

## THE WEIR GROUP PLC

3 April 2009

The Weir Group PLC today published on the Company's website, [www.weir.co.uk](http://www.weir.co.uk), its Annual Report for the 52 weeks ended 26 December 2008 and the Notice of the 2009 Annual General Meeting.

A hard copy version of the Annual Report 2008 together with the Notice of Annual General Meeting will be sent to those shareholders who have elected to continue to receive paper communications. Shareholders who have not elected to continue to receive paper communications will be sent the Notice of the Annual General Meeting and notice of availability of the Annual Report 2008 on the Company's website.

The Notice of Annual General Meeting, together with the 2008 Annual Report and financial statements have been submitted to the UK Listing Authority in compliance with Listing Rule 9.6.1, and will shortly be available for inspection at the UK Listing Authority's Document Viewing Facility which is situated at:

Financial Services Authority,  
25 The North Colonnade,  
Canary Wharf,  
London  
E14 5HS  
Tel: 0207 676 1000

The Company's Annual General Meeting will be held at 11am on Wednesday 13 May 2009 at the Burrell Collection, Pollok Park, Glasgow.

In accordance with Rule 6.3.5 of the Disclosure and Transparency Rules ("DTR"), we set out below a management report extracted from the 2008 Annual Report in unedited full text. Accordingly, the page numbers refer to those in the 2008 Annual Report. This extract, taken with the condensed set of financial statements included in the preliminary announcement issued on 10 March 2009, are in compliance with DTR 6.3.5.

The 2008 Annual Report contains a responsibility statement, which is repeated in the extract in compliance with DTR 4.1.12, and was signed on behalf of the Board by Alan Mitchelson, Director and Secretary.

### **Directors statement of responsibilities**

Each of the directors, whose names are listed below, confirms to the best of his knowledge that:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by IASB, 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.

Mark Selway, *Chief Executive*

The Lord Smith of Kelvin, *Chairman*

Alan Mitchelson, *Legal and Commercial Director & Company Secretary*

Keith Cochrane, *Group Finance Director*

Professor Ian Percy CBE, *Deputy Chairman & Senior Non-Executive Director*

Stephen King, *Chairman Audit Committee*

Michael Dearden, *Chairman Remuneration Committee*  
John Mogford, *Non-Executive Director*  
Lord Robertson of Port Ellen (George) KT, GCMG, HonFRSE, PC, *Non-Executive Director*

For further information please contact:

Frances McCaw  
Assistant Company Secretary  
The Weir Group PLC  
Clydesdale Bank Exchange  
20 Waterloo Street  
Glasgow  
G2 6DB  
Tel: 0141 308 3737

## ADDITIONAL INFORMATION

### 2008 proved to be the best operating year in Weir's history.

Profit before tax<sup>[2]</sup> from continuing operations rose by 53% to £176.2m and we delivered significant increases in input, revenue and earnings per share when compared to 2007. Our achievements during the year include a realigned portfolio of businesses, improved operational performance and the addition of several high quality businesses to the Group.

While we enter 2009 with a significantly stronger forward order book than at the same point last year, we are not immune from the broader economic environment and expect lower activity levels and capital spending deferrals to feature in many of the Group's end markets.

We are taking actions to prepare the business for the short-term but with an eye on the longer-term, while remaining focused on operational efficiencies, cash generation and lowering our costs.

#### 2008 Highlights

- Revenue up 34% to £1,354m (2007: £1,009m)
- Operating Profit<sup>[2]</sup> up 58% to £185.0m (2007: £116.9m)
- Earnings per share<sup>[2]</sup> up 49% to 59.3p (2007: 39.7p)
- Dividend increase of 12% to 18.5p (2007: 16.5p)
- Cash generated from operations up £70.9m to £214.4m (2007: £143.5m)
- £55m exceptional profit on disposal of non-core businesses

[2] Adjusted to exclude intangibles amortisation

### Chairman's Statement

I am pleased to report a further year of significantly improved operational and financial performance. In 2008, we benefited from our alignment to the oil and gas, mining and power markets and delivered strong growth in revenue and operating profit.

*"The Weir Group enjoyed another successful year delivering a substantial increase in sales, earnings and cash flow generation."*

#### Financial highlights

The Weir Group enjoyed another successful year delivering a substantial increase in sales, earnings and cash flow generation. Our acquisition of Warman within the Minerals Division, improved operational performance from the Power & Industrial Division and full year addition of Weir SPM in the Oil & Gas Division, all contributed to this very strong result.

Group revenue from continuing operations increased 34% to £1.4bn (2007: £1.0bn) driven by a partial year contribution from our most recent acquisitions, a full year contribution from Weir SPM, which was acquired in July 2007 and stronger performances across all divisions. Operating profit from continuing operations before intangibles amortisation, at £185.0m was 58% above the 2007 level of £116.9m. Operating margins, excluding intangibles amortisation and joint ventures, increased to 13.3% against 11.3% last year.

As a result of this strong performance, Group pre-tax profit from continuing operations before intangibles amortisation was up 53% to £176.2m (2007: £115.0m).

With an effective tax rate of 29.4% on attributable profit for continuing operations before intangibles amortisation, earnings per share on the same basis amounted to 59.3p (2007: 39.7p).

Trading profit, excluding intangibles amortisation, of £2.8m was realised in respect of our discontinued operations and an exceptional gain of £55.1m was recognised in relation to the disposal of Strachan & Henshaw during the year.

Operating cash flow from continuing operations improved significantly to £214.4m (2007: £143.5m) as a result both of increased profitability and the success of management focus on improving working capital. The year ended with net debt of £239.9m, compared with £171.3m in 2007, reflecting the combination of continued strong cash generation, the acquisitions of Warman, Mesa and Standard Oilfield Services (SOS) and a £63.5m adverse foreign currency translation impact. We reduced further the Group's exposure to its pension fund obligations through the purchase of a second insurance policy in respect of certain deferred members of the main UK scheme.

The Board is recommending a final dividend of 13.85p per share making a total distribution for the year of 18.5p (2007: 16.5p), a 12% increase on 2007.

### **Strategy & structure**

It is pleasing to report a further year of significantly improved operational performance and financial returns by the Group. The achievements include a realigned portfolio of businesses, improved operational performance and the addition of several high quality businesses. Our investments in Lean processes and most recent acquisitions were also significant contributors to the Group's 2008 performance.

During the year, the Group was reorganised into three divisions: Minerals, Oil & Gas and Power & Industrial with the services businesses being integrated into each of these divisions. We are convinced that sales efficiency, end-to-end offerings and geographic leverage from a sector focused organisation will be significant.

In March, we concluded the acquisition of Warman, a South African based company, for a cash consideration of US\$231m. This acquisition provides the Minerals Division with a platform in the strategically important sub-Saharan mining market.

In April, the Group announced the sale of Strachan & Henshaw, its remaining defence activity, for a cash consideration of £63.7m. We disposed of the non-core Canadian distribution business for a cash consideration of CAD\$25m and concluded our disposal activities with the sale of the UK Materials & Foundries operations for £10m in October.

In June, we acquired Mesa for a cash consideration of US\$40m. This Texas-based business has aligned markets with Weir SPM and extends our products and service offerings in the upstream oil sector. The integration programme has gone well and the business exceeded revenue and profit expectations during the period.

In July, the Group acquired 75% of SOS, a small oilfield services company in Baku, for a cash consideration of US\$16m, with the objective of extending the geographic reach of the Group's Oil & Gas operations. The business is being integrated successfully and plans are in place to extend its reach to the wider Caspian region.

Management's key priority in 2009 is to steer the Group through the unprecedented headwinds which the volatility in equity and constrained debt markets will inevitably have on the Group's end markets. The combination of necessary management actions to address these issues and the continued progress in the execution of the Weir Production System across all operations underpins our plans to further improve working capital, grow our market share and enhance customer relationships.

The Group continues to invest both in organic development and extending our presence in higher growth markets. The current economic environment, however, requires increased diligence in the Group's corporate activities and shareholders can be assured of a continued disciplined approach to future growth.

### **The Board**

At last year's annual general meeting, Christopher Clarke confirmed his intention to retire from the Board at the end of the year following nine years of valued service to the Group. In preparation for this change, with effect from 1 June 2008, John Mogford was appointed a non-executive director. John is a senior executive with BP and brings 30 years experience in the oil and gas sector. We have also announced the appointment of Richard Menell as a non-executive director. Richard has spent his life working in the mining industry in South Africa, Australia and the United States.

Following an extensive period of service with the Group, Professor Ian Percy has confirmed his intention to retire from the Board ahead of our annual general meeting in 2010. In preparation for this change, Michael Dearden, who has been with the Group as a non-executive director since 2003, will be appointed senior independent director with effect from November 2009.

### **Corporate governance**

I remain confident that we have the culture and required processes within the Weir Group to protect effectively the interests of all of our stakeholders. Ethical conduct remains a vital part of the Weir Group culture and a non-negotiable expectation of every Weir employee. It is supported by our code of conduct and clear statement of company values.

The Board's governance framework is underpinned by clearly defined strategies and strong vision and values which combine to create shareholder value through effective use of our resources. Internal audit complements our external and peer group audits and self-certification programmes.

### **People**

On behalf of the Board, I want to thank all our employees for their commitment, tireless energy and focus during 2008. In 2009, our continued focus on developing our markets, improving productivity and forging new and stronger customer relationships will be critical to the Group's ongoing success.

### **Prospects**

The long cycle nature of our end markets helped to insulate the Group from the economic turmoil which occurred in the broader economy in the second half of 2008.

While we enter 2009 with a significantly stronger forward order book than at the same point last year, we are not immune from the broader economic environment and expect lower activity levels and capital spending deferrals to feature in many of the Group's end markets. The Group has developed plans to respond to the impact of slowing market conditions and remains committed to delivering sector leading performance.

Despite the Group's best ever performance in 2008, our share price has been adversely impacted by the global turmoil. In the face of these volatile conditions, I remain confident the Group has the right strategy and depth of expertise to deliver sector leading returns to our shareholders.

**Lord Smith of Kelvin**

*Chairman*

*10 March 2009*

## The Weir Group Worldwide

At Weir, we have a strong reputation for design and manufacture of specialist equipment and the delivery of through-life engineering solutions. Our best manufacturing facilities deliver industry leading performance and each of our businesses has well defined plans to maximise operational performance. We employ over 9,000 people worldwide, focused on our key markets of minerals, oil and gas and power generation. In all these areas, our objective is to provide solutions that meet the engineering and operational challenges facing our customers.

*“Each of our businesses is focused on higher growth, longer cycle markets and is committed to enhance operational performance and invest in new and exciting prospects as a strong platform for our future growth.”*

Weir Minerals Division is the industry leader in the design, supply and support of aggressive high wear products for the global mining, flue gas desulphurisation and oil sands industries. Products include pumps, hydrocyclones, valves, de-watering products and wear resistant linings. With an extensive geographic footprint, the division enjoys a significant reputation for world class operations in the most important mining markets.

### Facts and figures

No. of people	c5,300
No. of businesses	19
2008 order input	£805m
Market size	£3.4bn

Weir Oil & Gas Division designs and manufactures pumps and ancillary equipment for the global oil and gas markets. The division comprises three operating activities - upstream, downstream and the services operations. Its principal operations are located in North America, Europe and the Middle East with recent acquisitions and expansion extending our position in Baku in the Caspian region and Colorado, Arizona and Texas in the United States.

### Facts and figures

No. of people	c1,600
No. of businesses	8
2008 order input	£289m
Market size	£2.9bn

Weir Power & Industrial Division designs, manufactures and provides aftermarket support for rotating and flow control equipment to the global power generation and industrial sectors. The division includes the Group's valve operations, a specialist pump business and substantial service and aftermarket operations with locations in Europe, Middle East, North America, China, India and South Africa.

### Facts and figures

No. of people	c2,000
No. of businesses	9
2008 order input	£271m
Market size	£5.9bn

## Chief Executive's Review

2008 proved to be the best operating year in Weir's history and the results reinforce our belief that we remain on the right path to sustainable long-term value creation.

The Group's 2008 input increased 30% to £1.4 billion with all three divisions enjoying positive market conditions for the majority of the year and first time contributions from the Group's acquisitions.

*"2009 is expected to bring with it new challenges for the world and its economies. These challenges will include recessions, rising unemployment and turmoil in the banking sector which will certainly impact on how our end markets perform. We are taking actions to prepare the business for short-term pain but with an eye on the longer-term opportunities created by the impact of the crisis on less effective competition."*

Annual revenue for 2008 increased by 34% to £1.4bn with each division achieving improved margin performance and turning in double digit top line and profit growth.

Excluding intangibles amortisation, the Group posted operating profit of £185.0m, up 58% on the prior year and delivering an earnings per share increase of 49% to 59.3p.

The Group generated £60.7m of free cash flow before acquisitions and disposals and returned 22.2% on capital invested.

### **The Group has three vibrant sector-focused growth platforms**

In 2008, the Group restructured to bring absolute clarity to its markets and sectors and crystallised our strategies for each of the divisions.

#### **Minerals Division**

Our Minerals Division is dedicated to achieving leadership in the supply and service of equipment for the mining, flue gas desulphurisation and oil sands markets.

As the world's leading supplier of equipment for the processing and transportation of slurries we are harnessing our technology, expertise and passion to reduce product life costs and maximise value for customers. To leverage the Group's leadership position we continue to develop our geographic presence and extend service offerings across the globe. Early indications show that by extending these offerings on a global business platform we will be better positioned for future growth.

Order input grew 23% to £805m (2007: £656m), with good progress across the Group's mining markets and particularly strong conditions in the Indo Pacific markets. Revenue increased 30% to £742m (2007: £570m), with significant growth in South America, Africa and China combining with contributions from Warman and Weir Multiflo. Operating profit before intangibles amortisation increased 39% to £114.5m (2007: £82.3m), while margins increased to 15.4% compared with 14.4% in 2007.

Our Minerals Division experienced strong market conditions throughout 2008 and grew its order book substantially quarter on quarter. Original equipment accounted for 52% of the year's input with spares and service making up the balance.

While all businesses within the Minerals Division performed strongly in 2008, the Netherlands operation deserves special mention due to its significant and continued success in new project work for major pipelines. In 2008, the Netherlands business grew its revenue to £104m against £75m in the prior year.

During the year, there were significant orders for new project capital equipment including the award of a joint bid between the Australian and Netherlands businesses for BHP Billiton's Worsley Alumina project in Western Australia. The expansion will increase production by 30% and is due to come on line in the first half of 2011.

In March, Warman was acquired and substantially increased Minerals position in the high growth African market. In the period of ownership, Warman contributed £45m of input, £45m of revenue and £7.4m of operating profit to Minerals 2008 results. The new enlarged business is making excellent progress.

### **Oil & Gas Division**

The Oil & Gas Division includes the Group's upstream and downstream businesses along with the substantial Oil & Gas service operations across the globe. Order input grew 62% to £289m (2007: £179m), with good progress across all of the division's most significant markets and a contribution of £142m from recent acquisitions. 48% of input related to original equipment, 23% to spares and 29% to service activities.

Revenue increased 40% to £280m (2007: £200m), including a contribution of £157m from Weir SPM, Mesa and Standard Oilfield Services (SOS). Operating profit including joint ventures before intangibles amortisation increased 62% to £61.0m (2007: £37.6m), while margins reflected the significant contribution from the division's higher margin acquisitions and increased to 21.8% against 18.8% in 2007.

The results for upstream businesses include a full year contribution from Weir SPM, which was acquired in July 2007. The business has been successfully integrated and the Weir Production System is fully implemented, including Lean manufacturing, 5S housekeeping standards and improved infrastructure at all of its service centres.

Weir Gabbioneta was selected for the supply of pumps for a renewable diesel production plant in Rotterdam, which is expected to contribute to a significant reduction in exhaust emissions and will achieve first production in 2011. In Singapore, a similar renewable energy plant is due to be launched at the end of 2010. Using palm oil as its base material, the plant is expected to place Singapore at the centre of biofuel production.

Also in the year, we acquired two smaller businesses to expand the product and geographic positioning of the Oil & Gas Division. First, Mesa, a privately owned pump and flow equipment business in Texas which is aligned to the customers and markets of Weir SPM. The second was the acquisition of a 75% shareholding in SOS, an oil services business in Baku.

### **Power & Industrial Division**

The Power & Industrial Division includes the combined activities of the Group's valves operations, our speciality pump business in the United States and the power related service centres in Canada, Europe, India, the Middle East and Africa.

The division achieved significant success in the year and put clarity to its plans to grow the Group's position in the global power and related markets.

The businesses supply critical safety valves to the power generation markets while our global network of service operations specialises in the maintenance, upgrade and management of power and industrial assets.

Order input grew 29% to £271m (2007: £211m), with 44% related to original equipment, 10% to spares and 46% to service activities. The power sector made excellent progress increasing by more than 75% to £150m against £86m in 2007. Revenue increased 11% to £223m (2007: £201m), with significant growth in the power markets in China, North America and the United

Kingdom. Operating profit before intangibles amortisation increased 34% to £18.0m (2007: £13.4m), while margins increased to 8.1% against 6.7% in 2007.

During the year, the division was awarded new build, upgrade and maintenance work in all of its core markets. The French business secured new nuclear programmes in China while the Services business was awarded an £11m contract to upgrade a power generation operation in Libya.

### **Successful corporate activities accelerating focus and growth**

During the year, the Group made one significant and two smaller acquisitions which, combined with a full year from Weir SPM, contributed input of £186m, revenue of £203m and operating profit excluding intangibles amortisation of £48m in 2008. The integrations have been well executed and all of the Group's acquisitions have exceeded performance targets.

In addition, the Group made three disposals of operations where end markets were not aligned to the strategic ambitions of the Group. The sale of each of these businesses was designed to eliminate the Group's exposure to non-core markets and sectors and to open up resources to focus on the future direction of the Group. These businesses collectively had 2007 revenues of £100m and contributed £7m of profits to the respective divisions to which they reported at that time.

### **We have clear operational and strategic focus for 2009**

2009 is expected to bring with it new challenges for the world and its economies. These challenges will include recessions, rising unemployment and further turmoil in the banking sector which will certainly impact on how our end markets perform.

Group-wide processes have been activated to monitor early warning indicators, develop scenarios and implement downturn response actions. We are taking actions to prepare the business for the short-term, but with an eye on the longer-term, while remaining focused on operational efficiencies, cash generation and lowering our costs.

### **Tough to call 2009 but great start to the year**

The Group enters 2009 with a strong order book and well developed plans to respond to the effects of slowing activity in our most important markets.

The outlook for Minerals will be impacted by the general market slowdown. The year commenced with a much improved order book but we expect a general reduction in activity levels as inventories realign to demand.

We expect new capital spend to decrease which will be reflected in reduced input in the first half of the year. In the second half, a corresponding decline in original equipment revenue is anticipated which will continue into 2010. Divisional profitability will be principally driven by the volume of spares and service and our ability to offset reducing overhead recovery from lower volumes of original equipment manufacture.

In Oil & Gas, we have already responded to a lower level of activity in our upstream business. Assuming economic conditions remain consistent with the early part of the year, we would expect 2009 revenue to be up to 30% below the second half 2008 run rate.

Our downstream business has sufficient original equipment order coverage to support its volume needs through a large part of 2009 and we are yet to experience any slowing of spares volume.

The outlook for Power & Industrial remains broadly positive with a global need for infrastructure spend supporting a strong medium-term outlook. In 2009, funding availability is expected to

delay some new build activities but with a corresponding increase in upgrade and maintenance work.

The Group's current order book, combined with good operational performance and the benefits from positive foreign currency translation effects, have provided a strong start to 2009. We are, however, unable to predict with any certainty the market conditions which will prevail in the latter part of the year.

**Mark Selway**  
*Chief Executive*  
10 March 2009

**Weir Minerals Division** with 2008 revenue of £742m is the industry leader in the design, supply and support of aggressive high wear products for the global mining, flue gas desulphurisation and oil sands industries

Weir Minerals ambition to be the customer's supplier of choice is driven by world class operations, leading products and technology. Recognising the need to respond to the changing geographic profile of the global mining market, Weir Minerals continues to invest in growing its presence in the emerging regions of South America, Asia and the Former Soviet Union. The acquisition of Warman in South Africa further complements the division's geographic expansion initiative and provides a strong foundation for growth in developing markets.

Minerals posted another year of excellent progress with significant gains in input, revenue and profit when compared with 2007. Input increased 23% to £805m (2007: £656m), with significant growth across all regions. Revenue at £742m was up 30% (2007: £570m), while operating profit increased 39% to £114.5m (£82.3m). The principal market for the business remains mining, which accounted for almost 69% of revenue. During the year, spares and aftermarket services represented almost 51% of the division's revenue.

Growth in revenue reflects strong levels of activity in global mining markets as well as the benefits of the division's emerging markets strategy and entry into specialised areas of the power generation and oil sectors. The ongoing spares stream from the existing installed base and addition of Warman provide a platform for further developments in 2009 and beyond.

#### **Australasia & Indo Pacific**

Regional input increased 22% to £165m while revenue increased 22% to £154m.

The Australasia region includes five businesses, the largest being the Australian based operation in Artarmon, Sydney. The region is progressively developing its portfolio of activities to include operations in China and India. The addition of Weir Multiflo late in 2007 provided a further avenue for expansion and extended the division's product offerings into dewatering applications.

#### *Australia*

During the year, there were significant orders for new project capital equipment including the award of a joint bid between the Australian and Netherlands businesses for BHP Billiton's Worsley Alumina project in Western Australia. The expansion will increase production by 30% and is due to come on line in the first half of 2011.

The Australian business was also successful in securing two large orders for the Ramu Nickel project in Papua New Guinea. The project is a new mine which is due to commence production in 2010 and is expected to produce 33,000 tonnes of nickel and 3,200 tonnes of cobalt over a

20 year mine life.

Following the Group's reorganisation, the expanded service and mill liner operations were successful in winning a complete mill liner system for the Pasqua Lama project in Chile. Multiflo, which was acquired in the second half of 2007, is now fully integrated and adds an important component to the division's mining portfolio.

#### *China and India*

2008 saw ongoing development in Suzhou, China, with an integrated foundry, machining, assembly and test facility. Weir Minerals India was recognised by the award of a commendation for business excellence and an award for best practice 5S housekeeping standards from the Confederation of Indian Industry.

#### **Europe, Middle East & Africa**

In 2008, the region delivered a further year of strong input and revenue growth from its core mining and minerals processing sectors. Input increased 32% to £284m while revenue increased 61% to £265m.

The region includes six businesses – the UK, France, Netherlands, Russia and Africa and now includes Warman which was acquired in March 2008 and brings with it a considerable installed base of product together with a high level of customer loyalty. The acquisition increases market presence in sub-Saharan Africa and the integration continues to proceed ahead of expectations.

The European and South African markets delivered year-on-year growth and our focused development strategy for the Former Soviet Union and the Middle East also contributed to strong growth in the region.

The positive displacement pump business in the Netherlands delivered record orders in 2008 and revenue grew considerably to £104m (2007: £75m). This business is geared to large capital projects and secured a major bauxite transportation project in Brasil and a project to transport hot bauxite slurry at the Wenshan alumina plant in China.

The UK business delivered another year of considerable progress with growth in input, revenue and profits. During the year, we were proud to receive the Queen's Award for Enterprise in recognition of significant growth in exports.

#### **North America**

During 2008, North American input increased 24% to £236m while revenue grew 20% to £209m.

The North American region comprises six businesses dedicated to mining and minerals processing, the Canadian oil sands and flue gas desulphurisation for coal fired power plants. Both the Canadian oil sands and flue gas desulphurisation markets were strong contributors to revenue growth. Spare parts and service in these aggressive applications is expected to increase proportionally in future years as a result of the growth in the installed base.

During the year, we completed an expansion to our Madison, Wisconsin facility responding to market successes in mining, flue gas desulphurisation and the oil sands. The Hazleton business, which produces downhole pumps, was selected as a finalist for the Industry Week Plant of the Year Award. Weir Lewis, a market leader in phosphate pumps, recorded another excellent year, on top of a very strong 2007.

## **South America**

In 2008, South American input increased 4% to £119m while revenue grew 9% to £115m. Mining and minerals processing continue to be the primary activities with focus on copper, gold, iron, zinc and bauxite. Weir has a unique position in the region, being the only company with comprehensive manufacturing plants in Brasil, Chile and Peru.

The largest growth came from new mining project activity, primarily in Brasil and Peru coupled with further progress from the region's service activities in Chile and Venezuela.

The region boasts some of the largest and most sophisticated pipelines in the world where Weir Minerals remains a leading player, supplying positive displacement pumps from the Geho range and service support to pipeline operators, who often move mine slurries hundreds of kilometres.

The Chilean operation continues to develop a commanding position in mill circuit projects and secured the pump and cyclone contracts for the Anglo American Los Bronces and Collahuasi copper mines in Chile. A major contract was also secured to supply upgraded equipment to Antofagasta's Los Pelambres phase two expansion.

The Brazilian business was successful in leveraging the Group's global product portfolio and its market position will be further enhanced by our investment in a new purpose built facility scheduled to come onstream progressively from 2009.

The service operations continue to grow in capability and geographic reach. Ongoing investments in Peru and Venezuela position the division well for future developments in these resource rich regions. Flexibility and operational excellence, along with the ability to respond quickly to growing demand, are paramount to continued growth.

## **Market update**

2008 was a year of significant commercial and operational success for the division and we expect the strengthening of our market and geographic positions to provide a solid foundation as we experience changed market conditions.

- Original equipment sales represented almost 50% of the division's revenue in 2008 and are largely tied to the capital spend plans of the major miners. The combination of the tightening of available funds and lower commodity prices will result in deferrals in new project spend which we expect to be visible in Mineral's order input in the first half and revenue line in the second half of 2009.
- The aftermarket business is derived principally from our installed base of equipment, is volume driven and contributes higher operating margins relative to original equipment sales. While we expect some of the more marginal mines to close and production volumes to decrease, this will be offset to some extent by the absolute increase in our installed base from previous years.

The acquisition of Warman was completed in March 2008 and provides the division with a high quality operation in the sub-Saharan African market. The addition of this well-established business with a considerable installed base will provide a further avenue for growth in the year ahead.

In summary, the global economic downturn has added significant uncertainty to a wide range of industries which ultimately impact the markets for our products. We have positioned the organisation to have a high proportion of its revenue tied to the aftermarket and services and its geographic diversity and strong competitive position provide a platform for industry leading performance.

### **Key achievements 2008**

- *Acquisition of Warman which provides a platform in the strategically important sub-Saharan mining market.*
- *Significant facility expansion at Weir Minerals North America delivered on time and on budget.*
- *Largest order in history of Weir Netherlands for GEHO pumps for the Brazilian MMX pipeline project.*
- *Significant contracts for Warman, Hazleton and Multiflo pumps for the Canadian oil sands.*
- *Australian service business increases mill liner orders by 78%.*
- *Significant new orders for complete range of mill circuit equipment for Kazakhstan gold mine.*

**Weir Oil & Gas Division** with 2008 revenue of £280m, manufactures pumps and ancillary equipment for the global oil & gas markets. The division comprises three operating activities – upstream, downstream and the services operations, which are focused on aftermarket activities.

Oil & Gas posted a year of exceptional progress in 2008 with significant gains in input, revenue and profit due to the full year inclusion of Weir SPM and excellent progress at Weir Gabbioneta and the services operations. Input increased 62% to £289m (2007: £179m), with significant progress across all operations. Revenue at £280m was up 40% (2007: £200m), while operating profit increased 62% to £61.0m (2007: £37.6m). Upstream represented 56% of total sales, while downstream contributed 20% and services contributed 24% of divisional sales in the year.

### **Upstream**

Weir's upstream business is largely focused on the manufacture of high-pressure well service pumps and related flow control equipment, including valves, chokes, manifolds, swivel joints and connectors which operate in abrasive, high-wear applications in oil and gas drilling and extraction markets.

Aftermarket operations include provision of related mobile recertification, refurbishment, repair and equipment rental services. Service activities include service centres in the United States, Canada, the UK and the Middle East.

The results for upstream businesses include a full year contribution from Weir SPM which was acquired in the second half of 2007. The business has been successfully integrated and the Weir Production System is fully implemented, including Lean manufacturing, 5S housekeeping standards and improved infrastructure at all of its service centres.

Significant capital expenditure has been invested at Weir SPM in upgrading the company's facilities to the high standard set by the Weir Group. In the Fort Worth principal manufacturing location, the focus has been on improving operating efficiency while creating a safe and productive work environment.

The division expanded its upstream activities through the acquisition of Mesa for a cash consideration of US\$40m. Mesa was a privately-owned Texas based supplier of gas drilling equipment to the unconventional oil market. The business has excellent alignment with Weir SPM and has exceeded our expectations during the period of ownership.

The upstream service centres have delivered significant improvements in safety and operational performance. Building expansions to accommodate future growth have been undertaken in Odessa, Texas and Alberta, Canada and all 11 service centres have implemented new safety and facility improvements.

Weir SPM's 2008 revenue was positively influenced by a backlog of over US\$100m carried over

from the high demand in 2007. In the second half of 2008 revenue normalised to an annual run rate of US\$272m.

The outlook for upstream is largely tied to the drilling of gas wells in North America where gas storage levels, gas prices and North American weather conditions are key market drivers. The current forecasts indicate 2009 revenues to be up to 30% below the second half 2008 run rate.

### **Downstream**

The division's downstream activities are focused at designing, manufacturing and selling made-to-order centrifugal pumps to the exacting requirements of the API (American Petroleum Institute) 610 standard. Products are used predominantly in the downstream refinery segment of the oil and gas industry. Future prospects are linked to continued investment in and utilisation of refining capacity around the world.

Weir Gabbioneta remains the cornerstone of the Group's downstream equipment supply and has an established position in the Middle East, Africa and Europe. Productivity and financial performance increased significantly on the previous year and we enter 2009 with a strong forward order book.

Weir Gabbioneta products were selected for the supply of pumps for a renewable diesel production plant in Rotterdam, which is expected to contribute to a significant reduction in exhaust emissions and will achieve first production in 2011. In Singapore, a similar renewable energy plant is due to be launched at the end of 2010. Using palm oil as its base material, the plant is expected to place Singapore at the centre of biofuel production.

With a substantially full order book the downstream business remains well placed to deliver further progress in 2009. The high margin aftermarket activities are tied to production volumes and ultimately consumer use.

### **Services**

The Oil & Gas Services operations includes a network of service businesses with capabilities to perform major refurbishment, upgrades and re-rates, repair, turnkey asset management and field service work in the oil and gas markets.

The extensive geographic footprint provides rapid customer response close to the major oil and gas markets in the North Sea, the Middle East, Western Canada and in the Southern United States where key market drivers are related to volume and the price of oil and gas.

Services results improved significantly when compared to 2007 as the benefits of restructuring in the UK, United States and Middle East operations came on-stream.

In the Middle East, significant investment was made in the Dubai operations to increase capabilities and grow our position in the market. We received recognition as a "top tier supplier" from BP in Baku where we manage their workshop and maintain critical rotating equipment servicing the Caspian region.

In July, the division extended its activities in the Caspian region through the acquisition of 75% of Standard Oilfield Services for a cash consideration of US\$16m. The business is located in Baku and supplies downhole equipment and services to the oil majors.

The implementation of the Weir Production System across all service operations has provided the basis for productivity improvements and increased manufacturing capacity while broadening the core business capability.

## **Market update**

The Oil & Gas Division's outlook is largely tied to the price and volumes of oil and gas produced in the Middle East, North Sea and North America.

The portfolio of businesses includes extensive aftermarket and service operations which in 2008 represented more than 56% of the year's revenue.

Weir SPM's outlook is largely tied to US gas prices and the level of onshore unconventional drilling in the North American market. The current forecasts indicate 2009 revenues to be up to 30% below the second half 2008 run rate.

Our downstream business has sufficient original equipment order coverage to support its volume needs through a large part of 2009 and we are yet to experience any slowing of spares volume.

## **Key achievements**

- *Transformation of Weir SPM's Fort Worth facilities with significant improvements in lead times and on time delivery.*
- *Three new Weir SPM service centres opened in 2008 with two further start ups planned for first quarter 2009.*
- *Weir SPM flow sales up 38% versus 2007.*
- *Weir Gabbioneta input up 35% on 2007 with a substantially full order book in 2009.*
- *Mesa acquired, successfully integrated and exceeding expectations.*
- *Lost time accidents reduced by 16% versus 2007.*

**Weir Power & Industrial Division** with 2008 revenue of £223m, designs, manufactures and provides aftermarket support for rotating and flow control equipment to the global power generation and industrial sectors

The Power & Industrial Division includes the Group's valve operations, a specialist pump business and substantial service and aftermarket operations in Europe, Middle East, North America, China, India and South Africa.

The division posted a year of excellent progress with gains in input, revenue and operating profit when compared to 2007. Input increased 29% to £271m (2007: £211m), while revenue at £223m was up 11% (2007: £201m) and operating profit increased 34% to £18m (2007: £13.4m).

Growth in orders reflected the strength of the Chinese power generation market, a significant power upgrade project in Libya and continued strong conditions in the UK and Canadian service markets. Original equipment represented 44% of the year's input while 10% was associated with spares and the balance in aftermarket services.

Weir's geographic reach provides the Power & Industrial Division with access to critical markets on a global scale.

## **North America**

The North American region includes the division's original equipment valve operations in Washington, North Carolina and Ipswich in Massachusetts, the specialist pump business in Salt Lake City, Utah and five service operations strategically located throughout Canada.

Regional input increased 8% to £106m and revenue rose 10% to £96m. The valves businesses increased input, revenue and profit in the year and gained orders valued at over £20m for critical safety products to be supplied to new Chinese power projects over the next three years.

The North American nuclear new build programme remains slow and funding constraints are expected to hold back new investments in the short to medium-term.

In the service operations, the lack of spend in new customer facilities has resulted in higher levels of upgrade and refurbishment of existing power and industrial assets. Opportunities in hydro electric upgrade projects also provide an excellent platform to transfer the division's European technologies into the North American market place. In Canada, a third repeat order for hydro refurbishment was secured from BC Hydro and will be executed in 2009.

Weir Specialty Pumps supplies pumps and associated equipment to the United States municipal, power generation and oil and gas markets. The business increased revenue, margins and operating profit when compared to 2007 and extended its product portfolio through the launch of new and innovative products in the year.

The prospects for North America include an extension of aftermarket offerings by capitalising on the existing footprint and the division's extensive global product portfolio. The new build product businesses will continue to develop products and skills to grow their positions in export markets while remaining prepared for substantial medium-term, must-have investment in their domestic markets.

## **Europe**

The European region consists of the original equipment valve operations in France and the UK and the division's seven service operations across the UK. Regional input increased 50% to £157m while revenue increased 10% to £116m.

The valve businesses performed well growing input, revenue and profit when compared to 2007. The UK operation collaborated in divisional bids and secured critical nuclear valve contracts in China. Domestically, the UK new build market for power generation remains slow with financing concerns delaying project approvals. A growing recognition of the need for substantial short-term power generation investment remains a prime opportunity for the division.

The French operation continued to benefit from its range of critical safety valves and secured £26m of new nuclear work in China. These contracts provide a solid revenue stream for the medium-term. In addition, a five year specialist valve service agreement was signed with EDF to cover their fleet of French nuclear reactors.

The UK service operations performed well with new project work underpinning a substantial growth in input when compared to the prior year. A six year framework agreement was signed with British Energy for the servicing of pumps and valves. The 2007 restructuring which rationalised the number of service operations helped fund a workshop expansion at Barton and the new European services engineering centre in East Kilbride, Scotland.

Work commenced on an £11m refurbishment of a power station for an iron and steel company in Libya which will provide a solid base load in 2009 and 2010.

The division's future prospects for Europe remain positive with must-have investment for new build becoming a critical community issue and in the interim, the increase in maintenance and life extension spending is expected to be an offsetting benefit.

## **Developing markets**

The developing markets include Power & Industrial's original equipment and aftermarket operations in China, the Middle East and Africa and a service operation in India.

The division's emerging market approach includes two distinct elements, growing our share of the indigenous opportunities and building high quality, low cost and technically competent

suppliers to improve competitiveness in our traditional markets. These initiatives are expected to result in significant future benefits.

The largest operation within the region is the original equipment valve business located at Suzhou, China. It was acquired in the second half of 2006 and has proved to be a significant conduit for new business awards for products supplied from the French, United States and UK operations.

Going forward, our intention is to increase technical capabilities and develop more customers in the indigenous market while assessing the prospects and returns for expanding activities into servicing the existing installed Chinese power generation market.

The region also includes smaller operations in India, South Africa and the Middle East which provide local sales, distribution and aftermarket services to their domestic markets. These businesses were successful in growing their operational capabilities and market prospects during the year.

### **Market update**

The outlook for Power & Industrial remains broadly positive with a global need for infrastructure spend supporting a strong medium-term outlook. In 2009, funding availability is expected to delay some new build activities but with a corresponding increase in upgrade and maintenance work.

### **Key achievements**

- *Significant Chinese power plant orders secure base load revenue.*
- *Multi-million pound power station refurbishment project secured in Libya.*
- *Five year valve service agreement signed with EDF in France.*
- *Six year service framework agreement signed with British Energy (pumps and valves).*
- *Successful completion of two hydro power overhaul projects in Canada.*
- *New state of the art engineering, project management and support centre opened in Scotland.*
- *New turbomachinery service workshop to maintain and refurbish turbine rotors at Barton, England.*

## Financial Review

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.”*

### 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[2]. 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[2] 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[1] grew 23% to £805m with in excess of 86% being attributable to the mining, flue gas desulphurisation and oil sands markets.

Revenue[1] 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[2] 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[2] of 16.6% was in line with our expectations.

Operating profit[2] 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[1] grew 62% to £289m (2007: £179m), including a £142m contribution from Weir SPM and other acquisitions (2007: £59m).

Revenue[1] 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[2] 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[2] 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[1] grew 29% to £271m with in excess of 55% being attributable to the power generation markets.

Revenue[1] 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[2] 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[2] 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[2] 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[2] 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[2] 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[1] 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[1] 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[1] of £53.3m (2007: £42.2m), reflects continued investment across the business and represented 2.3 times depreciation.

Net free cashflows[3] 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*

[1] from continuing operations.

[2] from continuing operations, before intangibles amortisation and exceptional items.

[3] net cashflow generated from continuing operations excluding cash impact in relation to acquisitions, disposals and net repayments of borrowings.

### **Board of Directors & Group Operations Executive**

Our operational framework is underpinned by clearly defined strategies, vision and values which combine to create shareholder value through the effective use of our resources.

#### **Mark Selway**

*Chief Executive*

Aged 49, was appointed chief executive in June 2001. Before his appointment, he was a director of Britax International plc and managing director of its automotive components division. Following the purchase of that division by Schefenacker International AG in 2000, he became a director of that company and executive director of Schefenacker Vision Systems. He is also a non-executive director of Lend Lease Corporation Limited.

#### **The Lord Smith of Kelvin**

*Chairman*

Aged 64, was appointed chairman in July 2002. He is chairman of Scottish and Southern Energy plc and Glasgow 2014 Ltd, the organising committee for the Commonwealth Games and a non-executive director of 3i Group plc, Standard Bank Group Limited and Aegon UK plc. He was formerly chief executive of Morgan Grenfell Asset Management, a member of the Financial Services Authority and the Financial Reporting Council and chairman of Stakis plc.

#### **Alan Mitchelson**

*Legal and Commercial Director & Company Secretary*

Aged 59, is a solicitor and joined the Group in March 2000 as group company secretary. He was appointed a director in December 2001. Before joining the Company, he was legal and personnel director of Highland Distillers plc, following a number of years as a legal advisor with Trafalgar House plc. He is a non-executive director of Glasgow 2014 Ltd.

**Keith Cochrane**

*Group Finance Director*

Aged 44, is a chartered accountant and was appointed group finance director in July 2006. He was formerly group director of finance at ScottishPower plc. Before that he was with Stagecoach Group plc where he was group finance director before becoming group chief executive in 2000. He is a non-executive director of the Royal Scottish National Orchestra Society Ltd.

**Professor Ian Percy CBE**

*Deputy Chairman & Senior Non-Executive Director*

Aged 67, was appointed a non-executive director in 1996. He was formerly senior partner of accountants Grant Thornton, president of the Institute of Chartered Accountants of Scotland and chairman of The Accounts Commission for Scotland. He served as a member of the Treasury and DTI Co-ordinating Committee on Audit and Accounting in 2003 and was chairman of Companies House until December 2006. He is senior non-executive director of Cala Group Ltd and chairman of Queen Margaret University, Edinburgh.

**Stephen King**

*Chairman Audit Committee*

Aged 48, was appointed a non-executive director in February 2005. He has been group finance director of De La Rue plc since January 2003 and is due to step down at the end of March 2009. He was formerly group finance director of Midlands Electricity plc and held senior financial roles with Seeboard plc and Lucas Industries plc. He is also a non-executive director of Camelot Group plc.

**Michael Dearden**

*Chairman Remuneration Committee*

Aged 66, was appointed a non-executive director in February 2003. A graduate of Oxford University, he was formerly with Burmah Castrol plc, where he was CEO of Castrol International. He was a non-executive director of Johnson Matthey plc until March 2008 and Travis Perkins plc until November 2008. He was formerly chairman of Minova International Ltd.

**John Mogford**

*Non-Executive Director*

Aged 55, was appointed a non-executive director in June 2008. He is currently an executive vice president of BP PLC, having been with BP for 30 years, initially in their exploration division and progressively rising to his current role as executive vice president (chief operating officer US Downstream & Head of Refining). He has held numerous positions in every area of BP Operations from gas and renewables to upstream and downstream oil.

**Lord Robertson of Port Ellen (George)**

**KT, GCMG, HonFRSE, PC**

*Non-Executive Director*

Aged 62, was appointed a non-executive director in February 2004. He was Secretary General of NATO (1999-2003) and before that Secretary of State for Defence (1997-99). Lord Robertson is deputy chairman of TNK-BP. He is a non-executive director of Western Ferries (Clyde) Ltd. He is also senior international advisor to Cable and Wireless PLC, on the Advisory Board of Englefield Capital, senior counsellor with The Cohen Group (USA) and President of Chatham House.

**Christopher Clarke**

*Non-Executive Director*

Aged 63, was appointed a non-executive director in 1999 and retired from the Board on 31 December 2008.

## 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 retranslating 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.

#### **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.

### 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 [1] [2]

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[2]

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[2]

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[2]

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.

[1] Calculated at 2008 average exchange rates.

[2] 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.

*On behalf of the Board*  
**Alan Mitchelson**  
*Director & Secretary*  
*Glasgow*  
*10 March 2009*

## Corporate Governance Statement

### The Combined Code

The Company remains committed to the highest standards of corporate governance and manages its affairs in accordance with the Combined Code on Corporate Governance (the "Combined Code") published by the Financial Reporting Council in June 2006 and appended to the Listing Rules. During the 52 weeks ended 26 December 2008, the Company complied with the Combined Code provisions. This statement describes how the Company has applied the Combined Code.

### The Board

The Board comprises the chairman, chief executive, group finance director, legal and commercial director and six non-executive directors, all of whom are independent. The Board meets regularly throughout the year with ad hoc meetings as necessary. In the year to 26 December 2008, the Board met seven times. Meetings are held at the Company's head office in Glasgow, London at the time of the Company's annual and interim announcements and at operating locations. The following table identifies the number of board and committee meetings held during the past year and the attendance record of individual directors.

	Board Meetings	Committee Meetings		
		Audit	Remuneration	Nomination
No. of meetings in the year	7	3	5	4
Lord Smith	7			4
Christopher Clarke[2]	7	3	5	
Keith Cochrane	7			
Michael Dearden	7	3	5	4
Stephen King	7	3		
Alan Mitchelson	7			
John Mogford[1]	4	1		
Professor Ian Percy	7		5	4
Lord Robertson[3]	6		1	4
Mark Selway	7			4

[1] John Mogford was appointed to the Board on 1 June 2008.

[2] Christopher Clarke ceased to be a director on 31 December 2008.

[3] Lord Robertson was appointed to the Remuneration Committee on 1 October 2008.

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. 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 reelection at least once every three years. In line with best practice under the Combined Code, any director who has held office 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.

On joining the Board, directors are provided with documentation on the Company 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.

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 and 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.

During 2008, the Board also conducted 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 met with the respective chairmen of the Audit and Remuneration Committees to discuss the feedback. The results of this evaluation 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, including the chairman, whose appraisal is carried out by the senior independent director, with input from other board members.

There is an agreed procedure for directors, where appropriate, to take independent professional advice 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.

There is an agreed list of matters which requires to be authorised by the Board, such as the approval of the Group strategic plan, Group budget and risk management strategy. Major acquisitions and disposals, as well as major capital spend, are authorised by the Board and are subsequently monitored by the Board after execution. The Board also approves the issue of full year and interim reports.

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. Notwithstanding his presence on the Board for a period of more than nine years, the Board considers Professor Percy, who continues to be a member of the Board and the Remuneration and Nomination Committees, to be independent in character and judgement. He brings a wealth of experience to the Board's deliberations and is considered to be free from any business or other relationship that could materially interfere with his independent judgement.

The views of executive directors are not limited to those operational or functional areas for which directors have prime responsibility. Board and committee papers are sent to directors in sufficient time before meetings 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 issue arising at board meetings and non-executive directors have access to the chairman at any time.

The roles of chairman and chief executive are separate. The chairman's primary role is to ensure that the Board is effective in its task of setting and implementing the Company's direction. The chief executive is responsible for management of the business and developing the appropriate organisational structure for a global organisation. The chief executive chairs the Group Operations Executive Committee.

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. Professor Ian Percy has been designated the senior independent director to whom any concerns can be conveyed.

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.

#### **Directors conflicts of interests**

Effective from 1 October 2008, a Director has had a statutory duty to avoid a situation in which he has, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. In accordance with the Company's articles of association, amended in 2008, a Director will not be in breach of that duty if the relevant matter has been authorised by the other directors. The new provision of the articles of association which include the relevant authorisation for directors to approve such conflicts was agreed by a resolution of shareholders at the annual general meeting held on 7 May 2008. Prior to 1 October 2008, the Board conducted a review of actual or possible conflicts of interest in respect of each director. At its meeting in August 2008, the Board considered the guidance on conflicts generally and agreed on the process that would be adopted for identifying and authorising conflicts. They also authorised the conflicts that had been identified as a result.

#### **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 Operations Executive Committee**

The Group Operations Executive Committee is responsible for ensuring that each of the Group's businesses is managed effectively and that the operational objectives of the Group, as approved by the Board, are achieved. Its 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 providing 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. The Group Operations Executive Committee meets each month. Its membership comprises the chief executive, group finance director, legal and commercial director and the three divisional managing directors. In the year to 26 December 2008, the Group Operations Executive Committee met 12 times.

#### **General Administration Committee**

The principal duties of the General Administration Committee are to allot shares under the various share option schemes and other matters of a routine nature. This Committee comprises the executive members of the Board and meets as required.

#### **Other committees**

The other board committees are the Audit Committee, the Nomination Committee and the Remuneration Committee (details of which are contained on pages 31 to 39).

#### **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.

#### **Shareholders**

The Company maintains regular dialogue with its institutional shareholders in the form of an 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 group finance director. Attendees at

the results presentations include the chairman, the executive directors and the senior independent director. 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 when the chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions. The date of the key publications in 2009 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.

### **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 national or specialised press or in its own newspapers and bulletins which have wide circulation.

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.

### **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 2008 and up until the date of this report, except that it did not apply to the Group's material joint ventures. As part of the integration programme, Weir Multiflo, Weir SOS, Weir Mesa and Weir Warman Africa became fully integrated into the Risk and Control Framework and the Group system of internal control during 2008. 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 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 provided to the Group Operations Executive Committee as well as to 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 chief executive, group finance director and the Group Operations 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 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 Group Operations Executive Committee and/or the Audit Committee or the Board. 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:

#### Control environment

There is a clearly defined organisational structure within which individual responsibilities are identified and monitored. Businesses follow well understood procedures and are required to comply with them.

#### Main control procedures

The Group has identified a number of key areas which are subject to regular reporting to the Board. These controls include procedures for seeking and obtaining approval for major investments and transactions.

#### Group-wide standards

There are, for application throughout the Group, operating policies and a standards manual which set out policies and procedures with which all Group companies are required to comply. The manual is communicated to all Group operating companies through the Group intranet.

The managing directors are responsible for ensuring that each company observes and implements the policies and procedures set out in the manual which was updated progressively during 2008.

#### Information systems

There is a comprehensive budgeting system in place with an annual budget approved by the Board. Management information systems provide directors with relevant and timely reports that identify significant deviations from approved plans and include regular re-forecasts for the 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.

## Audit Committee Report

The Board has delegated to the Audit 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 auditors 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.

The chairman of the Committee is Stephen King. During the year the other members of the Committee were Christopher Clarke, Michael Dearden and John Mogford, who joined the Committee on 1 August 2008. The secretary to the Committee is Alan Mitchelson. In addition, the chief executive, group finance director and the internal and external auditors also attend each meeting. The Board is satisfied that Stephen King has recent and relevant financial experience

The Committee has the ability to call on the Group's staff to assist in their work and also has access to independent advice. The chairman of the Committee receives additional remuneration for his duties, details of which are set out on page 36. The Committee meets each January, March and August and at other times as appropriate. During the March meeting the Committee undertakes a full review of the audit with the Group's auditors.

There were three meetings in 2008. In the course of 2008, the Committee discussed the following matters:

- a) operational issues identified by the auditors in both their audit and interim review;
- b) the Internal Audit Charter and Strategy;
- c) the Group Risk and Control Framework;
- d) the Group accounting policies;
- e) the scope of the function and the findings of internal audit reviews undertaken by PricewaterhouseCoopers LLP and the internal auditor;
- f) Corporate Governance Reporting;
- g) the fees for Ernst & Young LLP for 2008;
- h) the audit strategy for year end 2008 audit;

- i) the fraud and error guidelines contained in ISA240; and
- j) the Group 'whistleblowing' policy.

Both the Group internal auditor and PricewaterhouseCoopers LLP undertake their activities in conjunction with the Group's usual peer group review process.

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. 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 policy is delegated to the group finance director who in turn monitors the business units 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 £1.3m (2007: £1.6m) and transaction support services of £0.2m (2007: £0.7m) in respect of 2008 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 Ernst & Young LLP can be brought in to review procedures if appropriate. The 'whistleblowing' policy is published on the Group intranet.

The Committee's terms of reference are available from the company secretary on request and can also be found on the Company's website.

**Stephen King**

*Chairman of the Audit Committee*

*Signed and approved for and on behalf of the Board*

*10 March 2009*

## **Nomination Committee Report**

During 2008, the members of the Nomination Committee were Lord Smith (chairman), Michael Dearden, Professor Ian Percy, Lord Robertson and Mark Selway. Alan Mitchelson acts as secretary to the Committee. The Committee meets at least twice a year and at other times when necessary, and in 2008 met four times. 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 from the company secretary and can also be found on the Company's website.

Appointments to the Board are approved by the Board as a whole. However, it is the role of the Committee to make recommendations to the Board in respect of the appointment of new executive or non-executive directors. The process by which the Committee brings candidates to the Board has been agreed by the Board. In the case of executive directors, the Committee has recommendations presented to it by the chief executive and thereafter nominates candidates for consideration by the Board. The procedure for non-executive directors is that the Committee identifies and nominates candidates for consideration by the Board to fill vacancies as and when they arise.

During the year the Committee considered:

- a) the Group's current committee structure and procedures including the composition and membership of each of the board committees;
- b) the training for directors;
- c) the board evaluation process; and
- d) the appointment of John Mogford as a director.

In 2009, the Committee considered the appointment of Richard Menell as a director.

### **Lord Smith of Kelvin**

*Chairman of the Nomination Committee*

*Signed and approved for and on behalf of the Board*

*10 March 2009*

## Remuneration Committee Report

### Committee membership

The chairman of the Remuneration Committee is Michael Dearden. The other members of the Committee were Christopher Clarke and Professor Ian Percy. During the year, Lord Robertson was appointed to the Committee. 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. Hewitt New Bridge Street ("Hewitt") continued to provide external advice in formulating remuneration policy and its implementation during 2008, as well as advice on employee share schemes. Hewitt's appointment was renewed by the Committee in 2008. Hewitt do not undertake any other work for the Group other than remuneration work. In carrying out its business, the Committee consults with the chairman and the chief executive as appropriate.

### Committee responsibilities

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 executive directors of the Company;
- 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 met five times in 2008. The Committee is constituted, and operated throughout the year, in accordance with the relevant provisions of the Combined Code. This report complies with the Directors Remuneration Report Regulations 2002. The Committee's terms of reference are available from the company secretary on request and can also be found on the Company's website.

### Executive directors remuneration policy

The Committee has adopted the following policy for the remuneration of executive directors throughout 2008. It is intended that this policy will apply in 2009 and future years.

The objective of the Group's remuneration policy is to attract, motivate and retain executive directors with the necessary abilities to manage and develop the Group's activities successfully for the benefit of shareholders.

Accordingly, the Committee sets remuneration packages for the executive directors to reflect both the size and complexity of the business and individual responsibilities. It also takes into consideration the remuneration practices adopted by other companies of similar size and international spread of operations. For all senior executives, the Group policy is to provide a significant part of their total potential reward through performance based incentive plans (annual bonus and long-term incentives) as described in this report.

To ensure the interests of management remain aligned with those of shareholders, executive directors are encouraged to build up a meaningful shareholding in the Company by both the purchase of shares and/or the retention of a proportion of their share awards. In addition, executive directors are obliged to convert part of their bonus into shares under the Long Term Incentive Plan ("LTIP").

### Executive directors remuneration components

The components of the remuneration package comprise the following:

- a) a basic salary, which is set by the Committee for each executive director by reference to companies of a similar size and industry practice and having regard to salary increases throughout the Group. There will be no change to the salaries of Mark Selway and Alan Mitchelson in 2009. However, following a review and advice from Hewitts which identified that Keith Cochrane's salary was uncompetitive with industry benchmarks, his salary is to increase by 7.5%;
- b) an annual performance-related bonus. Bonus payments are intended to reflect the achievement of agreed business objectives and positive contribution to stretching the performance of the Group. The Committee reviews the bonuses payable on an annual basis and sets the targets at the beginning of the financial year. The targets used are based primarily on normalised pre-tax profits but can also on occasion include other performance measures. In 2008, the target was based solely on normalised pre-tax profits and the maximum potential bonus receivable by the chief executive was 125% of salary and for the other executive directors 100% of salary. The performance criteria and the maximum bonus potential will be the same for 2009. As a member of the LTIP, the chief executive is required to contribute 25% of his bonus in exchange for which he receives a conditional award of investment shares. The other executive directors are required to contribute 20% of their bonuses in the same manner. Investment share awards are subject to forfeiture if the director leaves the Group within three years. Bonuses are non-contractual;
- c) participation in the LTIP, details of which are set out on the following pages;
- d) participation in a one-off arrangement by Mark Selway, details of which are set out on the following pages;
- e) participation in the Company's pension plan by Alan Mitchelson, details of which are set out on the following pages; and
- f) other benefits which are the provision of a car allowance, participation in a Group health care scheme, travel allowance and death in service insurance. The Committee believes that the level and provision of benefits is consistent with that provided by other comparable companies.

The only component of the executive remuneration which is pensionable is the basic salary.

### **Long Term Incentive Plan**

During 2008, the Company continued with its annual grant policy under the LTIP and made awards of performance shares, matching shares and investment shares:

- i) Performance shares – Performance shares are conditional awards to acquire free shares subject to Group performance (see below) and continued employment until the third anniversary of the award. In 2008, conditional awards of performance shares were made worth 100% of salary to the chief executive, the group finance director and the legal and commercial director. It is the Committee's intention to make grants in 2009 of 100% of salary to the executive directors.
- ii) Matching and investment shares – Matching shares are conditional awards to acquire free shares, subject to Group performance (see below) and continued employment until the third anniversary of the award. Matching shares are granted in connection with an individual's investment from their annual bonus. Under the LTIP, executive directors are required to compulsorily defer an element of any Group bonus earned (currently 25% for the chief executive and 20% for the other executive directors) in exchange for which they are awarded investment shares. In addition, executive directors are also allowed to voluntarily invest a further portion of their Group bonus (subject to any cap imposed by the Committee, currently 20%) to be further eligible for an award of matching shares. In return, the executive

directors are eligible to receive a conditional award of matching shares worth a maximum of 2.5 times the pre-tax value of the bonus "invested" both on a compulsory and voluntary basis under the LTIP.

The awards are based on the Group's share price, using the average published closing price for the three dealing days immediately preceding the date of award.

The vesting of conditional awards of performance and matching shares is subject to the satisfaction of a highly demanding performance condition. For the performance share awards granted in 2008, the performance condition will be based on the growth in the Group's total shareholder return ("TSR") over a single three-year performance period (three consecutive financial years, beginning with the year in which the award is made) relative to the growth in the TSR of a comparator group ("the Comparator Group"). The Comparator Group comprises the following 18 companies: AGA Foodservice Group, Bodycote International, Cookson Group, Enodis, FKI, Halma, IMI, Meggitt, Mitie Group, Morgan Crucible Company, Rolls-Royce, Rotork, Senior, Smiths Group, Spirax-Sarco Engineering, Tomkins, Wood Group and WS Atkins. Only if the Company's TSR ranks in the upper quintile of the comparator group will the full awards be receivable. This reduces on a sliding scale so that for median performance, 25% of the awards will be receivable. For below median performance, none of the awards will be receivable. For awards granted in 2009, the performance conditions and the Comparator Group will be the same as for the 2008 awards, except that FKI and Enodis are no longer listed on the London Stock Exchange.

TSR has been selected as one of the performance conditions by the Committee. The Committee considers TSR to be a suitable long-term performance measure. The TSR calculation will be performed independently for the Committee at the time of vesting.

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

### **Conditional share award**

In 2008, the shareholders approved a one-off conditional award of 405,953 shares to Mark Selway, which will vest on the third anniversary of 8 May 2008 subject to specified performance conditions being achieved. The performance conditions are based on Earnings Per Share (EPS) subject to adjustment on a reasonable basis at the discretion of the Committee. 25% of the award will vest if EPS exceeds the UK Retail Prices Index (RPI) by 7% p.a., increasing on a sliding scale to the full award vesting if EPS exceeds RPI by 13% p.a. In addition, Mark Selway is required to retain his current shareholding for the award to vest. The Committee believes that the EPS targets it has put in place for this one-off award are extremely challenging in today's market place, given the future growth prospects for 2009 and 2010 and, since the LTIP measures TSR performance, vesting should be linked to the financial performance of the Group.

### **Pensions**

Alan Mitchelson is a member of the Company's 1972 pension and life assurance plan. The plan is a defined benefit contributory plan with the active members contributing 8% of salary. The balance of the cost of the plan is met by the Company having taken account of the trustee's opinion arrived at by considering the funding recommendations of the plan's independent actuary.

The plan targets a pension of two thirds of final salary payable at normal retirement date, providing a member then has at least 24 years pensionable service. Where a member has less than 24 years pensionable service to normal retirement date their pension currently accrues at 1/36th of final salary per annum.

For members, salary (both for contributions and for plan benefits) is subject to a plan specific earnings cap. This is currently £117,600.

The plan provides for a surviving spouse's pension of one half of the member's pension and, in certain circumstances, for a dependent child's pension until the child attains the age of 18 years (or 25 years if in full time further education). Pensions in payment increase by an amount equal to retail price inflation up to 5% per annum for service up to April 2006. For service after April 2006, the increase is up to 2.5% per annum. Deferred pensions increase by an amount equal to retail price inflation up to 5% per annum.

Life assurance cover of five times salary is provided separately for each of the executive directors.

Mark Selway and Keith Cochrane are responsible for their own pension arrangements.

### Performance graph

The graph below compares the Company's total shareholder return performance over a five year period against the LTIP Comparator Group and the FTSE 350 Industrial Engineering Sector Index. The Board believes that both the FTSE Index and the Comparator Group represent an appropriate and fair benchmark upon which to measure the Group's performance for this purpose.

This chart shows the value, at the end of the 2008 financial year, of £100 invested in The Weir Group PLC over the last five financial years compared with the value of £100 invested in the average of the Comparator Group and the FTSE 350 Industrial Engineering Sector Index. The other points plotted are values at intervening financial year ends.

### Directors contracts/terms of appointment

The details of the service contracts in relation to the executive directors and letters of appointment in relation to the non-executive directors who served during the year are:

Director	Contract commencement date	Unexpired term/ next re-election	Notice period by company
Lord Smith	6 February 2002	May 2010	6 months
Christopher Clarke[1]	14 December 1999	n/a	n/a
Michael Dearden	17 February 2003	13 May 2009	6 months
Stephen King	3 February 2006	May 2011	6 months
Professor Ian Percy	11 October 1996	13 May 2009	6 months
John Mogford	1 June 2008	13 May 2009	6 months
Lord Robertson	1 February 2004	13 May 2009	6 months
Keith Cochrane	3 July 2006	12 months	12 months
Alan Mitchelson	12 December 2001	12 months	12 months
Mark Selway	5 June 2001	12 months	12 months
Richard Menell	1 April 2009	13 May 2009	6 months

[1] Christopher Clarke retired as a director on 31 December 2008.

### **Executive directors service contracts**

To recruit the best executives, the Committee has in the past and may in the future, agree contractual notice periods which initially exceed 12 months particularly as it is often necessary for executives to relocate their families. All the directors who served during the year have service contracts with the Company that provide for a minimum period of notice of six months by the individual and 12 months by the Company. In the event that the Company terminated an executive director's service contract other than in accordance with its terms, the Committee, when determining what compensation, if any, should properly be paid by the Company to the departing director, will give full consideration to the obligation of that director to mitigate any loss which he may suffer as a result of the termination of his contract.

### **Executive directors external appointments**

The executive directors are permitted, with Board agreement, to take up one non-executive appointment provided that there is no conflict of interest and that the time spent would not impinge on their work for the Group. It is the Company's policy that remuneration earned from such appointments may be kept by the individual executive director. During 2008, Mark Selway was appointed to the board of Lend Lease Corporation Limited, an Australian and New Zealand listed company. His remuneration in respect of this appointment is A\$140,000.

### **Letters of appointment**

The chairman and each of the non-executive directors have letters of appointment. The letters of appointment do not contain any contractual entitlement to a termination payment and the directors can be removed in accordance with the Company's articles of association. The chairman and all non-executive directors are subject to re-election by shareholders at least every three years, with the exception of any director whose appointment exceeds nine years, in which case there is a requirement for annual re-election.

### **Remuneration of the chairman & non-executive directors**

The remuneration of the chairman is agreed by the Board on the recommendation of the Committee. Fees for the non-executive directors are determined by the Board. In determining the fee levels, account is taken of the time commitment, scale of roles, market norms and comparison with companies of equivalent size based on information provided by Hewitt. Neither the chairman nor any of the non-executive directors participate in any of the Company's incentive plans or receive pension or other benefits, except that the chairman is entitled to participate in the Group health care scheme and an additional allowance is made available to non-executive directors to reflect the additional time commitment in attending intercontinental board meetings and operational visits, where appropriate. The chairman and the non-executive directors are not involved in any discussions or decisions about their own remuneration.

The non-executive directors fees and chairman's remuneration are reviewed annually by the Board. The last increase was in 2007. There will be no change to the Chairman's remuneration or fees for the non-executive directors in 2009, with the exception that on 1 November 2009, Michael Dearden will become senior independent director and the fees payable to him will increase by £2,500 to £50,000.

## Directors remuneration #

	Notes	Salary & Fees £	Bonus (Note v) £	Benefits (Note vi) £	Total 2008 £	Total 2007 £
<b>Chairman and non-executive directors:</b>						
Lord Smith		175,000	-	5,838	180,838	169,221
Christopher Clarke		40,000	-	5,238	45,238	39,000
Michael Dearden	i	47,500	-	5,238	52,738	45,875
Stephen King	ii	47,500	-	-	47,500	45,875
John Mogford	iv	23,333	-	5,010	28,343	-
Professor Ian Percy	iii	50,000	-	4,862	54,862	49,000
Lord Robertson		40,000	-	-	40,000	39,000
		<b>423,333</b>	<b>-</b>	<b>26,186</b>	<b>449,519</b>	<b>387,971</b>
<b>Executive directors:</b>						
Keith Cochrane		370,521	375,000	23,946	769,467	728,637
Alan Mitchelson		306,840	317,000	21,452	645,292	564,717
Mark Selway		567,105	717,500	21,435	1,306,040	1,269,019
		<b>1,667,799</b>	<b>1,409,500</b>	<b>93,019</b>	<b>3,170,318</b>	<b>2,950,344</b>
Previous year comparatives		1,557,386	1,316,520	76,438		

# Audited

- (i) The fees for Michael Dearden include £7,500 for services as chairman of the Remuneration Committee (2007: £6,875).
- (ii) The fees for Stephen King include £7,500 for services as chairman of the Audit Committee (2007: £6,875).
- (iii) The fees for Professor Ian Percy include £10,000 for services as deputy chairman and for his role as senior independent director (2007: £10,000).
- (iv) John Mogford was appointed on 1 June 2008.
- (v) The bonus figures for Keith Cochrane, Alan Mitchelson and Mark Selway include £75,000 (2007: £71,415), £63,400 (2007: £55,269) and £179,375 (2007: £170,775) respectively, which will be compulsorily deducted from their bonus in exchange for which they will be awarded investment shares which, subject to remaining employed with the Group, will be receivable on the third anniversary of the 2009 award.
- (vi) Benefits include, as appropriate, car allowance, participation in the Group health care scheme, travel allowance and death in service insurance.

## Awards under the Group Long Term Incentive Plan #

	Date of Award	Scheme	Number of awards as at 28 Dec 2007	Granted during year	Vested during the year	Number of shares under option as at 26 Dec 2008	Market price at date of award	Normal exercise period (Note ii)
Keith Cochrane	24-Aug-06	A*	76,695	-	-	76,695	445p	24.08.09 - 24.11.09
	29-Jun-07	A*	38,677	-	-	38,677	730p	29.06.10 - 29.09.10
	29-Jun-07	B	3,611	-	-	3,611	730p	29.06.10 - 29.09.10
	25-Mar-08	A*	-	86,101	-	86,101	730p	25.03.11 - 25.06.11
	25-Mar-08	B	-	9,896	-	9,896	730p	25.03.11 - 25.06.11
	08-May-08	A*	-	8,699	-	8,699	900.5p	08.05.11 - 08.08.11
			<b>118,983</b>	<b>104,696</b>		<b>223,679</b>		
Alan Mitchelson	01-Apr-05	A*	32,925	-	32,925	-	322p	01.04.08 - 01.07.08
	04-Apr-06	A*	48,123	-	-	48,123	445p	04.04.09 - 04.07.09
	04-Apr-06	B	5,939	-	-	5,939	445p	04.04.09 - 04.07.09
	29-Jun-07	A*	56,009	-	-	56,009	730p	29.06.10 - 29.09.10
	29-Jun-07	B	5,590	-	-	5,590	730p	29.06.10 - 29.09.10
	25-Mar-08	A*	-	66,611	-	66,611	730p	25.03.11 - 25.06.11
	25-Mar-08	B	-	7,659	-	7,659	730p	25.03.11 - 25.06.11
	08-May-08	A*	-	7,354	-	7,354	900.5p	08.05.11 - 08.08.11
			<b>148,586</b>	<b>81,624</b>	<b>32,925</b>	<b>197,285</b>		
Mark Selway	01-Apr-05	A*	105,524	-	105,524	-	322p	01.04.08 - 01.07.08
	04-Apr-06	A*	127,430	-	-	127,430	445p	04.04.09 - 04.07.09
	04-Apr-06	B	17,334	-	-	17,334	445p	04.04.09 - 04.07.09
	29-Jun-07	A*	92,539	-	-	92,539	730p	29.06.10 - 29.09.10
	29-Jun-07	B	15,659	-	-	15,659	730p	29.06.10 - 29.09.10
	25-Mar-08	A*	-	122,790	-	122,790	730p	25.03.11 - 25.06.11
	25-Mar-08	B	-	23,664	-	23,664	730p	25.03.11 - 25.06.11
	08-May-08	A*	-	13,315	-	13,315	900.5p	08.05.11 - 08.08.11
			<b>358,486</b>	<b>159,769</b>	<b>105,524</b>	<b>412,731</b>		

# Audited

\* The figures shown are maximum entitlements and the actual number of shares (if any) which vest will depend on the performance conditions being achieved as set out on page 34.

Scheme A: Performance and Matching Shares

Scheme B: Compulsory Investment Shares

### Conditional share award #

	Notes	Date of award	Date of vesting	Number of shares awarded	Market price at date of award
Mark Selway	i, ii	8 May 2009	8 May 2011	405,953	900.5p

# Audited

- (i) Awards take the form of nil cost options and have no performance retesting facility.
- (ii) Awards can be exercised after the third anniversary of the award date, subject to the performance conditions.

## Awards exercised during 2008 #

	Date of award	Date of exercise	Number of shares exercised	Number of shares sold to settle tax liability	Price shares sold at	Balance of shares retained	Market price at date of vesting	Market price at date of award
Alan Mitchelson	1 Apr 05	1 Apr 08	32,925	13,398	768.6p	19,527	779p	322p
Mark Selway	1 Apr 05	1 Apr 08	105,524	42,942	768.6p	62,582	779p	322p
			<b>138,449</b>	<b>56,340</b>	<b>-</b>	<b>82,109</b>	<b>-</b>	<b>-</b>

# Audited

On 1 April 2008, the 2005 awards under the Group Long Term Incentive Plan vested in full as the Company's TSR ranked in the upper quintile of the Comparator Group. Alan Mitchelson and Mark Selway exercised their awards as set out above, selling sufficient shares to pay the relevant tax and national insurance and the balance of the shares were retained by them. The aggregate gains made on all award exercises by directors during the year totalled £1,078,518 (2007: £1,350,665).

The closing market price of the Company's shares at 26 December 2008 was 315.25p and the range for the year was 271.5p to 969p.

## Directors pension benefits #

Alan Mitchelson was a member of a defined benefit scheme provided by the Group during the year 2008. Mark Selway and Keith Cochrane are responsible for their own pension provision. Pension entitlement and the corresponding transfer values were as follows during the year:

	Disclosures under Directors' Remuneration Report Regulations 2002							Listing Rules		
	Accrued pension			Transfer value of accrued pension				Increase in accrued pension during the year (net of inflation)	Transfer value of increase (net of inflation) (note 2)	
	Notes	At year start	Increase during the year	At year end (note 1)	At year start	Change during the year net of directors ordinary contributions (note 3)	Directors ordinary contributions			At year end (note 2)
	£	£	£	£	£	£	£	£	£	
Alan Mitchelson	4,5	26,163	4,380	30,543	531,724	148,560	9,120	689,404	3,281	65,320

# Audited

- The pension entitlement shown is that which would be paid annually on normal retirement, prior to any cash commutation, based on pensionable service to the end of the year.
- With effect from 1 October 2008, Government legislation requires the trustees (having taken actuarial advice) to take responsibility for setting the assumptions underlying the calculation of voluntary transfer values to be paid from the plan. Prior to this date the scheme actuary had this responsibility. Consequently, the transfer value of the accrued pension at the year end has been calculated in accordance with this new requirement.
- The change in the amount of the transfer value over the year is made up of the following elements:
  - transfer value of the increase in accrued pension (net of inflation);
  - transfer value of the increase in accrued pension (due to inflation);
  - increase in the transfer value of accrued pension at year start due to ageing;
  - impact of any change in the economic or mortality assumptions underlying the transfer value basis – as referred to in 2. above; and
  - less the director's ordinary contributions.

The change in the amount of the transfer value over the year includes the effect of fluctuations in the transfer value due to factors beyond the control of the Group and directors, such as stockmarket movements; which will be reflected within d. above.

4. The figures allow for the impact of the plan specific earnings cap. Alan Mitchelson does not have an entitlement to an excepted (formerly known as unapproved) pension from the Group.
5. Payment of actual transfer values (from the defined benefit scheme) are not currently reduced below 100% of their full value.

### Directors interests

The interests of the directors in the ordinary shares of the Company as at 26 December 2008 and at the end of the preceding financial year were as follows:

	As at 26 December 2008			As at 28 December 2007		
	Shares	Conditional award	LTIP awards	Shares	Conditional award	LTIP awards
Lord Smith	138,400	-	-	52,400	-	-
Christopher Clarke	10,000	-	-	10,000	-	-
Keith Cochrane	9,823	-	223,679	5,185	-	118,983
Michael Dearden	10,000	-	-	10,000	-	-
Stephen King	50,050	-	-	1,050	-	-
Alan Mitchelson	121,557	-	197,285	98,441	-	148,586
John Mogford	4,531	-	-	-	-	-
Prof Ian Percy	-	-	-	-	-	-
Lord Robertson	2,637	-	-	2,637	-	-
Mark Selway	273,978	405,953	412,731	211,398	-	358,486

- (i) At the date of this report the interests of the directors in the shares of the Company remain as stated above, except that Christopher Clarke retired as a director on 31 December 2008.
- (ii) No director had, during or at the end of the year, any material interest in any contract of any significance in relation to the Company's business, in any debenture stocks of the Company, or in the share capital or debenture or loan stocks of any subsidiary.
- (iii) In the case of John Mogford, the comparative figure is as at his date of appointment to the Board.

### Michael Dearden

*Chairman of the Remuneration Committee*

*Signed and approved for and on behalf of the Board*

*10 March 2009*

## Corporate Social Responsibility Report

### Our approach

The Weir Group is a global organisation, working in sectors and industries that have a significant impact on human and natural resources. As an organisation, our core values include integrity, self-determination and valuing people. These values ensure we remain focused on meeting our responsibilities to our customers, suppliers, employees and shareholders, as well as to the communities where we work.

By ensuring that corporate social responsibility is an inherent part of leadership that crosses all boundaries in our organisation, we seek to combine business success with support for people, communities and the environment. We recognise that corporate social responsibility requires us first and foremost to listen to our external and internal customers in everything we do and to respond to their needs through the enduring excellence of our actions, policies and processes.

We involve and inform our employees as much as possible within regulatory constraints. Given the diverse nature and geographical spread of our operations, it would be inappropriate and impractical to apply uniform procedures group-wide and each company is therefore responsible for achieving and maintaining appropriate consultation and communication with its employees. We communicate generally with employees through the production and distribution on a regular basis of printed and electronic newspapers and bulletins for employees to promote awareness of current progress and developments within the Group. In addition, policies, procedures and information are also available on the Group intranet.

The Group gives full and fair consideration to employment applications from disabled persons. Where an employee becomes disabled, arrangements are made wherever practicable to continue employment by identifying an available job suited to that person's capabilities and providing any necessary retraining. The Group's career development programme encourages disabled employees to reach their full potential. The Group has a human rights policy applicable to all employees throughout the Group, details of which are available on the Group website.

### Our people

#### Safety

Throughout 2008, the Group Operations Executive Committee reviewed the safety, quality and environmental performance of individual companies against the objectives set for 2008. The primary concerns are to reduce accidents in the workplace and maintain high standards of environmental management in all of our activities.

In line with this philosophy, we pursue excellence through our global Environmental, Health and Safety Forums whose goal is to eliminate work-related injuries, prevent pollution, conserve resources, comply with regulatory requirements and improve performance. These forums annually review our performance in these areas, collect data, share best practice and plan for the coming year. In turn, these plans are disseminated and included within individual business plans throughout our operations. This ensures consistency in performance measurement and improvement activities. Forum members also perform cross company safety audits to identify practices that are working well and areas for improvement. Concern reports are used to track completion of corrective actions. During 2008, the Group held a Global Environmental, Safety and Health Conference, which brought together each of the local forums to identify best practice and plan the priorities for the coming year.

As indicated in last year's report, all our operations have over the past year been working toward achieving OHSAS 18001 accreditation. To date all our major sites have achieved this with the exception that our new acquisitions and some smaller businesses will not complete the process until 2010. OHSAS 18001 (Occupational Health Safety Assessment Series) was developed by the British Standards Institute as a health and safety management framework allowing organisations to ensure that they are consistently and accurately identifying hazards

and risks within their organisation. Providing a platform for eliminating and managing these identified risks, the system supports the organisation to continually improve its products, people and process by fulfilling the overhanging safety policy that indicates the Group's commitment and objectives. OHSAS 18001 offers a proactive approach to reducing accidents, near misses and other incidents year on year.

The root cause of 95% of accidents is as a result of behaviours. Conventional approaches to accident reduction will go some way to help achieve the business goal of reducing injuries in the workplace. However, to further reduce accident rates, a behavioural approach to safety must be adopted.

The Group has adopted a behavioural system known as SAFESTART which has been rolled out to all operations and all new employees are given this training as part of their induction. The success of this programme throughout the Group is the involvement and understanding at all levels of the organisation.

The Group is committed to an accident free health and safety environment based on the belief that all accidents are preventable. The Group Operations Executive Committee drives this commitment through operations globally. The businesses record all near misses and injuries within their operations and these are analysed on a continuous basis to reduce the number of lost time accidents through improvement of the working environment.

The Group's policy on health and safety requires that all our companies take a proactive responsible attitude to the protection of their employees health and safety. All companies carefully evaluate risks to personnel wherever they are working and take appropriate steps to minimise such risks. These include ensuring that project design engineers consider design factors that minimise or eliminate the risk of accidents to personnel during site installation and commissioning. All Group companies are required to comply with local legislation governing health and safety at work and to conduct regular formal health and safety reviews at plant and site level. These reviews are undertaken by nominated managers and employees to ensure that risks are properly evaluated, events leading to accidents are examined and appropriate remedial or avoidance action initiated and subsequently monitored. Formal reporting procedures have been implemented so that the safety performance of individual companies is monitored and peer-to-peer audits are conducted in order to provide a critical assessment of each company's performance.

The increased focus in this important issue includes full investigations of all accidents being carried out and reported at the Group Operations Executive Committee meetings on a monthly basis.

#### [Lost time accidents](#)

The key measure of safety performance is the number of lost time accidents ("LTAs"). The Group adopts a more stringent lost time measurement criterion than the industry norm of three days. The recorded LTAs use the Group definition of "incidents resulting in lost time of more than four hours". The results for 2006, 2007 and 2008 are as follows:

The prior year comparatives have been restated to take account of disposals, and the acquired businesses include Weir Mesa, Weir SOS and Weir Warman Africa.

The companies which have the highest numbers of accidents are audited externally by our insurers to ensure that proper systems and processes are in place. The continuing reduction in existing businesses can also be attributed to improvements in education and training and adoption of Weir Production System principles. Near misses are also monitored to further improve the safety culture that is being engendered across the Group.

## Employee development

We recognise that people are vital to the success of our business. Training and development play a major part in improving businesses and retaining employees by developing the skills required for career advancement and business process improvements. Training and development is managed either on a Group or company basis. Group programmes include induction, high potential leadership and managing director development. The induction training provides awareness training on the Group standard procedures and processes and senior managers attend one of these courses within a short period of joining the Group. The leadership courses are run for the Group's current and future leaders.

The principal aims of these courses are to provide:

- personal development;
- exposure to different disciplines;
- cultural integration; and
- networking across all disciplines and operations.

The courses are aimed at developing existing and future managing directors and senior managers from across the Group to help them achieve their maximum potential.

To ensure the development and advancement of our employees the Weir Personal Development Profile analyses employee performance and enables employees to receive the most relevant and tailored training to match their specific skills and needs.

## Our achievements

**Weir Minerals Europe** was honoured with the Queen's Award for Enterprise: International Trade 2008. The award was announced in April, when managing director Kevin Spencer attended a special event announcing the year's winners in London. In July, Kevin Spencer and Nigel Halstead, an employee with 42 years service, attended a reception for this year's 78 winners hosted by H.M. The Queen at Buckingham Palace. During the year Weir Minerals Europe was also presented with the Most Improved Facility Award by Mark Selway.

In 2008, **Weir Minerals India** was commended in the Confederation of Indian Industry and Export-Import Bank of India awards for Business Excellence. The awards encourage organisations to strengthen their management systems, practices and capabilities to enhance and sustain competitiveness.

The company also received a top award in the manufacturing category at the 2008 Confederation of Indian Industry 5S Excellence Awards, for organisations following best practice in housekeeping.

In November 2008, The Hon. Julia Gilliard MP, the Australian Deputy Prime Minister, announced the winners of the Australian Government's Training Awards 2008. **Weir Minerals Australia** won the prestigious Employer of the Year award. The Australian Training Awards are the national awards for vocational education and training, recognising innovation and excellence in the training sector. The awards are the culmination of state and territory awards with winners from each state and territory competing in the national finals. The conclusion of the judges was that Weir Minerals Australia "provides training opportunities to all employees to improve their skills and enable them to thrive in the challenging environment of manufacturing." The company employs a total of 24 apprentices, eight of whom were recruited in 2008.

## Our suppliers

We recognise that our corporate social responsibility also reflects the way we behave towards our suppliers. The Group does not operate a standard policy in respect of payments to suppliers and each operating company is responsible for agreeing the terms and conditions under which business transactions are conducted, including the terms of payment. It is Group policy that

payments to suppliers are made in accordance with the agreed terms. At 26 December 2008, the Group had an average of 74 days purchases outstanding in trade creditors.

Many Weir companies are collaborating closely with suppliers to address environmental considerations throughout the supply chain to our mutual benefit, particularly in areas such as raw materials, packaging and recycling.

## **Environment**

### **Environmental policy**

- The Group is committed to the protection of the environment in which all its companies operate.
- Each Weir company will comply with the relevant regulatory requirements applicable to its business.
- Each Weir company will ensure that it is seen to be a good citizen in the community in which it operates and adopt practices aimed at minimising the environmental impact of its operations.

Maintenance of the Group's environmental policy is the responsibility of the Group Operations Executive Committee, while its implementation is the responsibility of divisional managing directors. Each Weir division is required to report on environmental performance and maintain environmental management practices.

The Group policy is that all its operations will be ISO 14001 accredited. ISO 14001 is an internationally recognised specification for an effective structured environmental management system which helps organisations achieve environmental and economic goals as well as assisting in the implementation of environmental policy. An ISO 14001 accredited environmental management system provides our customers, employees and shareholders with the assurance that our environmental performance meets and will continue to meet our legal and environmental policy requirements. Through the Group Environmental, Health and Safety Forums, all new businesses are brought into line with best practice in the implementation of ISO 14001. In addition, the Forums are a useful arena to allow local and international environmental legislative developments to be monitored before they become law. This proactive approach allows us to conform with future environmental legislation before laws are passed by voluntarily taking action on specific issues.

As part of our integrated commitment to ISO 14001 accreditation, we have a rolling programme as part of our 100 day integration plan which we put in place in relation to any new business unit. During 2008, Weir Minerals China and Weir Gabbioneta achieved ISO 14001 accreditation. It is expected that our only other non-compliant companies, Weir SPM, Weir Multiflo, Weir Warman Africa, Weir SOS and Weir Mesa, will achieve full compliance in 2009.

### **Environmental impact**

The Group is committed to identifying and assessing the environmental impact of its operations. We seek to reduce the impact on the environment to the lowest practical levels and with each investment in capital expenditure within our facilities ensure that best practice in environmental terms is followed. At board level, the chief executive has specific responsibility for the development of policy and management systems. Responsibility for environmental matters in each operating division is delegated to the divisional managing directors who report to the Group Operations Executive Committee on a monthly basis on environmental incidents.

The definition of a reportable incident is:

“Any incident which involves the accidental release, emission or discharge of contaminants to air, water or land and requires outside resources to control or is required to be reported to a regulatory agency.”

In 2008, there were no environmental incidents at any of the Group operations.

Our operations, through their Environmental Management Systems, which are in place as part of their ISO 14001 compliance, have an objective of continuous improvement, focussing on minimising waste generation, preventing pollution and reducing energy consumption. All acquisitions are subject to appropriate environmental due diligence and achievement of ISO 14001 is part of the integration plan.

The Group is currently undertaking work to put in place common measures which allow us to monitor and establish targets for improvements in our carbon footprint going forward. We anticipate being in a position to provide accurate data on existing usage and establish our improvement plans during the course of 2009.

Significant progress has been made on the minimising and recycling of waste. As a manufacturing Group, the focus is on raw materials together with residual waste and any opportunity to reuse or recycle makes economic sense.

**Weir Minerals Europe** has invested in a chromite separator, which once commissioned will allow it to remove chromite sand from the sand reclamation plant. This will have the effect of reducing chromite sand purchases by 50% in the long-term and reducing the quantity of sand sent to landfill. In the past 12 months over 165 tonnes of swarf has been reclaimed and used in the melting process, reducing the consumption of rare and expensive alloys. In addition, a further 250 tonnes of metal has been reclaimed from their foundry by improved work practices, further improving the sustainability of the process.

**Weir Minerals Australia's** Henderson facility has put in place improvements to ensure that no waste water leaves the facility, with the exception of waste water from the bathrooms and kitchens. The perimeter of the facility has a series of storm water drains built in, which run into a number of large soak wells where the rainwater that falls on the facility is captured. In addition, separator units, drain guards and spill kits are used to ensure no oil or debris goes into the soak wells. The water in the soak wells slowly seeps back into the surrounding soil, removing the need for local council storm water connection.

In late 2008, **Weir Minerals Australia's** Somersby Service Centre moved to a new facility in Beresfield. The facility is aiming to be a world class service centre and as part of this process has installed a fully enclosed paint booth for painting of refurbished equipment. The booth ensures that no volatile organic compounds are emitted to the atmosphere and also contains baffles to minimise noise pollution.

#### **Environmental improvements**

Research and development has a vital role to play in meeting our corporate social responsibilities. The development of new products that are more environmentally benign in both manufacture and operation and the substitution of harmful materials offer competitive advantage to ourselves and to our customers.

We recognise that many of our products are themselves contributors to environmental protection in critical areas such as power generation, nuclear handling and subsea oil and gas exploration. We are, therefore, investing in research and development to continuously improve their performance.

2009 will see ongoing investment in design, research and development in which our corporate social responsibility and business objectives are closely aligned.

## Our community

During the year, Group companies were involved in numerous community and social initiatives, many of which were nominated and driven by our employees. We also participate in a range of educational and training initiatives.

**Weir Minerals Brasil** is supporting Aquarel, an initiative founded in 1996 to help disadvantaged children and teenagers in the community adjacent to the company's manufacturing facility. Last year over 100 employees volunteered to repair walls, carry out roof maintenance and paint internal and external areas.

**Weir Minerals Netherlands** celebrated a milestone in its history in 2008 with the supply of the 1,000th Geho piston diaphragm pump. This pump was installed at the Coral Bay Nickel plant in Rio Tuba, on the island of Palawan in the Philippines and was officially inaugurated during a celebration weekend in June. As a result of the existing relationship between the mineral processing plant of Rio Tuba and the local community, Weir Minerals Netherlands is sponsoring on an ongoing basis the Rio Tuba South Elementary school.

The company also funded improvements to the current school building and supplied additional class room furniture and educational materials.

**Weir Power & Industrial Alloa** made a number of donations to Seamab House School, a local residential primary school offering year round education and care in a nurturing, therapeutic environment for children with severe social, emotional or behavioural difficulties.

The company also assisted the fund raising efforts of the Fire and Rescue Services Central Scotland and supported a benefit dinner in aid of the families of the Alloa Fire Brigade who had suffered as a result of a serious accident, where an officer lost his life and several others were seriously injured. Additionally, the employees donated a sum of money that was matched by the company.

**Weir Minerals Africa** made donations to the Tembisa Child and Family Welfare for use in providing for children in their care and the Tembisa Self Help Association for the Disabled.

According to UNAIDS, the Joint United Nations Programme on HIV/AIDS, almost one in five adults and 280,000 children are living with HIV in South Africa. Weir Minerals Africa put together a team of volunteers who have undergone training in the counselling and education of fellow employees and various roadshows have been held for all employees on the dangers of the HIV/AIDS virus. In addition, support is given to the Tembisa Orphanage to help look after a number of HIV/AIDS babies. Weir Minerals Africa also offers financial assistance towards the education of many of the children of employees.

For the past 21 years, **Weir Minerals Australia** has sponsored the Design and Build competition held by the National Committee on Engineering Design. The competition is open to first and second year students in mechanical engineering from Australia, New Zealand and the Asia Pacific Region. In 2008, the winners were the University of Adelaide with their mechatronic vehicles using microprocessor control and electronic sensing.

Community support under two projects, We @ Weir and Weir 4 U, is given by all the employees of **Weir Minerals India**. We @ Weir focuses on workplace initiatives involving employees and their family members and Weir 4 U focuses on community outreach programmes in the community. Employees opt to associate with either one or both of the groups. Two beneficiaries have been identified in the community, namely disadvantaged youngsters studying in the Government Industrial Training Institutes and children attending the Samparka Shale or Transition Schools as part of the Government National Child Labour Eradication Programme. Over the last eleven months, there have been many activities coordinated by different employee

volunteers relating to health, education and skill enhancement. The volunteers have also made regular school visits as mentors to the children in the Training Institutes and offer encouragement to carry on their education and aspire for higher goals. A voluntary employee salary contribution fund was set up in April 2008 which makes monthly contributions to the Paraspara Trust to support the salaries of the staff in the two schools. This fund also supports the various needs of the children.

**Weir Minerals Chile** is supporting Ignacio Carrera Pinto School in the local neighbourhood. In November 2008, three teams of employee volunteers painted the interior and exterior walls of the school, refurbished the communal areas, crushed stone to cover the areas of access to the playground and classrooms. In addition, the company provided financial support to the Engineering Departments of two local universities.

**Weir Minerals Latin America** has been running a project to help the children of the Jesus de Nazareth School in Manchay, Peru. Manchay, which adjoins the city of Lima, is an area of extreme poverty with no running water or sewage system and little electricity.

The project involves funding repairs at the school to improve the classroom lighting, upgrade the kitchen and bathroom facilities and improve the classrooms. The company has also sponsored craft workshops for the parents and children.

## Related party disclosures

The following description of related party transactions is set out on page 90 of the 2008 Annual Report and, as set out above, this is repeated here solely for the purpose of complying with DTR 6.3.5.

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

Related party		Management charge to related parties £m	Sales to related parties - goods £m	Sales to related parties - services £m	Amounts owed by related parties £m	Amounts owed to related parties £m
Joint ventures	2008	-	0.2	-	-	-
	2007	-	-	0.1	-	-
Associate	2008	-	-	-	-	-
	2007	0.4	0.1	0.7	-	-
Group pension schemes	2008	-	-	-	-	0.2
	2007	-	-	-	-	0.4

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

## Terms & conditions of transactions with related parties

Sales to and from related parties are made at normal market prices. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party balances. For the 52 weeks ended 26 December 2008, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2007: £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.