginning of the period	1.3	£2.45	2.8	£2.40
Expired during the period	(0.2)	£2.43	(0.2)	£2.43
Exercised during the period	(0.9)	£2.54	(1.3)	£2.35
Outstanding at the end of the period*	0.2	£2.03	1.3	£2.45
Exercisable at the end of the period	-	£2.29	0.6	£2.51

\*Included within this balance are options over 13,246 (2006: 804,225) shares that have not been recognised in accordance with IFRS2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS2.

The weighted average share price during the period was 707.3p (2006: 458.4p).

Share options outstanding at the end of the period have the following exercise prices.

	Price per share	2007 Number Million	2007 Remaining contractual life	2006 Number Million	2006 Remaining contractual life
Executive Share Option Scheme 1994	246.50p	-	-	0.2	39 months
	251.50p	-	-	0.2	63 months
	262.50p	-	-	0.2	80 months
	273.00p	-	-	0.2	99 months
Savings Related Share Option Scheme 2001	260.00p	-	-	0.2	12 months
	201.00p	0.2	12 months	0.3	24 months

### Fair value of equity settled share-based payments

The fair value of the conditional awards under the LTIP has been estimated using the Monte Carlo simulation model. The following table gives the assumptions made during the 52 weeks ended 28 December 2007 and the 52 weeks ended 29 December 2006.

	2007	2006
Weighted average dividend yield (%)	1.99	4.11
Weighted average expected volatility (%)	24.00	23.11
Weighted average expected life (years)	3.00	3.00
Weighted average risk free rate (%)	5.70	4.44
Weighted average share price (pence)	727p	445p
Weighted average fair value (pence)	495p	219p

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.

## 29. Related party disclosures

The following table provides the total amount of significant transactions which have been entered into with related parties for the relevant financial year and outstanding balances at the period end.

Related party		Management charge to related parties £m	Sales to related parties - goods £m	Sales to related parties - services £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Joint ventures	<b>2007</b>	-	-	<b>0.1</b>	-	-
	2006	-	0.2	0.4	-	-
Associate	<b>2007</b>	<b>0.4</b>	<b>0.1</b>	<b>0.7</b>	-	-
	2006	0.7	0.3	1.1	0.2	-
Group pension schemes	<b>2007</b>	-	-	-	-	<b>0.4</b>
	2006	-	-	-	-	0.6

Contributions to the Group pension plans are disclosed in notes 4 and 24.

### Terms & conditions of transactions with related parties

Sales to and from related parties are made at normal market prices. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party balances. For the 52 weeks ended 28 December 2007, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2006: £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

### Compensation of key management personnel

	2007 £m	2006 £m
Short-term employee benefits	<b>2.9</b>	2.4
Share-based payments	<b>0.5</b>	0.4
	<b>3.4</b>	2.8

Key management comprises the Board of directors. Further details of their remuneration can be found in the Remuneration Committee Report on page 34.

## 30. Financial instruments

### Financial risk management objectives & policies

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

### Foreign currency risk

The Group has invested in operations outside the United Kingdom and also buys and sells goods and services in currencies other than in the functional currency of its subsidiary operations. As a result, the Group's non sterling revenues, profits, assets, liabilities and cash flows can be affected by movements in exchange rates.

Foreign currency risks may exist in respect of financial instruments which are denominated in a currency that is not the functional currency of the Group's subsidiary operations and which are of a monetary nature. The Group seeks to minimise these risks by ensuring that major non-derivative monetary financial instruments (receivables, payables, cash and short-term deposits and interest-bearing loans and borrowings) are either directly denominated in the functional currency of the Group's subsidiary operations or are transferred to the functional currency through the use of derivatives. Exchange rate fluctuations in respect of these financial instruments therefore have no significant effects on profit or loss or shareholders' equity.

The exception to the above is the US\$100.0m variable rate loan which is not denominated in the functional currency of the borrowing entity. This borrowing forms part of the Group's hedge of its net investment in foreign operations and, as such, exchange rate fluctuations in respect of this borrowing have no effect on profit or loss and would be offset within shareholders' equity.

# Notes to the Group Financial Statements (Continued)

## 30. Financial instruments (continued)

Similarly, the Group's cross currency swaps, amounting to US\$403.0m, and certain forward foreign currency contracts, amounting to US\$150.0m, are not denominated in the functional currency of the borrowing entity. These derivative financial instruments also form part of the Group's hedge of its net investment in foreign operations and therefore exchange rate fluctuations in respect of these financial instruments have no effect on profit or loss and would be offset within shareholders' equity.

The Group also maintains a policy that all operating units hedge using forward foreign currency contracts to eliminate exposures on material committed transactions. In addition, it is Group policy that those companies where the most significant concentration of foreign currency risk has been identified also apply hedge accounting. It is Group policy not to engage in any speculative transaction of any kind. Therefore, some of the Group's forward foreign currency contracts form part of an effective cash flow hedge. Exchange rate fluctuations in respect of the forward foreign currency contracts which form part of a cash flow hedge will have an impact on shareholders' equity. Exchange rate fluctuations in respect of the other forward foreign currency contracts will have an impact on profit or loss.

The Group considers the most significant foreign currency risk relates to the Australian dollar, Canadian dollar, Euro and US dollar. The following table demonstrates the sensitivity of outstanding forward foreign currency contracts to a reasonably possible change in these foreign currency exchange rates with all other variables held constant. The sensitivity analysis shows the effect on profit or loss in respect of the outstanding forward foreign currency contracts in those subsidiary operations which are not required by the Group to apply hedge accounting and the effect on shareholders' equity in respect of the outstanding forward foreign currency contracts in those subsidiary operations which do apply hedge accounting, both analysed by the relevant foreign currency. The sensitivity analysis adjusts their translation at the year end for a 5% strengthening of sterling against the relevant exchange rates.

	Increase in currency rate	Effect on profit £m	Effect on equity £m
<b>2007</b>			
Australian dollar	+5%	-	-
Canadian dollar	+5%	0.4	-
Euro	+5%	0.2	(0.7)
United States dollar	+5%	1.0	3.3
<b>2006</b>			
Australian dollar	+5%	0.1	-
Canadian dollar	+5%	0.1	-
Euro	+5%	0.1	(1.0)
United States dollar	+5%	0.1	7.0

A 5% decrease in currency rate would have an equal and opposite effect.

### Commodity price risk

The Group'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 counterparties are financial institutions with high credit-ratings assigned by international credit rating agencies. The Group's credit risk is primarily attributable to its trade receivables and amounts due under construction contracts. The Group is exposed to risk over a large number of countries and customers and there is no significant concentration of risk. Where appropriate, the Group endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance. Credit worthiness checks are also undertaken before entering into contracts with new customers and credit limits are set as appropriate. Due to long established relationships with the majority of customers, the Group does not consider there to be a significant credit quality issue. 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.

### 30. Financial instruments (continued)

#### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. Further details of the Group's borrowing facilities are disclosed in note 20.

The tables below summarise the Group's remaining contractual maturity for its financial liabilities at 28 December 2007 and 29 December 2006. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

#### 52 weeks ended 28 December 2007

	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Trade payables & construction contracts	-	(155.0)	(43.0)	-	-	(198.0)
Obligations under finance leases	-	(0.1)	(0.2)	(0.6)	-	(0.9)
Bank overdrafts & short-term borrowings	(2.7)	(5.4)	-	-	-	(8.1)
Bank loans	-	(3.8)	(9.1)	(222.1)	-	(235.0)
	(2.7)	(164.3)	(52.3)	(222.7)	-	(442.0)
Cross currency swaps	-	(2.7)	(45.7)	(175.5)	-	(223.9)
Forward foreign currency contracts	-	(214.7)	(267.7)	(4.5)	-	(486.9)

#### 52 weeks ended 29 December 2006

	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Trade payables & construction contracts	-	(139.0)	(35.7)	-	-	(174.7)
Obligations under finance leases	-	(0.1)	(0.2)	(0.5)	(0.1)	(0.9)
Bank overdrafts	(7.2)	-	-	-	-	(7.2)
Bank loans	-	(2.1)	(6.3)	(158.5)	-	(166.9)
	(7.2)	(141.2)	(42.2)	(159.0)	(0.1)	(349.7)
Forward foreign currency contracts	-	(66.6)	(271.5)	(58.1)	-	(396.2)

#### Interest rate risk

The majority of the Group's borrowings are at variable rates of interest. Interest rate risk is regularly monitored to ensure that the mix of variable and fixed rate borrowing is appropriate for the Group in the short to medium term.

#### Interest rate maturity profile of financial assets & liabilities

The following tables set out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk.

#### 52 weeks ended 28 December 2007

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<b>Fixed rate</b>							
Obligations under finance leases	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)	-	(0.8)
Bank loans	(0.1)	-	-	-	-	-	(0.1)
<b>Floating rate</b>							
Cash & short-term deposits	54.2	-	-	-	-	-	54.2
Bank overdrafts & short-term borrowings	(8.1)	-	-	-	-	-	(8.1)
Bank loans	-	(216.5)	-	-	-	-	(216.5)
Cross currency swaps	(1.0)	(1.0)	(1.0)	(1.0)	(0.9)	-	(4.9)

# Notes to the Group Financial Statements (Continued)

## 30. Financial instruments (continued)

52 weeks ended 29 December 2006

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
<b>Fixed rate</b>							
Obligations under finance leases	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.8)
Bank loans	(0.1)	(0.2)	-	-	-	-	(0.3)
<b>Floating rate</b>							
Cash & short-term deposits	146.3	-	-	-	-	-	146.3
Bank overdrafts	(7.2)	-	-	-	-	-	(7.2)
Bank loans	-	-	(145.1)	-	-	-	(145.1)

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax through the impact on floating rate borrowings and cross currency swaps. There is no impact on the Group's equity. Currency derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

	Increase in basis points	Effect on profit before tax £m
<b>2007</b>		
Australian dollar	+ 25	(0.2)
Canadian dollar	+ 25	(0.2)
United States dollar	+ 25	(0.6)
UK sterling	+ 25	0.5
<b>2006</b>		
Australian dollar	+ 25	(0.2)
Canadian dollar	+ 25	(0.2)
United States dollar	+ 25	n/a
UK sterling	+ 25	n/a

A decrease of 25 basis points would have an equal and opposite effect.

### 30. Financial instruments (continued)

#### Fair values

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

	Carrying amount 2007 £m	Fair value 2007 £m	Carrying amount 2006 £m	Fair value 2006 £m
<b>Financial assets</b>				
Fair value through profit or loss				
Held for trading	5.8	5.8	1.4	1.4
Derivative instruments in designated hedge accounting relationships	6.0	6.0	10.0	10.0
Loans & receivables (cash & short-term deposits)	54.2	54.2	146.3	146.3
<b>Financial liabilities</b>				
Fair value through profit or loss				
Held for trading	(10.8)	(10.8)	(0.5)	(0.5)
Derivative instruments in designated hedge accounting relationships	(6.1)	(6.1)	(4.3)	(4.3)
Amortised cost				
Bank overdrafts & short-term borrowings	(8.1)	(8.1)	(7.2)	(7.2)
Obligations under finance leases	(0.8)	(0.8)	(0.8)	(0.8)
Floating rate borrowings	(216.5)	(216.5)	(145.1)	(145.1)
Fixed rate borrowings	(0.1)	(0.1)	(0.3)	(0.3)

The fair value of forward foreign currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of cross currency swaps is calculated by reference to market values. The fair value of all other items has been calculated by discounting the expected future cash flows at prevailing interest rates. The carrying amount of the other financial instruments of the Group, i.e. short-term trade receivables and payables that are not included in the above table, is a reasonable approximation of fair value. The carrying amount recorded in the balance sheet of each financial asset, including derivative financial instruments, represents the Group's maximum exposure to credit risk.

#### Derivative financial instruments

	2007 £m	2006 £m
<b>Included in non-current assets</b>		
Forward foreign currency contracts designated as cash flow hedges	1.0	4.9
Other forward foreign currency contracts	0.2	-
	<b>1.2</b>	<b>4.9</b>
<b>Included in current assets</b>		
Forward foreign currency contracts designated as cash flow hedges	5.0	5.1
Other forward foreign currency contracts	5.6	1.4
	<b>10.6</b>	<b>6.5</b>
<b>Included in current liabilities</b>		
Forward foreign currency contracts designated as cash flow hedges	0.9	2.5
Forward foreign currency contracts designated as net investment hedges	0.2	-
Cross currency swaps designated as net investment hedges	1.0	-
Other forward foreign currency contracts	9.7	0.5
	<b>11.8</b>	<b>3.0</b>
<b>Included in non-current liabilities</b>		
Forward foreign currency contracts designated as cash flow hedges	0.1	1.8
Cross currency swaps designated as net investment hedges	3.9	-
Other forward foreign currency contracts	1.1	-
	<b>5.1</b>	<b>1.8</b>

The net credit included in the income statement in respect of the change in fair value of forward foreign currency contracts that have not been subject to hedge accounting was £1.1m (2006: £1.5m).

# Notes to the Group Financial Statements (Continued)

## 30. Financial instruments (continued)

### Cash flow hedges

At 28 December 2007, the Group held over 500 (2006: over 900) forward foreign currency contracts designated as hedges of expected future sales or purchases for which the Group has firm commitments. The forward foreign currency contracts are used to eliminate currency risk of material firm commitments. The terms of the contracts are negotiated to match the terms of the commitments. Any gains and losses on ineffective hedges were taken to the income statement in the year. The weighted average terms of the contracts are as follows.

### Forward foreign currency contracts to hedge expected future sales & purchases

#### 52 weeks ended 28 December 2007

	Sell currency m	Sterling equivalent £m	Weighted average exchange rate	Buy currency m	Sterling equivalent £m	Weighted average exchange rate	Maturity dates
Euro	4.1	2.8	1.46	24.5	17.2	1.42	2008
	0.8	0.5	1.47	4.7	3.3	1.43	2009
Danish kroner	-	-	-	121.5	11.5	10.57	2008
	-	-	-	33.1	3.1	10.69	2009
Norwegian kroner	2.0	0.2	11.24	28.5	2.5	11.48	2008
	-	-	-	11.8	1.0	11.89	2009
Swiss franc	-	-	-	20.8	9.4	2.20	2008
	-	-	-	4.2	1.9	2.21	2009
United States dollar	119.5	63.6	1.88	7.5	3.9	1.93	2008
	38.4	20.1	1.92	-	-	-	2009
Yen	-	-	-	590.1	2.8	208.71	2008
	-	-	-	121.3	0.6	204.31	2009

#### 52 weeks ended 29 December 2006

	Sell currency m	Sterling equivalent £m	Weighted average exchange rate	Buy currency m	Sterling equivalent £m	Weighted average exchange rate	Maturity dates
Canadian dollar	0.6	0.3	2.14	-	-	-	2007
Euro	11.8	8.2	1.43	16.1	11.5	1.41	2007
	2.9	2.0	1.42	24.4	17.2	1.43	2008
	-	-	-	5.7	4.0	1.43	2009
Danish kroner	-	-	-	70.0	6.7	10.40	2007
	-	-	-	121.5	11.5	10.57	2008
	-	-	-	33.1	3.1	10.69	2009
Norwegian kroner	2.0	0.2	11.30	11.4	1.0	11.25	2007
	2.0	0.2	11.24	28.5	2.5	11.48	2008
	-	-	-	11.8	1.0	11.89	2009
Swiss franc	-	-	-	27.9	13.0	2.15	2007
	-	-	-	19.7	9.0	2.19	2008
	-	-	-	4.2	1.9	2.21	2009
United States dollar	126.9	77.7	1.63	3.2	2.2	1.47	2007
	135.6	73.5	1.84	0.6	0.3	1.94	2008
	45.5	24.0	1.89	-	-	-	2009
	0.6	0.4	1.80	-	-	-	2010
	3.0	1.7	1.83	-	-	-	2011
Yen	48.6	0.3	190.59	334.7	1.7	193.55	2007
	-	-	-	328.1	1.6	199.91	2008
	-	-	-	106.3	0.5	202.48	2009

Certain of the Group's cash flow hedges were deemed to be ineffective during the year resulting in a net credit to the income statement of £4.6m (2006: £0.1m). Included in the £4.6m was £4.3m in respect of Weir Pumps which was recycled to the income statement in accordance with IAS39 on disposal of the business and this is included within profit for the period from discontinued operations.

### Net investment in foreign operation

The US dollar variable rate loan included in interest-bearing loans and borrowings, amounting to US\$100.0m, plus cross currency swaps and forward foreign currency contracts amounting to US\$553.0m have been designated as a hedge of the net investment in SPM Flow Control, Inc. and are being used to hedge the Group's exposure to foreign exchange risk on this investment. Gains or losses on the retranslation of this borrowing and the fair value of the cross currency swaps and forward foreign currency contracts are transferred to equity to offset any gains or losses on translation of the net investment in this subsidiary. The US\$403.0m cross currency swaps mature between 2008 and 2012 and the US\$150.0m forward foreign currency contracts mature in 2008.

### 31. Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using the following indicators.

#### Gearing ratio

Gearing comprises net debt divided by total equity. Net debt comprises cash and short-term deposits and interest-bearing loans and borrowings (see note 26).

	2007	2006
Net debt (£m)	<b>171.3</b>	7.1
Total equity (£m)	<b>545.2</b>	371.9
Gearing ratio (%)	<b>31</b>	2

#### Net debt to EBITDA cover

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

	2007	2006
Net debt (£m)	<b>171.3</b>	7.1
Operating profit (£m)	<b>115.9</b>	91.1
Exceptional items (£m)	-	15.7
Depreciation & amortisation (£m)	<b>23.7</b>	17.5
EBITDA (£m)	<b>139.6</b>	124.3
Net debt to EBITDA cover (ratio)	<b>1.2</b>	0.1

#### Interest cover

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

	2007	2006
Operating profit before exceptional items & intangibles amortisation (£m)	<b>122.1</b>	77.7
Net finance costs (£m)	<b>5.1</b>	5.5
Interest cover (ratio)	<b>23.9</b>	14.1

### 32. Exchange rates

The principal exchange rates applied in the preparation of these financial statements were as follows.

	2007	2006
<b>Average rate</b>		
United States dollar (per £)	<b>2.01</b>	1.86
Australian dollar (per £)	<b>2.39</b>	2.45
Euro (per £)	<b>1.46</b>	1.47
Canadian dollar (per £)	<b>2.14</b>	2.10
<b>Closing rate</b>		
United States dollar (per £)	<b>2.00</b>	1.96
Australian dollar (per £)	<b>2.27</b>	2.48
Euro (per £)	<b>1.37</b>	1.49
Canadian dollar (per £)	<b>1.96</b>	2.28