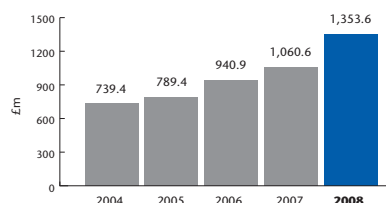


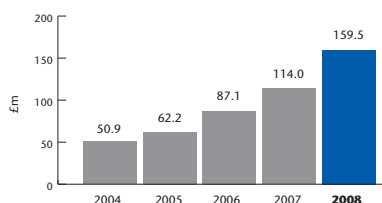
# Financial Review

The Group has delivered an excellent set of results which demonstrate yet again our underlying cash generation capability.

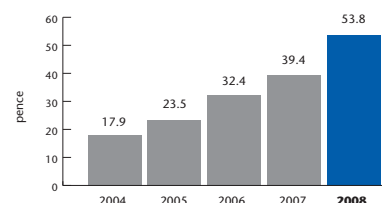
## Revenue - continuing operations<sup>1</sup>



## Profit before tax - continuing operations<sup>1</sup>



## Earnings per share - continuing operations<sup>1</sup>



<sup>1</sup> All figures are based on the published results and are therefore in respect of continuing operations at that time, excluding exceptional items



*"As we enter 2009, the Group's financial position remains strong."*

## Operating structure

The trading activities of The Weir Group PLC comprise the manufacture of pumps, valves and ancillary equipment for the mining, oil and gas, power generation and general industrial markets as well as the provision of equipment maintenance, process support and asset management services. The Group also has a number of joint ventures which is reported separately. With effect from 1 May 2008, the Group was reorganised into three end market focused divisions; Minerals, Oil & Gas and Power & Industrial. All segment information reflects this new divisional structure with prior year comparatives restated.

## Results overview

The Group has delivered an excellent set of results which demonstrate yet again our underlying cash generation capability. As we enter 2009, the Group's financial position remains strong with improved financial headroom over an extended period. The results include the first contributions from the current year acquisitions of Warman (March 2008), Mesa (June 2008) and Standard Oilfield Services (SOS) (July 2008) as well as the full year inclusion of Weir SPM which was acquired in July 2007. They also

reflect the disposal of Strachan & Henshaw (April 2008), which has been classified as a discontinued operation, and the disposal of the Canadian Distribution and UK based Materials & Foundries businesses in September and October 2008 respectively.

2008 order input<sup>1</sup> in constant currency at £1,439m was 30% above the prior year period reflecting like for like growth of 22%, a full year contribution from Weir SPM and first time contributions from Weir Warman, Weir Mesa and Weir SOS. Each of our core divisions delivered good growth. Minerals order input grew 23% to £805m (2007: £656m), including a £45m contribution from Weir Warman, Oil & Gas input grew 62% to £289m (2007: £179m), including a £142m contribution from Weir SPM and other acquisitions (2007: £59m). Power & Industrial input grew 29% to £271m (2007: £211m).

2008 revenue<sup>1</sup> increased 34% from £1,009m to £1,354m with all three divisions achieving growth over 2007. The Minerals, Oil & Gas and Power & Industrial businesses reflected good growth which supported a like for like increase of 18%. This, combined with the full year inclusion of Weir SPM and first contributions from Weir Warman, Weir Mesa and Weir SOS, contributed to the year's results. Over 92% (2007: 89%) of Group revenues were generated from these three core businesses with original equipment representing 50% of revenues (2007: 55%). Strong growth was evident in North America, in part due to the full year inclusion of Weir SPM, while major orders contributed to good growth in the European and Indo-Pacific markets. Favourable exchange movements from the translation effects of overseas subsidiaries increased revenue by £79m.

Operating profit<sup>2</sup> rose 58% to £185.0m (2007: £116.9m). Excluding attributable profits from joint ventures, operating margins<sup>2</sup> increased to 13.3% against 11.3% last year. Good operating leverage and the impact of the higher margin Weir SPM and Weir Warman acquisitions contributed to the results. Attributable profits from our joint ventures reported on an after tax basis grew to £4.4m against £3.4m in 2007. The impact of favourable exchange movements increased operating profit<sup>2</sup> by £12.8m principally due to the strengthening of the US dollar and Euro in the second half of the year. Depreciation and impairment of property, plant and equipment in the year was £25.6m (2007: £16.9m) giving rise to operating profits before depreciation and intangibles amortisation ("EBITDA") of £210.6m (2007: £133.8m).

Intangibles amortisation increased to £16.7m from £6.0m in 2007 reflecting the full year impact of the Weir SPM acquisition, current year acquisitions and impairment of previously recognised product development costs.

Net interest costs increased to £10.6m against £5.1m in 2007 resulting from higher average debt levels due to current year acquisitions, offset by a £5.4m benefit from the Group's US dollar balance sheet hedging programme. Net interest costs were covered 17 times by operating profit<sup>2</sup>. During the year, there was a £1.4m reduction in the net income earned from the Group's pension schemes principally reflecting changes to the pension fund asset portfolio over the year.

Profit before tax<sup>2</sup> increased 53% on the previous year to £176.2m (2007: £115.0m). Reported profit before tax increased 46% to £159.5m (2007: £109.0m), reflecting the impact of additional amortisation in the current year.

Details of the trading highlights of each of the Group's business segments are set out below, with comparatives stated on a constant currency basis.

### Minerals Division

Input<sup>1</sup> grew 23% to £805m with in excess of 86% being attributable to the mining, flue gas desulphurisation and oil sands markets.

Revenue<sup>1</sup> increased 30% to £742m in 2008 (2007: £570m), due to continued strong demand from our core mining markets and a first revenue contribution of £45m from Weir Warman in the post acquisition period. Underlying revenue growth excluding the partial year impact of the Warman acquisition was 22%. The impact of favourable foreign currency movements increased reported revenues by £47m.

Operating margins<sup>2</sup> increased to 15.4% against 14.4% in 2007, reflecting the division's focus on higher technology, higher margin activities. Operating leverage from increased revenues and the inclusion of Weir Warman's higher margin product sales for a part year, partially offset by increased product development costs, contributed to this improved result. The Weir Warman operating margin<sup>2</sup> of 16.6% was in line with our expectations.

Operating profit<sup>2</sup> increased 39% to £114.5m (2007: £82.3m), including a part year contribution of £7.4m from Weir Warman. Favourable foreign currency translation movements increased reported operating profit by £8.0m.

### Oil & Gas Division

Input<sup>1</sup> grew 62% to £289m (2007: £179m), including a £142m contribution from Weir SPM and other acquisitions (2007: £59m).

Revenue<sup>1</sup> increased 40% to £280m in 2008 (2007: £200m), with like for like revenue growth of 7% reflecting good progress across the Middle East operations. The first full year from Weir SPM and the current year acquisitions of Weir Mesa and Weir SOS contributed £157m (2007: £85m). Favourable foreign currency movements increased reported revenues by £18m.

Operating margins<sup>2</sup> excluding joint ventures increased to 20.2% against 17.0% in 2007, reflecting a full year impact of the higher margin Weir SPM business with operating margins of 26.1% comparing to 24.2% in the prior year post acquisition period as the benefits of business improvement initiatives were realised.

Including joint ventures, operating profit<sup>2</sup> increased 62% to £61.0m (2007: £37.6m), with £40.4m from Weir SPM and current year acquisitions (2007: £20.6m). Favourable foreign currency translation movements increased reported operating profits by £3.8m.

### Power & Industrial Division

Input<sup>1</sup> grew 29% to £271m with in excess of 55% being attributable to the power generation markets.

Revenue<sup>1</sup> increased 11% to £223m in 2008 (2007: £201m), reflecting the strength of the Chinese power generation market and continued positive conditions in the UK and Canadian service markets. Favourable foreign currency movements increased reported revenues by £11m.

Operating margins<sup>2</sup> increased to 8.1% against 6.7% in 2007, reflecting the benefits of prior period restructuring and improved plant utilisation as a consequence of revenue growth achieved in the year.

Operating profit<sup>2</sup> increased 34% to £18.0m (2007: £13.4m). Favourable foreign currency translation movements increased reported operating profits by £1.0m.

### Group companies

The 2008 results for Group companies comprise Weir LGE, whose revenue is derived from the marine and onshore gas markets and, prior to their disposal during the year, the Canadian Distribution and UK based Materials & Foundries businesses. Revenues were £108.5m (2007: £116.0m) and operating profits £2.0m (2007: £5.2m), which includes a net loss of £2.6m on the disposal of these non-core operations. Weir LGE, the remaining business, increased 2008 revenue by 13% to £74.4m (2007: £65.8m), as project milestones were achieved on a number of major contracts. Operating profit<sup>2</sup> on the same basis was £4.6m against £5.5m in 2007.

### Joint ventures

The Group's share of profit from its joint ventures increased 29% to £4.4m (2007: £3.4m) with good growth in Saudi Arabia and Abu Dhabi.

### Taxation

The tax charge for the year of £51.8m (2007: £32.1m) on attributable profits<sup>2</sup> of £176.2m (2007: £115.0m), represents an underlying effective rate of 29.4% (2007: 27.9%). This differs from an expected rate of 31.2% (2007: 31.3%), principally as a consequence of the tax efficient use of capital and the recognition of historic losses in the UK. The underlying rate for 2009 is expected to be broadly in line with 2008. The reported tax charge on profits before tax was £46.5m (2007: £30.1m), reflecting the additional tax credit on intangibles amortisation.

In accordance with IFRS, earnings from joint ventures are reported on an after tax basis, with a tax charge of £0.8m reflected within net earnings.

### Discontinued operations

During the year, the Group disposed of its remaining defence operation - Strachan & Henshaw. The post-tax trading results of this business and the disposal gain arising is classified as a discontinued operation with prior year comparatives restated.

Trading profits of £1.1m were recognised in the year for the period prior to disposal. Profits of £1.6m were recognised in relation to prior period disposals following settlement of outstanding legal matters and the expiry of warranty periods.

A post tax gain of £55.1m on disposal was recognised as an exceptional item within discontinued operations.

## Earnings & dividends

Earnings per share<sup>2</sup> was 59.3p, an increase of 49% compared to 2007. Reported earnings per share taking account of exceptional items and discontinued operations was 81.4p (2007: 83.8p). The weighted average number of ordinary shares in issue increased to 209.9m as a result of the issue of shares during the year to fulfil option exercises and LTIP awards.

Subject to shareholder approval, the full year dividend is 18.5p, an increase of 12% over last year's total of 16.5p. This represents dividend cover (being the ratio of earnings per share<sup>1</sup> before intangibles amortisation and exceptional items to dividend per share) of 3.2 times compared to 2.4 times in 2007.

## Acquisition of Warman, Mesa and Standard Oilfield Services

On 18 March 2008, the Group completed the acquisition of Warman, on 24 June 2008, the acquisition of Mesa and on 4 July 2008, the acquisition of 75% of SOS for a total net cash consideration, including expenses, of £140.3m. As required by IFRS, a review of the fair value of assets and liabilities at the date of acquisition has been undertaken and accounting policies aligned with those of the Group. This has given rise to fair value adjustments of £63.2m, resulting in net assets acquired of £93.2m. These principally reflect the valuation of separately identifiable intangible assets, including customer relationships and trade names, with the former amortised over their expected useful lives of up to 25 years. Other adjustments were made in relation to property, plant and equipment, inventory and provisions. Goodwill of £54.6m has been recorded in respect of these acquisitions.

Goodwill and other intangible assets are tested annually for impairment as outlined in note 14 to the Group financial statements.

## Cashflows

The Group delivered strong cashflows, with cash generated from operations<sup>1</sup> of £214.4m, substantially ahead of 2007 (£143.5m) due to increased profitability. A net working capital outflow of £9m was required to support revenue growth; however a strong focus on cash resulted in a reduction in the net working capital to revenue ratio on a like for like and constant currency basis from 13.8% to 12.5%. A £5m special contribution was made during the year to facilitate a further buyout of the Group's UK defined benefit pension plan, which is outlined in more detail below.

Capital expenditure<sup>1</sup> of £53.3m (2007: £42.2m), reflects continued investment across the business and represented 2.3 times depreciation.

Net free cashflows<sup>3</sup> of £60.7m (2007: £38.4m), were generated from recurring activities after taking account of interest, tax, derivative settlements, capital expenditure and dividend payments. Cash proceeds from business disposals were £80.6m. Taken together with the net funding cost of new acquisitions of £140.9m and operating cash outflows generated by discontinued operations of £2.5m, this resulted in an increase in net debt from cashflows of £2.1m. An adverse movement arose on the translation of net overseas borrowings of £63.5m and other non-cash movements of £3.0m giving a year end net debt position of £239.9m (2007: £171.3m), reflecting a net debt/EBITDA ratio of 1.1 times (2007: 1.3 times).

## Treasury management

Our general policy is to finance the Group through a mixture of debt and equity. The Group's capital structure is managed centrally with the objective of optimising returns to shareholders over time, whilst safeguarding the Group's ability to continue as a going concern.

The primary responsibility of the Group's central treasury function is the management of the Group's funding and liquidity, foreign exchange and interest rate risks. Detailed policies and procedures with appropriate monitoring and reporting ensure controls exist where certain day to day treasury responsibilities are delegated to operating subsidiaries.

### Funding & liquidity

Sufficient undrawn committed facilities are maintained to ensure that the Group has funding available to meet its medium-term obligations and to provide adequate headroom to meet the Group's ongoing requirements.

The principal borrowing facilities available to the Group comprise £625m of committed bilateral lines arranged in the third quarter of 2008 and maturing in the third quarter of 2011. As at 26 December 2008, £241.8m was drawn under these facilities in US dollars, Canadian dollars and sterling with a proportion swapped into foreign currencies. In addition, Canadian dollar bank facilities are available totalling CAD\$90m which mature in July 2009. The Canadian dollar facilities were fully drawn at the year end. All facilities have common standard covenant structures and all covenants were met at 26 December 2008.

The Group held net cash balances of £53.6m as at 26 December 2008 of which £3.5m was held in the UK and the remainder held as operating balances by overseas subsidiaries.

The Group has additional committed and uncommitted bank facilities under which guarantees are issued in order to support commercial activities.

### Foreign exchange

The Group is exposed to movements in exchange rates for transactions undertaken in foreign currencies and the translation of foreign currency denominated net assets and profit and loss items.

All material transactional currency exposure is hedged in the financial markets, usually by means of forward contracts, to provide certainty of revenues and costs. Subject to local exchange controls foreign exchange transactions are executed by the central treasury function. No speculative transactions are undertaken. Although hedging is undertaken for all subsidiaries with material foreign exchange exposure, only two companies apply cashflow hedge accounting under IFRS.

The Group manages the potential currency translation exposures from the Group's US dollar denominated net investments through a combination of foreign currency borrowings, forward foreign exchange contracts and cross currency interest rate swaps. The level of derivative contracts held is determined and maintained after due consideration of the potential liquidity impact from these transactions, relative to underlying US dollar cashflows. As such any cash settlements on these derivatives will be made over an extended period (currently four years). As at 26 December 2008, 60% (2007: 79%) of the Group's net investments denominated in US dollars was hedged through a combination of US dollar borrowings and derivatives.

The Group does not hedge foreign currency translation exposures related to profit and loss items.

### Interest rate risk management

The Group's committed borrowing facilities are charged at variable rates of interest. It is the Group's policy to maintain a proportion of its debt at fixed rates, subject to the future outlook for the level of interest rates, by entering into interest rate swaps. In this way volatility of earnings from the movement of short-term interest rates is reduced.

As at 26 December 2008, 47% (2007: nil) of the Group's debt was at fixed interest rates of up to 2.5 years duration.

Further information on financial risk management objectives and policies can be found in note 30 to the Group financial statements.

### Exchange rates

The Group operates in a number of foreign currencies with the most material being the US dollar and Euro. The results of overseas operations are translated into sterling at average exchange rates for the year with the impact of the strengthening US dollar and the Euro against sterling partly offset by the marginal weakening of the Australian dollar. Net assets are translated at year end rates. The weakening of sterling against most major currencies resulted in a positive net asset translation effect at year end of £76.9m, after offsetting the impact of the balance sheet hedging programme.

Details of principal exchange rates used are contained in note 32 to the Group financial statements.

### Retirement benefits

The Group has 17 pension schemes of which five are defined benefit schemes, the most significant being the UK and Canadian schemes. All defined benefit schemes were closed to new members in 2002.

The Group's exposure to its pension obligations was further reduced in April 2008 by the purchase of a second insurance policy from Legal & General Assurance Society in respect of deferred members of the main UK scheme who will retire within 10 years. A further special contribution of £5m was paid to the scheme to facilitate this transaction. A charge of £2.4m was recognised to wind up the Canadian defined benefit plan which commenced during the year. Reflecting the impact of the insurance policies, the wind up of the Canadian plan and equity/bond market performance over the year, the net Group deficit for retirement benefit obligations at the period end was £14.7m (December 2007: £36.9m surplus). The actions during the year further reduce future investment and mortality risks borne by the Group. Going forward, the Group will continue to explore ways of further reducing risk.

### Net assets

Net assets at 26 December 2008 were £707.8m (2007: £545.2m), reflecting total recognised income for the year of £195.4m offset by dividends paid of £35.7m. Included in total recognised income for the year is a net exchange gain of £77.1m arising on the translation of foreign operations partly offset by exchange losses on net debt and derivative financial instruments.

### Litigation

There are 180 asbestos related actions (2007:112) outstanding against Group companies. All such actions are robustly defended.

An action for damages arising from the UN Oil for Food Programme has been raised in the United States against just under 100 companies including the Weir Group. This action will be robustly defended both as to the merits and jurisdiction.

### Critical accounting policies

The accounts have been prepared in accordance with IFRS and the material accounting policies are set out on pages 50 to 55 of the Group financial statements. There have been no changes to the accounting policies adopted in 2007.

Applying accounting policies requires the use of certain judgements, assumptions and estimates. The most important of these are set out below. Further judgements, assumptions and estimates are set out in the Group financial statements.

### Intangible assets

On the acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognised). The fair values of these intangible assets are dependent on estimates of attributable future revenues, margins and cashflows. In addition, the allocation of useful lives to acquired intangible assets requires the application of judgement based on available information and management's expectations at the time of recognition.

### Impairment

IFRS requires companies to carry out impairment testing on any assets that show indications of impairment and annually on goodwill and intangibles that are not subject to amortisation. This testing involves exercising management judgement about future cashflows and other events which are, by their nature, uncertain.

### Retirement benefits

The assumptions underlying the calculation of retirement benefits, assets and obligations are important and based on independent advice. Changes in these assumptions could have a material impact on the measurement of the Group's retirement benefit obligations.



**Keith Cochrane**  
Finance Director  
10 March 2009

<sup>1</sup> from continuing operations.

<sup>2</sup> from continuing operations, before intangibles amortisation and exceptional items.

<sup>3</sup> net cashflow generated from continuing operations excluding cash impact in relation to acquisitions, disposals and net repayments of borrowings.