

# Corporate governance report

## Introduction

The Board remains committed to the principles of good governance. Good corporate governance, using the Combined Code as a guide to the components of good practice, is an integral part of the Board's stewardship obligations. The interpretation of good governance changes over time but the Group constantly aims for best practice in all matters and, by doing so, promotes the success of the business to the benefit of the shareholders.

As part of the Board's review into its effectiveness conducted during the year, the Board considered its composition and skills and concluded that it has the right experience to address and respond to the challenges it faces.

## The Combined Code

This report explains how the Company applies the principles of the Financial Reporting Council Combined Code on Corporate Governance (the Combined Code) published in June 2008 and appended to the Listing Rules. The Combined Code is available on the Financial Reporting Council website. During the 53 weeks ended 1 January 2010, the Company complied with all provisions set out in the Combined Code.

## Board of directors

The Board has a schedule of matters reserved to it for its decision. This schedule is reviewed regularly and includes approval of:

- environmental, health and safety policies;
- annual and half-year financial results, interim management statements and trading updates;
- dividend policy;
- Board appointments;
- Group strategy and the annual operating budget;
- changes to the Group's management and control structure;
- major capital expenditure, acquisitions and disposals;
- treasury policies; and
- risk management strategy and the system of internal controls.

## Board meetings

In the 53 weeks to 1 January 2010, the Board met eight times, with one meeting at Weir SPM in Texas, USA. The majority of meetings were held at the Company's head office in Glasgow with two meetings held in London at the time of the Company's annual and interim announcements. There is regular contact outside formal meetings between the chairman, chief executive and the other directors.

The following table identifies the attendance record of individual directors at the eight board meetings held during 2009.

Name	Attendance
Lord Smith	8 of 8
Keith Cochrane	8 of 8
Michael Dearden	8 of 8
Stephen King	8 of 8
Richard Menell <sup>1</sup>	5 of 6
Alan Mitchelson	8 of 8
John Mogford	7 of 8
Professor Ian Percy	8 of 8
Lord Robertson	7 of 8
Mark Selway <sup>2</sup>	8 of 8

<sup>1</sup> Richard Menell was appointed to the Board on 1 April 2009.

<sup>2</sup> Mark Selway resigned as a director on 8 December 2009.

## Re-election of directors

The Company's articles of association require that all directors appointed to the Board other than at an annual general meeting of the Company are required to retire at the following annual general meeting when they may offer themselves for election. In addition, one third of the remaining members of the Board (or, where that number is not a whole number, the nearest lower whole number) are required to retire by rotation, subject to all directors submitting themselves for re-election at least once every three years. Any non-executive director who has served on the Board for more than six years is subject to a particularly rigorous review and any director who has held office for more than nine years is required to submit himself for re-election annually.

## Board information and development

On joining the Board, directors are provided with documentation on the Group and its activities. New directors are provided with an appropriate induction programme and, where appropriate, site visits are arranged to major business units. Ongoing training is provided as necessary.

All directors are provided with updates on corporate governance developments, legislative and regulatory changes and relevant industry and technical information.

## Corporate governance report (continued)

The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties, and any further back-up papers and information are readily available to all directors on request to the company secretary. The chairman ensures that non-executive directors are properly briefed on any issues arising at board meetings and non-executive directors have access to the chairman at any time.

### Board evaluation

A formal process for evaluating the performance of the Board is undertaken annually. This process is conducted internally, based on a detailed questionnaire completed by each director as well as individual and collective discussions.

The evaluation examines the balance of skills of the directors, the operation of the Board in practice including its corporate governance and the operation and content of board meetings. The findings are used to assist the Board in its consideration of the opportunities for improvement in the performance of the Board and its directors.

The Board also conducts an internal review of the effectiveness of the Audit, Nomination and Remuneration Committees incorporating a questionnaire covering such matters as the role and organisation of each committee, meeting arrangements, information provision and effectiveness. Following completion of these questionnaires by the members of each committee, the chairman meets with each of them to discuss the feedback. The results of the evaluation for 2009 were reported to the Board and, where areas for improvement had been identified, actions were agreed.

Additionally, a one-to-one appraisal of all board members is undertaken annually by the chairman. An appraisal of the chairman is carried out by the senior independent director, with input from other board members.

### Board balance and independence

The Board currently comprises the chairman, chief executive, legal and commercial director and six non-executive directors, all of whom are independent. Michael Dearden was appointed senior independent director in November 2009. Jon Stanton is expected to join the Group as finance director in April 2010.

There is an agreed procedure for directors to take independent professional advice, where appropriate, on any matter at the Company's expense. The company secretary is responsible for ensuring that board procedures are followed and all directors have direct access to the advice and services of the company secretary. The company secretary is also responsible for facilitating the induction and professional development of the board members and information flows within the Board, its committees and between the non-executive directors and senior management.

All directors bring their own independent judgement to major matters affecting the Group. Each of the non-executive directors is considered by the Company to be independent, with the exception of Professor Percy, who, as set out in the Chairman's statement, will be retiring from the Board prior to the forthcoming annual general meeting after over thirteen years with the Group.

The non-executive directors are independent of management. None of the non-executive directors has any material business or other relationship with the Company. Each member of the Board has considerable experience at senior level in other companies, which allows for well informed and broadly based debate. The board structure ensures that no individual or group dominates the decision-making process.

There is a division of responsibilities between the chairman, who is responsible for leading and running the Board and related matters and the chief executive, who has executive responsibility for running the Group's business and developing the appropriate organisational structure for a global organisation. The chief executive chairs the Group Executive Committee.

The executive directors have contracts of service with one year's notice, whilst non-executive directors are appointed on a rotational basis for periods of up to three years. The letters of appointment of the chairman and the non-executive directors, which are available for inspection at the Company's registered office, set out the required commitment to the Company.

### Directors conflicts of interests

The statutory duties for directors relating to conflicts of interest, set out in the Companies Act 2006 (the '2006 Act'), came into force on 1 October 2008. Under the 2006 Act, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The Company has adopted a formal procedure for the disclosure, review, authorisation and management of directors conflicts of interest and potential conflicts of interest in accordance with these provisions. The procedure requires directors formally to notify the Board, via the company secretary, as soon as they become aware of any actual or potential conflict of interest with their duties to the Company or of any material change in existing or potential conflicts that may have been authorised by the Board. The Board continues to monitor and review potential conflicts of interest on a regular basis. A register is maintained of all such disclosures and the terms of any such authorisation.

### Shareholders

The Company is committed to a process of continual dialogue with its shareholders, including making appropriate contact with institutional investors and their representative bodies when there are specific matters to discuss. This dialogue with its institutional shareholders is in the form of the Group's investor relations programme. This includes regular update meetings and presentations with major shareholders and industry analysts. Feedback from these presentations, which is reported to the Board, gives investors an opportunity to comment on the quality of the communications they receive in their contact with the chief executive and finance director. Attendees at the results presentations include the chairman, the executive directors, the senior independent director and a number of the non-executive directors. The Company also encourages communication with private shareholders throughout the year and welcomes their participation at shareholder meetings. In addition to the chairman's statement at the annual general meeting, a trading update to shareholders is given and details of the Company's trading activities are on display. The directors attend the annual general meeting and the chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions. The date of the key publications in 2010 can be found on the Company's website.

Notice of the annual general meeting is sent to shareholders at least 20 working days before the meeting. The Company conducts the vote at the annual general meeting by electronic poll and the result of the votes (including proxies) is published on the Company's website after the annual general meeting. Electronic proxy voting, details of which are included in the notice of the 2010 annual general meeting, is available. Voting participation at the annual general meetings in 2007, 2008 and 2009 was 61%, 56% and 64% respectively.

### Communications

The Board considers that the annual report and financial statements and interim statements present a balanced and understandable assessment of the Group's performance and prospects. In addition to information which any company is under a legal or regulatory requirement to publish, the Group frequently publicises other business developments through the specialised trade press and its own internal bulletins, which have wide circulation and through the news section on both the divisional and Company websites.

The Company's website at [www.weir.co.uk](http://www.weir.co.uk) provides additional company information, is regularly updated and includes the presentations to shareholders given at the announcements of the full year and interim results. The website also contains an online version of the notice of the annual general meeting, the annual report and financial statements and the interim report.

### Board committees

Where appropriate, matters are delegated to board committees, all of which have written terms of reference which are available on the Company's website. The company secretary acts as secretary to all these committees.

### Group Executive Committee

The Group Executive Committee comprises the chief executive, finance director, legal and commercial director (whose biographies are on pages 28 and 29) and the three divisional managing directors whose details are set out below:

Phil Clifton (50) is the Weir Power & Industrial Divisional Managing Director based in East Kilbride, UK. Phil joined the Group from AWG PLC, the parent company of Anglian Water, where he was responsible for government services and group business development. Prior to AWG, he was managing director of Reyrolle Ltd, an international business in the industrial power group of Rolls-Royce PLC.

Steve Noon (45) is the Weir Oil & Gas Divisional Managing Director based in Fort Worth, USA. Steve has worked with several multi-nationals including Schefenacker Vision Systems, James Hardie Industries and The Toro Company. Before joining the Group in 2007, he held the position of president of Schefenacker Vision Systems, North America.

Scot Smith (46) is the Weir Minerals Divisional Managing Director based in Madison, USA. Prior to joining the Group, Scot spent 18 years in the automotive industry with companies such as Van Dresher Corporation, General Motors and Britax. Within Britax, Scot held a number of positions including marketing director, managing director of Britax Geco and latterly regional managing director for the Americas.

In the 53 weeks to 1 January 2010, the Group Executive Committee met 12 times.

The Group Executive Committee is responsible for ensuring that each of the Group's businesses is managed effectively and that the key performance indicators of the Group, as approved by the Board, are achieved.

The Committee's role includes the preparation of the Group budget for approval by the Board, management of business performance to achieve the Group budget, establishing and maintaining reporting systems which provide clear and consistent information on all aspects of business performance, managing and minimising corporate risk and ensuring that the necessary mechanisms are in place to achieve effective inter-divisional coordination in areas such as purchasing, branding and career development planning. It also approves major items of capital expenditure within limits authorised by the Board.

## Corporate governance report (continued)

### General Administration Committee

The principal duties of the General Administration Committee are to allot shares under the Group Long Term Incentive Plan and other matters of a routine nature. This Committee comprises the executive members of the Board and meets as required.

### Remuneration Committee

The chairman of the Committee is Michael Dearden. The other members of the Committee are Lord Robertson and Professor Ian Percy. John Mogford joined the Committee in 2010. The secretary to the Committee is Alan Mitchelson.

The Committee consists exclusively of non-executive directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. No member of the Committee has any personal financial interest, other than as a shareholder, in the matters decided by the Committee.

The minutes of each meeting are circulated to the Board.

The responsibilities of the Committee are as follows:

- to determine the policy on the remuneration and performance of executive directors of the Company;
- to determine the conditions of employment, including levels of salary, pension arrangements, bonuses and share awards of the members of the Group Executive Committee;
- to determine targets for any performance-related pay schemes; and
- to recommend to the Board the remuneration of the chairman of the Board.

The Committee is constituted and operated throughout the year in accordance with the relevant provisions of the Combined Code. The Committee's terms of reference can be found on the Company's website.

The Committee met four times in 2009. The following table identifies the attendance record of individual directors at the Committee meetings held during 2009.

Name	Attendance
Michael Dearden (chairman)	4 of 4
Professor Ian Percy	4 of 4
Lord Robertson	4 of 4

### Nomination Committee

The members of the Committee during the year were Lord Smith (chairman), Keith Cochrane, Michael Dearden, Professor Ian Percy, Mark Selway and Lord Robertson. Alan Mitchelson acts as secretary to the Committee. The Committee meets at least twice a year and at other times when necessary, and in 2009 met four times. The following table identifies the attendance record of individual directors at the Committee meetings held during 2009.

Name	Attendance
Lord Smith (chairman)	4 of 4
Keith Cochrane <sup>1</sup>	1 of 1
Michael Dearden	4 of 4
Professor Ian Percy	4 of 4
Lord Robertson	4 of 4
Mark Selway <sup>2</sup>	2 of 2

<sup>1</sup> Keith Cochrane was appointed to the Committee on 2 November 2009.

<sup>2</sup> Mark Selway ceased to be a member of the Committee on 16 September 2009.

The Committee uses external search consultants to assist it in its work.

The Committee primarily monitors the composition and balance of the Board and its committees and identifies and recommends to the Board the appointment of new directors. The Committee's terms of reference establish a framework through which it can operate to ensure the selection process of Board candidates is conducted in a formal, disciplined and objective manner. When considering candidates, the Committee evaluates the balance of skills, knowledge and experience of the Board and prepares a description of the role and capabilities required for the particular appointment. The Committee also reviews the succession planning and leadership needs of the organisation and ensures that, on appointment, all directors receive a formal contract or letter of appointment as appropriate. The Committee's terms of reference are available on the Company's website.

During the year, the Committee undertook the search for a new chief executive to succeed Mark Selway. Having considered the Group's succession plans and reviewed the external candidates identified by search consultants, the Committee recommended to the Board the appointment of Keith Cochrane as chief executive. The Committee then undertook the search for a new finance director, with both internal and external candidates being considered, and identified Jon Stanton as Keith Cochrane's replacement. Both recommendations were approved by the Board.

### Audit Committee

The chairman of the Committee is Stephen King. During the year, the other members of the Committee were Professor Ian Percy, Richard Menell (who was appointed to the Committee on 1 April 2009) and John Mogford. The secretary to the Committee is Alan Mitchelson. In addition, the chief executive, finance director, the head of internal audit and the external auditors attend each meeting. The head of internal audit and the external auditors also have access to the chairman of the Committee outside formal Committee meetings.

The Board is satisfied that Stephen King has recent and relevant financial experience.

The Committee has the ability to call on Group's employees to assist in its work and also has access to independent advice.

The Board has delegated to the Committee responsibility for overseeing the financial reporting and internal risk management control functions and for making recommendations to the Board in relation to the appointment of the Group's external auditors.

The Committee is charged with responsibility to the Board for satisfying itself, on behalf of the Board as a whole, that the financial affairs of the Group are conducted with openness, integrity and accountability and in accordance with such existing statutory and regulatory provisions and codes as are applicable to the Group and to report on these matters to the Board.

Its duties are to:

- consider the appointment, resignation or dismissal of the auditors and the level of audit fee;
- discuss with the auditors the nature and scope of the audit;
- review the draft interim and annual financial statements before submission to the Board for approval;
- discuss any problems and reservations arising from the annual audit and any matters the auditors may wish to raise;
- discuss with the auditors the Group's system of internal financial controls and any recommendations for improvement;
- consider the findings of internal investigations and management's response;
- oversee the implementation of systems for financial control and risk management;
- pre-approve non-audit services provided by the auditor;
- review the internal audit programme and its implementation;
- receive and review internal audit reports; and
- review treasury policy.

The Committee also reviews the guidance issued by bodies such as the Financial Reporting Council into the work of audit committees and incorporates any recommendations into its working practices.

There were three meetings in 2009, in January, March and July. The following table identifies the attendance record of individual directors at the Committee meetings held during 2009.

Name	Attendance
Stephen King (chairman)	3 of 3
Richard Menell <sup>1</sup>	1 of 1
John Mogford	3 of 3
Professor Ian Percy	3 of 3

<sup>1</sup> Richard Menell was appointed to the Committee on 1 April 2009.

The Committee maintains a formal calendar of items for consideration at its meetings and within the annual audit cycle to ensure that its work is in line with the requirements of the Combined Code. During the March meeting, the Committee undertook a full review of the audit with the Group's auditors.

In the course of 2009, the Committee discussed the following matters:

- the annual report and financial statements, the half year report and interim management statements, any significant audit issues, accounting policies and financial reporting issues and judgements identified by the finance director and the auditors;
- the annual report disclosures relevant to the Committee, including the going concern statement and the reports on risk management and internal control;
- the terms of reference for the Committee;
- the internal audit scope and approach for 2009;
- the results of the Group compliance scorecard;
- the Group accounting policies;
- the findings of internal audit reviews undertaken by PricewaterhouseCoopers LLP and the head of internal audit;
- the fees for Ernst & Young LLP for 2009;
- the audit strategy for year end 2009 audit;
- the fraud and error guidelines contained in ISA240; and
- the Group 'whistleblowing' policy.

## Corporate governance report (continued)

The minutes of each meeting are circulated to the Board. The Committee's terms of reference can be found on the Company's website.

The Committee maintains a policy on the appointment and role of the auditors. This includes guidelines on their appointment which is subject to review at least every five years and on their ongoing work to ensure that the independence of the Group's auditors is not threatened, particularly by the provision of non-audit services. During the year, the Committee reviewed the auditors' process for ensuring their independence and effectiveness and commented on their internal quality control procedures. The Committee are satisfied as to their continued independence.

Prior approval of the Committee is required where the expected cost of non-audit services provided by the appointed external auditors is in excess of £75,000.

The day-to-day implementation of the Committee's policies are delegated to the finance director who in turn monitors each of the Group's subsidiaries to ensure that all engagements fall within the Committee's guidelines. Fees payable to Ernst & Young LLP in respect of audit and assurance services of £1.2m (2008: £1.3m) and transaction support services of £nil (2008: £0.2m) in respect of 2009 were approved by the Committee.

The Group maintains a 'whistleblowing' policy in line with the Public Interest Disclosure Act 1998 to enable employees, on a confidential basis, to raise concerns internally in cases where they believe they have discovered malpractice or impropriety. This is reviewed on an ongoing basis. Complaints can be made either to line managers or directly to the company secretary who will appoint an investigating officer. Action will be taken in cases where the complaint is shown to be justified and at all times the complainant is informed of progress and outcomes. In addition, the auditors can be brought in to review procedures if appropriate. The 'whistleblowing' policy is available to all staff within the Group through the Group intranet.

### Principles of business conduct

As an international company, the Group's approach to maintaining high ethical standards is critical to its business success. The Group's operating policies, which provide guidance in this area, have been communicated throughout the Group through its intranet. A copy is available from the company secretary. These policies are reviewed on a regular basis.

### Internal control

In accordance with the Turnbull Guidance on internal control, the Board ensures that there is an ongoing process for identifying, evaluating and managing the significant risks faced by Group companies. This process has been in place throughout 2009 and up until the date of this report, except that it did not apply to the Group's joint ventures. The directors have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board delegates to executive management the responsibility for designing, operating and monitoring both the system and the maintenance of effective internal control in each of the businesses which comprise the Group. In addition, each operating company is responsible for the operation of key internal controls and to formally assess the effectiveness of the internal control environment through the submission, twice yearly, of the Group compliance scorecard.

An internal audit function is in place to review and challenge the effectiveness of key internal controls and to suggest relevant actions to address potential weaknesses. The internal audit review programme is based on a 'risk based approach' that helps to prioritise resource upon the areas of perceived greatest risk to the Group. This process is supplemented by a number of peer reviews that seek to further monitor and evaluate the process of internal control and share best practice around the Group.

Internal audit and peer review reports are reviewed by the Audit Committee which considers and determines relevant action in respect of any control issues raised.

As part of the control framework, each Group operating company and business prepares a Risk and Control Framework for their respective business. As part of this process, the operating companies prepare a report identifying the relative probability and severity of the risks identified, the process for managing and mitigating these risks and the means by which management might be assured that the processes are effective.

These frameworks are considered and approved by the Group Executive Committee.

In addition, a Group Risk and Control Framework is prepared, taking account of the significant risks identified by the individual units together with other Group-wide risks. The Group Risk and Control Framework is considered and adopted by the Board which is responsible for the risk management strategy. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The principal risks and uncertainties identified by the Group Risk and Control Framework and how they are managed or mitigated are summarised on pages 30 to 32.

The Board has monitored the effectiveness of the Group's system of internal control during the year. This is refined as necessary to meet changes in the Group's business and associated risks.

Regular performance reports are provided to the executive directors, the Audit Committee and the Board, as appropriate. Where weaknesses are identified, plans and timetables for addressing them are also reported.

In addition to the Group Risk and Control Framework, other procedures which are fundamental to the Group's system of internal control are as follows:

- A clearly defined organisational structure within which individual responsibilities are identified and monitored.
- A Group compliance scorecard which records compliance with the policies and procedures.
- Policies and procedures manuals are in place and communicated to all Group operating companies through the Group intranet. The managing directors are responsible for ensuring that each company observes and implements these policies and procedures which are continuously reviewed and updated.
- A comprehensive annual planning and financial reporting system incorporating consolidated management accounts, which compares results with forecast and the previous year on a monthly and cumulative basis. Management information systems provide directors with relevant and timely reports that identify significant variations from approved forecasts and revised forecasts for the year are produced four times a year.

The Group's internal control procedures described in this section have not been extended to cover its interests in joint ventures. The Group has board representation on each of its joint venture companies where separate systems of internal control have been adopted.

**Alan Mitchelson**

Secretary

Signed and approved for and on behalf of the Board

9 March 2010