

# Principal risks & uncertainties

Risk is inherent in the Group's business activities and as a consequence of operating a comprehensive 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 report to mitigate against these risks.

RISK	POTENTIAL IMPACT	MITIGATION
<b>Global political and economic conditions</b>		
The Group operates in a number of regions where it may be exposed to economic, political, regulatory or business risks.	While benefiting from the opportunities and growth in these regions, changes such as the introduction of new regulations, expropriation of assets or the imposition of trade barriers could disrupt the Group's business activities or impact on the Group's customers, suppliers or other parties with which it does business. In some instances, this could have a material adverse effect on the Group's financial position and prospects.	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 international requirements.  In addition, strategic reviews are carried out by the Group prior to entry into a new country.
<b>Human resources</b>		
The future success of the Group depends on the skills and efforts of its employees across all of its businesses and the ability to retain and develop these individuals.  In addition, the success of Group acquisitions will depend on the ability to retain management personnel of acquired companies.	If it is unable to attract and retain excellent talent, the Group may not be able to effectively implement its business strategies.	The Group constantly reviews its remuneration packages to ensure they remain competitive and also maintains development and succession planning programmes.  The Group's employee development programmes are explained in more detail on page 50.
<b>Health and safety</b>		
Certain aspects of the Group's manufacturing and service activities mean that employees are exposed to hazardous environments.	If the Group cannot maintain a safe place of work for all its employees, a number of negative outcomes to the Group could result including: <ul style="list-style-type: none"> <li>• fines and penalties;</li> <li>• loss of key customers;</li> <li>• exclusion from market sectors deemed important for future growth; and</li> <li>• damage to reputation.</li> </ul>	The Group is committed to maintaining a safe working environment and a culture of zero tolerance to accidents. To support this, all operations are encouraged to achieve OHSAS 18001. More details of this are contained on page 49.  The Group has in place quality and safety processes within each of its businesses which are regularly audited by professional bodies and customers.

RISK	POTENTIAL IMPACT	MITIGATION
<b>Environmental and regulatory</b>		
<p>The Group has contracts and operations in many parts of the world and is subject to local laws and regulations. Non-compliance with any of these laws or regulations could expose the Group to financial or reputational damage.</p> <p>In addition, manufacturing facilities are, at times, subject to permits that control the discharge of hazardous substances into the air or water; and the storage and disposal of such materials which could result in contamination of the site.</p> <p>It is expected that controls over environmental issues will increase in the future.</p>	<p>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 or affect the Group's future operational performance or financial condition.</p>	<p>The Group has formal systems and policies in place which are mandated under the Group compliance scorecard to ensure adherence to regulatory requirements and to identify any restrictions that could adversely impact on the Group's activities. More detail on this can be found on pages 38 and 39.</p> <p>Each of the Group's operational sites have managers who monitor regulatory developments.</p> <p>All sites have to be ISO 14001 compliant in order that they not only meet with current requirements but also have the appropriate management systems in place to ensure continuous improvement in environmental performance. More detail on this is contained on page 51.</p>
<b>Legal</b>		
<p>Manufacturing companies are, from time to time, exposed to personal injury claims and class actions or other litigation resulting from injuries sustained at work, including asbestosis or other health problems associated from working in industries that used asbestos in the twentieth century.</p>	<p>The Group has insurance cover for certain claims but not for all the claims. The number and size of the claims is dependent on the number of third parties that are still in existence and can be included in such actions. Both of these can change over time and as a result the Group's exposure can increase.</p>	<p>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 any changes or developments.</p>
<b>Competition and innovation</b>		
<p>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.</p> <p>The Group's continued success depends not only on the continuous improvement of its existing product portfolio but its ability to continue to develop and produce new and enhanced products in a cost effective and timely manner in accordance with customer demands.</p> <p>Failure to maintain a competitive advantage or manufacture at the lowest cost could have a significant adverse impact on the Group's business.</p>	<p>All new or improved technologies and products involve risk, including the potential for abortive expenditure, reputational risk and potential customer claims.</p> <p>In addition, the Group's processes to bring a new product to market may not be fast enough to gain market share or the new product may not achieve market acceptance, thereby harming the Group's reputation.</p>	<p>To remain competitive, the Group invests continuously in its manufacturing, marketing, customer service support and distribution networks. The Group also maintains the highest manufacturing and quality standards which include regular dialogue with customers to ensure that individual customer requirements are met. It also takes appropriate action to ensure that its cost base remains competitive and margins protected.</p> <p>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.</p>

## Principal risks & uncertainties (continued)

RISK	POTENTIAL IMPACT	MITIGATION
<b>Financial</b>		
<p>The Group is exposed to foreign currency, liquidity and credit risk.</p> <p>Foreign currency transactional risk arises when operating subsidiaries enter into transactions denominated in currencies other than their functional currencies.</p> <p>Translational exposure arises on the translation of overseas earnings and investments into sterling for consolidated reporting purposes.</p> <p>Credit risk is the risk that a customer or counterparty fails to meet an obligation under a contract and liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due.</p>	<p>Foreign currency transactional and translational risk could result in volatility in reported consolidated earnings and net assets.</p> <p>Credit risk could have a negative impact on reported earnings and cash and consequently the liquidity of the Group.</p> <p>Liquidity risk could impact negatively on the Group's reputation, borrowing costs or ultimately its ability to continue as a going concern.</p>	<p>Foreign currency transactional risk is managed by hedging significant exposures, usually by means of forward foreign exchange contracts.</p> <p>Net assets translational risk is partly hedged using foreign currency borrowings and derivative financial instruments. The Group does not hedge translational exposure arising from profit and loss items.</p> <p>Credit risk is managed by undertaking credit reviews of key customers with reference to external credit rating agencies and then adhering to the resultant credit limits. Credit risk to financial institutions is limited by restricting the range of counterparties to those with high credit ratings.</p> <p>Liquidity risk is managed by monitoring forecast and actual cashflows and ensuring that sufficient committed facilities are in place to meet possible downside scenarios.</p>
<b>Acquisitions</b>		
<p>The anticipated benefits of acquisitions may not be realised.</p>	<p>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.</p>	<p>The Group implements a rigorous due diligence process and ensures clear financial targets are in place as well as putting any acquisition through a formal approval process. The Group implements an internal 100 day plan to ensure that the integration process is actioned with the minimum of disruption.</p>
<b>Delivery performance and production</b>		
<p>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.</p>	<p>Failure to deliver in accordance with customer expectation could subject the Group to financial penalties, damage customer relationships and, as a result, impact on the Group's financial performance.</p>	<p>Manufacturing scheduling and planning is subject to stringent internal assurance processes to optimise each business unit's order book. The effect of this is to maximise capacity and minimise reworking costs and delays in delivery times. This is complemented by the use of the Group's Manufacturing Resource Planning systems, together with the slotting and scheduling achieved through the Weir Production System.</p>