

# Directors Report

The directors are pleased to present their 115th annual report, together with the audited financial statements, for the 52 weeks ended 26 December 2008.

## Cautionary statement

This annual report and financial statements have been prepared for the shareholders of the Company, as a body and no other persons. The various reports contain forward looking statements that are subject to risk factors because of the nature of the sector and markets in which the Group operates and reflect the knowledge and information available at the date of the preparation of these financial statements.

Statements made in the Chairman's Statement, Chief Executive's Review, Operational Reviews and Financial Review in respect of divisional performance are made on a continuing business basis and operating profits are stated before intangibles amortisation. Operating profit before intangibles amortisation, which is a non-IFRS measure, is the primary performance measure used by management as it is felt that the exclusion of these items provides more relevant information to users of the financial statements and a more useful indication of the underlying performance of each of the divisions.

It is also Group practice to discuss divisional performance in terms of constant exchange rate growth by re-translating the prior year's results of overseas subsidiaries at 2008 average exchange rates. This removes the effect of currency movements and provides focus on the increases or decreases which are driven by volume, price and cost levels relative to the prior year. Therefore, in the Chief Executive's Review, Operational Reviews and Financial Review, growth rates and other comparative data in respect of divisional input, revenue and operating profits before intangibles amortisation are given on a constant exchange rate basis. Underlying growth on this basis is a non-IFRS measure because, unlike actual growth, it cannot be directly derived from the information in the financial statements.

## Results

The Group profit attributable to members for the 52 weeks, after taxation, amounted to £170.8m.

## Dividends

The directors recommend a final ordinary dividend of 13.85p per share to be paid on 1 June 2009 to ordinary shareholders whose names are on the Company's register of members at close of business on 1 May 2009. Together with the interim ordinary dividend of 4.65p per share paid on 7 November 2008, this makes the total dividend for the year 18.5p.

## Principal activities & business review

The Group's principal activity is the provision of specialised mechanical engineering solutions for a diversified range of industrial and geographic markets. A review of the Group's operations and likely future developments, together with key performance indicators can be found in the Chairman's Statement on pages 2 to 3, Chief Executive's Review on pages 6 to 8, Operational Reviews on pages 9 to 15, Financial Review on pages 16 to 19 and Corporate Social Responsibility Report on pages 40 to 44, which are incorporated into this report by reference, as well as within this report.

There are no persons with whom the Company has contractual or other arrangements which are essential to the business of the Company.

## Research & development

During the year, the Group spent £9.8m on research and development. The expenditure reflects the Group's continued commitment to investment in research and development, applied to both the development of new leading edge materials technologies and existing product innovation. The Group's worldwide pump technology centres focus on developing engineering process improvements through the use of a variety of analytical tools to design products with optimal wear life and improved safety and efficiency. This maintains the Group's competitive advantage in the market and controls costs whilst improving quality.

## Other reports

The annual report includes a separate Corporate Governance Statement, which is on pages 28 to 30, Audit Committee Report on page 31, Nomination Committee Report on page 32 and Remuneration Committee Report on pages 33 to 39, which are incorporated into this report by reference.

## Takeovers Directive

The information required for shareholders as a result of the implementation of the Takeovers Directive into UK law is set out in Shareholder Information on pages 113 to 115, which is incorporated into this report by reference and in this report under substantial shareholders.

## Directors

Details of the current directors of the Company are set out on pages 20 and 21. John Mogford was appointed to the Board on 1 June 2008. Christopher Clarke retired as a director on 31 December 2008. Subsequently, Richard Menell was appointed a director on 1 April 2009. The directors who retire this year by rotation are Michael Dearden and Lord Robertson. In addition, as he has been a non-executive director for more than nine years, Professor Ian Percy is subject to annual re-election. In accordance with article 97 of the articles of association of the Company, John Mogford and Richard Menell retire at the forthcoming annual general meeting and, being eligible, offer themselves for election. Michael Dearden, Lord Robertson and Professor Percy also offer themselves for re-election.

## Directors indemnities

The Company has granted indemnities to each of its directors in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as directors to the extent permitted by the Companies Acts and the Company's articles of association. In addition, directors and officers of the Company and its subsidiaries and trustees of its pension schemes are covered by directors & officers liability insurance.

## Share capital

During the year, options were exercised by participants in the Company's share option schemes as a consequence of which 178,053 ordinary shares of 12.5p each were allotted and issued. The savings related share option scheme was closed to new entrants in 2004 and the last date for exercising options under the scheme was 1 January 2009. In addition, under the Group Long Term Incentive Plan ("LTIP") the awards granted in 2005 vested during the year. In order to satisfy the awards, 274,861 ordinary shares of 12.5p each were allotted and issued and 427,393 ordinary shares of 12.5p each were transferred from treasury to satisfy the awards. Details of the options and awards outstanding under each of the Company's share schemes at the end of the year are set out in note 28 to the Group financial statements.

The trustees of the Weir Group Employee Trust (the "Trust") have agreed to waive any right to all dividend payments on shares held by the Trust. Details of the shares held by the Trust are set out in note 25 to the Group financial statements.

At the 2008 annual general meeting, shareholders renewed the Company's authority to make market purchases of up to 20.9m ordinary shares (representing 10% of the issued share capital excluding treasury shares). No shares were purchased under this authority during the 52 weeks to 26 December 2008 and, at the forthcoming annual general meeting, the Board will again seek shareholder approval to renew the annual authority for the Company to make market purchases.

### Annual general meeting

The annual general meeting will be held on 13 May 2009. A separate letter is being sent to all shareholders containing the Notice of Meeting and the resolutions to be proposed.

### Substantial shareholders

At 10 March 2009, the following have disclosed an interest in the issued ordinary share capital of the Company in accordance with the requirements of section 5.1.2 of the UK Listing Authority's Disclosure and Transparency Rules:

Shareholder	Number of shares	Date of disclosure to Company	Percentage of issued share capital
Prudential plc	21,967,255	05/12/08	10.45%
Baillie Gifford & Co	12,173,278	18/12/07	5.82%
AXA	10,812,658	13/10/08	5.14%
Threadneedle Asset Management Ltd	10,802,934	17/02/09	5.14%
Legal & General Investment Management	8,264,230	29/01/09	3.93%
Barclays Global Investors	8,014,955	25/03/08	3.83%
FMR Corp	6,425,000	23/03/07	3.09%

Since the date of disclosure to the Company, the interest of any shareholder listed above may have increased or decreased. No requirement to notify the Company of any increase or decrease would have arisen unless the holding moved up or down through a whole number percentage level. The percentage level may increase (if the Company cancelled shares pursuant to the power to purchase its own shares) or decrease (on the issue of new shares under the Company's LTIP).

### Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In forming this view, the directors have reviewed the Group's budgets, plans and cash flow forecasts, including market downturn sensitivities. In addition, the directors have considered the potential impact of credit risk and liquidity risk detailed below. Each of these items has been considered in relation to the Group's banking facilities described on page 18 of the Financial Review.

### Charitable contributions

During the year, Group companies made the following contributions:

- charitable (being specifically health, heritage, educational and community) purposes £233,826 (2007: £252,227).

The Group made no political contributions during the period.

### Directors statement of responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with UK Accounting Standards and applicable law.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements have complied with IFRSs as adopted by the European Union, subject to any material departures being disclosed and explained; and
- state for the Company financial statements whether the applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

Each of the directors, whose names are listed in the Board of Directors on pages 20 and 21, confirms to the best of his knowledge that:

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Directors Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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.

### Audit & auditors

So far as each of the directors is aware, there is no relevant audit information (as defined by section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware.

Each of the directors has taken all of the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming annual general meeting.

# Directors Report (Continued)

## Principal risks & uncertainties

Risk is inherent in the Group's business activities and as a consequence of operating a sound risk management process the Group has identified the following principal risks and uncertainties which it believes could have a materially adverse effect on its business, revenues, profit, assets, liquidity, resources and reputation. The nature of risk is such that no list can be comprehensive and it is possible that other risks may arise, or that risks not currently considered material may become so in the future. Any forward-looking statements in the annual report or otherwise made by the Group should be considered in light of these risk factors. The Group operates controls as described in the Corporate Governance statement to mitigate against these risks.

## Strategic risks

### Economic, political and natural catastrophe risks

The Group operates in around 40 countries around the world including a number in Africa, the Middle East, Asia and South America. While benefiting from the opportunities and growth in these regions, the Group is exposed to the economic, political and business risks associated with such international operations. These can include sudden changes in regulation, expropriation of assets, imposition of trade barriers and wage controls, limits on the export of currency and volatility of prices, taxes and currencies. The Group's diversified geographic footprint mitigates against any exposure within any one country in which it operates. Management monitor such risks, and amend business procedures accordingly, while remaining in compliance with local and Group requirements.

The Group's operations are exposed to varying degrees of natural catastrophe risk, such as earthquake and flood, as well as security risk, in the various manufacturing locations in which it operates. Where cost effective, such risks are mitigated through physical measures designed to counter the impact of a catastrophe. Where possible the value of assets and associated profits are also protected by insurance.

### Market cycles

Around 90% of the Group's new business comes from the mining, oil and gas, power generation and industrial markets. Any contraction in capital expenditure and production activity could lead to a reduction in demand for the Group's products. The Group's diversified product portfolio and end markets together with a broad geographic spread, reduce its reliance on any individual market sector or geographical area.

### Legislative & regulatory risks

The Group has contracts and operations in many parts of the world and operates in a highly regulated environment. Non-compliance with these laws, regulations and restrictions could expose the Group to fines, penalties, suspension or debarment, which could have a material adverse effect on the Group. These include, without limitation, regulations relating to import-export controls, money laundering, false accounting, anti-bribery and anti-boycott provisions. Failure by the Group, or agents acting on its behalf, to comply with these laws and regulations could result in administrative, civil or criminal liabilities resulting in significant fines and penalties and/or debarment of the Group from government contracts for a period of time. The Group monitors regulatory developments and has a strong compliance regime.

In 2004, an announcement was made to the London Stock Exchange in connection with the Group's involvement in the UN sanctioned Oil for Food programme. The Group continues to cooperate fully with ongoing investigations by UK authorities in this connection.

## Litigation

Manufacturing companies are, from time to time, exposed to class actions or other litigation relating to asbestosis or other health problems associated from working in industries that used asbestos in the twentieth century. The Group has insurance cover for such claims but on occasions this will not meet all claims. The number and size of the claims is dependent on the number of companies which still exist and can be included in these class actions. Both of these can change over time and as a result the Group's exposure can increase. The Group has internal policies and procedures for monitoring these risks, managing and mitigating against these liabilities and to ensure that there is regular reporting to the Board on changes to this environment.

## Industry competition

The markets for many of the Group's products are fragmented and highly competitive. The Group competes against large and well established global companies, as well as local companies and low cost replicators of spare parts, on the basis of price, technical expertise, timeliness of delivery, previous installation history and reputation for quality and reliability. To remain competitive, the Group invests continuously in its manufacturing, marketing, customer service support and distribution networks. The diversity of operations reduces the possible effect of action by a single competitor and combined with the application of the Weir Production System ensures the Group's competitive advantage is sustained.

## Financial risks

### Foreign exchange risk

The Group operates globally with the majority of its profit being earned outside the UK. As a result, the Group is exposed to two types of currency risk: transactional and translational.

Transactional currency exposure arises when operating subsidiaries enter into transactions denominated in a currency other than their functional currency. In line with the Group's policies and procedures, foreign exchange exposures are identified by the subsidiaries that are party to the transactions and then managed centrally by the Group's Treasury function. The exposures are hedged, usually by means of forward foreign exchange transactions.

Translational currency exposure can impact reported earnings through the translation of the profits of overseas subsidiaries into sterling for consolidated reporting purposes and can impact net assets through the translation of the Group's net investments in overseas subsidiaries. The Group reduces its net assets translational currency exposures by means of foreign currency borrowings and derivative financial instruments. The Group does not hedge the translational exposure arising from profit and loss items.

### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. This is managed by monitoring forecast and actual cash flows and ensuring sufficient cash and committed borrowing facilities are in place at all times and, also, that additional headroom is available to meet possible downside scenarios. Details of the Group's cash and committed borrowing facilities can be found in notes 19, 20 and 30 to the Group financial statements respectively.

### Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. In relation to the risk that customers fail to settle outstanding debts, this is mitigated by the large number of customers and countries over which this risk is spread. In addition, credit quality of the Group's customers is monitored through an assessment of financial position, previous payment history and with reference to external credit rating agencies. Credit risk to financial institutions arising through deposits and derivative transactions is limited by restricting the range of counterparties to those with high credit ratings. Further information regarding the Group's credit risk can be found in notes 17 and 30 to the Group financial statements.

### Tax

The effective rate of tax paid by the Group may be influenced by a number of factors including changes in law and accounting standards and the Group's overall approach to such matters, the results of which could increase or decrease that rate. The Group seeks to manage its financial structure efficiently to minimise the overall tax burden on the business where practicable. The continued ability of the Group to manage its businesses in this way cannot be guaranteed and so could affect the Group's financial performance.

### Pensions

Estimates of the amount and timing of the future funding obligations of the Group's pension plans are based on various assumptions including, among other things, the actual and projected market performance of the pension plan assets, future long-term corporate bond yields, increased longevity of members and statutory requirements. The Group continually reviews these risks and takes action to mitigate where possible. In 2008, the trustees purchased a further insurance policy from Legal & General Assurance Society to secure a proportion of deferred members liabilities of the main UK plan and also commenced the winding up of its Canadian plan. However, while the Group is consulted by the trustees on the investment strategies of its pension plans, the Group has no direct control over these matters as the trustees are directly responsible for the strategy.

### Operational risks

#### Acquisitions

The Group has made a number of acquisitions in recent years as part of its growth strategy and may make acquisitions in the future. While the Group identifies expected synergies, cost savings and growth opportunities prior to completing any acquisition, these benefits may not always be achieved or within the anticipated timescale.

To mitigate against this, the Group implements a vigorous due diligence process and ensures clear financial targets are in place together with ensuring any acquisition is put through a formal approval process. The Group implements an internal 100 day plan to ensure that the integration process runs as smoothly as possible.

### Delivery performance

The Group's ability to meet customer delivery schedules is dependent on a number of factors including sufficient manufacturing capacity, access to raw materials, inventory control, sufficient trained and equipped employees, engineering expertise and the appropriate planning and scheduling of the manufacturing process. Many of the contracts it enters into require long lead times and therefore contain clauses in relation to on-time delivery. Failure to deliver in accordance with customer expectation could subject the Group to financial penalties, may result in damage to customer relationships and could impact on the Group's financial performance. The continuous improvements achieved through the implementation of the Weir Production System ensure that all operations are striving for world-class performance.

### Product liability claims

The Group faces an inherent business risk of exposure to product liability and warranty claims in the event that failure of a product results in, or is alleged to result in, bodily injury or property damage. This risk is mitigated through quality control reviews as part of the Weir Production System and rigorous testing of new product designs. In addition, the Group maintains insurance coverage for product liability claims where possible. For warranty claims not covered by insurance, warranty costs may be incurred which the Group may not be able to recover.

### Intellectual property

The Group operates in a competitive market and constantly has to take steps to prevent misappropriation of its intellectual property rights. The Group relies on a combination of patent rights, licensing arrangements and contractual arrangements to establish and protect those rights, as well as bringing actions against infringing third parties, where necessary.

### Employee issues

Group performance depends on the skills and efforts of its employees across all of its businesses. In striving to be an employer of choice, the Group recognises that failing to attract new talent and retain existing expertise, knowledge and skills in operations, products and infrastructure areas such as information technology could have a negative impact on its business. In addition, the success of Group acquisitions will depend on the Group's ability to retain management personnel of acquired companies. The Group's employee development programmes are explained in more detail on page 41.

### Health & safety

The Group operates in a number of demanding environments. Safe working practices are extremely important to protect everyone at the Group's locations. The Group has developed quality and safety processes within each of its businesses which are regularly audited by professional bodies and customers. The Group operates long established working practices and controls to minimise damage and injury. If the Group cannot maintain a safe place for all its employees to work this could result in a number of negative outcomes to the Group including:

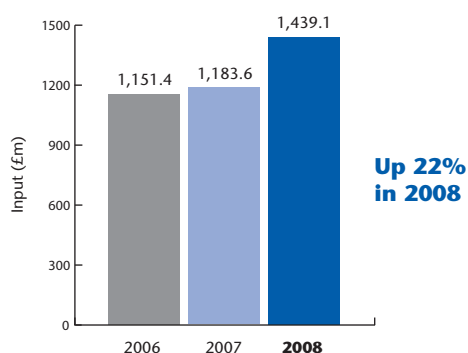
- fines and penalties;
- loss of key customers;
- exclusion from certain market sectors deemed important for future development of the business; and
- damage to reputation.

# Directors Report (Continued)

## Group performance

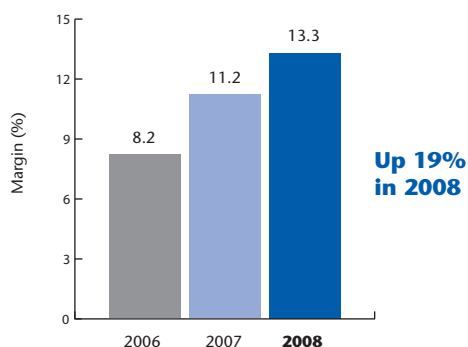
The Group's strategy is underpinned by focusing on a number of key performance measures. The following measures are the ones that the Board feel communicate the performance and strength of the Group as a whole. However, management use further performance measures to run and assess the performance of their divisions and the individual companies within each division.

### Input - continuing operations<sup>1,2</sup>



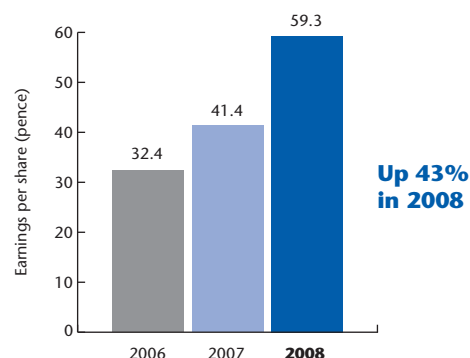
Order input is a key measure used to evaluate market trends, establish forward sales and enable the efficient management of production schedules. Order input is defined as the expected revenues to be generated from contractually committed orders received.

### Operating margin - continuing operations<sup>2</sup>



One of the Group's key objectives is to continue to improve business operating margins. Operating margins are defined as operating profits expressed as a percentage of revenues. These are calculated before taking account of any intangibles amortisation and exceptional items to focus on underlying trading performance.

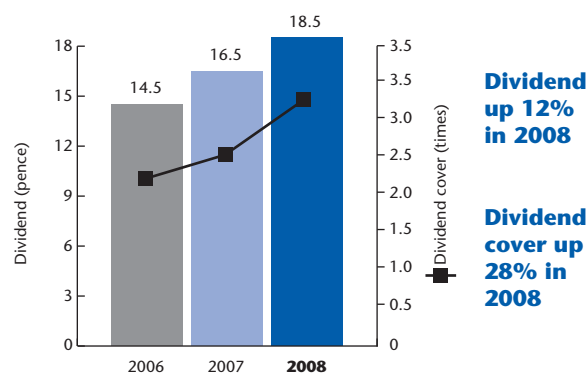
### Earnings per share - continuing operations<sup>2</sup>



Underlying earnings per share is represented by profit for the period from continuing operations before intangibles amortisation and exceptional items divided by the weighted average number of shares in issue.

The Group seeks to deliver long-term shareholder value as evidenced in part through the growth in basic earnings per share. Growth in basic earnings per share is a key measure in determining the vesting of shares under the Group's incentive plans.

### Dividend & dividend cover - continuing operations<sup>2</sup>



Shareholder value is also generated through the payment of annual dividends to shareholders. The Group's ability to sustain such payments is measured against the dividend cover ratio with the current policy being to sustain dividend cover of at least two times. Dividend cover is defined as basic earnings per share from continuing operations before intangibles amortisation and exceptional items divided by the annual dividend per share.

<sup>1</sup> Calculated at 2008 average exchange rates.

<sup>2</sup> The figures for 2006 and 2007 are based on the published results and are therefore in respect of continuing operations at that time and do not exclude intangibles amortisation for 2006.

### Weir Production System implementation

The Group's goal is consistently to meet customer demand on time with the least cost method, through implementation of the Weir Production System, adapted from the Toyota Production System. By eliminating waste, quality is improved and production lead time and costs are reduced. The key objective is to embed the appropriate practices across all business processes to produce just what is needed, when it is needed, in the most efficient way.

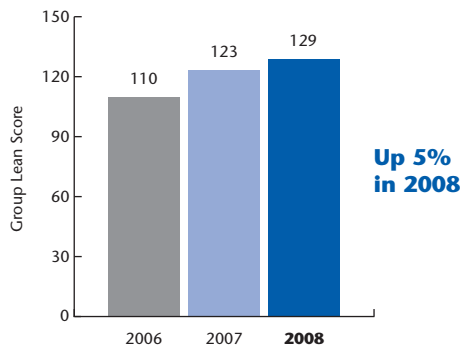
The Group has adopted the Lean Management philosophy focusing on reduction of the Seven Wastes to improve overall customer value. These are:

- overproduction
- rework
- inventory
- waiting time
- over-processing
- motion
- transportation.

Due to the importance of ownership in the process, the measurement of performance is by an evaluation across all Group companies comparing their current plant practice against world-class practice and performance.

The evaluation involves an audit of each manufacturing and service site which results in the site being awarded a Lean Score. Audits are performed annually by internal peer groups. The Lean Score for each site is then totalled and expressed as a Group Lean Score.

The Lean Scores for 2008 are shown as follows:



The prior year comparatives have been restated to take account of disposals.

The Group Lean Score is interpreted as follows:

- 0 – 60 means the site needs significant improvement, action is required;
- 61-99 means relatively good practice, but regular follow up and further improvements are required;
- 100-150 is world-class practice where process has taken root and needs to be maintained and further improved.

The scores awarded to individual businesses are analysed to identify improvement actions and set future targets, aligned with the overall business objectives.

As part of the improvement to the Weir Production System introduced in May 2008, an additional five factors have been added to the audit process which will result in a new scoring system being introduced. The new factors are:

- on time delivery
- inventory turns
- lost time accidents
- direct labour utilisation
- policy deployment.

We will begin reporting against these new measures in the 2009 annual report.

Glasgow  
10 March 2009

On behalf of the Board  
**Alan Mitchelson**  
Director & Secretary