

A large red ESCO excavator bucket is shown digging into a pile of gravel. The bucket is attached to a blue excavator arm. The background shows a construction site with a concrete structure and some trees.

# AN EVER STRONGER WEIR

WEIR

The Weir Group PLC  
Annual Report and Financial Statements  
2018

## Contents

### Strategic report

We are Weir	1
Our vision	2
Our mission	4
What we do	6
How we succeed	8
How we behave	16
Chairman's statement	18
Chief Executive Officer's review	20
Minerals and ESCO	24
KPIs	28
Financial review	30
Operational review	34
Risk review	47
Principal risks and uncertainties	51
Sustainability review	56

### Corporate Governance

Chairman's introduction to Governance	67
Board of Directors	68
Corporate Governance Report	73
Leadership	72
Accountability	80
Viability Statement	81
Relations with Shareholders and Stakeholders	82
Nomination Committee Report	84
Audit Committee Report	87
Directors' Remuneration Report	95
Directors' Report	114
Statement of Directors' Responsibilities	116

### Financial Statements

Independent auditors' report to the members of the Weir Group PLC	117
Consolidated Income Statement	123
Consolidated Statement of Comprehensive Income	124
Consolidated Balance Sheet	125
Consolidated Cash Flow Statement	126
Consolidated Statement of Changes in Equity	127
Notes to the Group Financial Statements	128
Company Balance Sheet	183
Company Statement of Changes in Equity	184
Notes to the Company Financial Statements	185

### Additional Information

Subsidiary Undertakings	198
Shareholder Information	209
Glossary	212

## Introduction

Welcome to our 2018 Annual Report. Core to our Group is our We are Weir strategic framework, outlined on Page 1. It defines who we are, how we operate and provides a platform to build a more sustainable business. In this report, We are Weir will help us describe the strategic performance of the Group in 2018 and how we think about the future.

[Read more](#)

 See pages 1-17

## Highlights

### Total incident rate<sup>1</sup>

**0.45**

+15% improvement

### Revenue<sup>2</sup>

**£2.4bn**

+28%

### Reported profit before tax<sup>3</sup>

**£86m**

-57%

### Employee engagement

**84%**

participation in our first ever global survey.

### Profit before tax<sup>3,4</sup>

**£310m**

+22%

### Cash generated from operations<sup>5</sup>

**£411m**

+86%

1. Total incident rate is an industry standard safety indicator that measures lost time and recordable incidents per 200,000 hours worked. Presented on a like-for-like basis.

2. Continuing operations. 2017 restated at 2018 average exchange rates and for IFRS 15 Revenue from contracts with customers.

3. Continuing operations.

4. Adjusted to exclude exceptional items and amortisation.

5. Cash generated from operations includes continuing and discontinued operations and is before exceptional cash flows.

[Read more](#)

 See pages 30-33

# We are WEIR

## Our vision



To be the most admired engineering business in our markets.

[Read more](#)
[See pages 2-3](#)

## Our mission



To enable our customers to sustainably and efficiently deliver the energy and resources needed by a growing world.

[Read more](#)
[See pages 4-5](#)

## What we do

[Read more](#)
[See pages 6-7](#)


### MISSION CRITICAL SOLUTIONS



### HIGHLY ENGINEERED EQUIPMENT



### INTENSIVE AFTERMARKET CARE



### COMPREHENSIVE GLOBAL SUPPORT

## How we succeed

[Read more](#)
[See pages 8-15](#)


### PEOPLE

Caring for our colleagues, our neighbours and the environment and inspiring them to flourish.



### CUSTOMERS

Working in partnership to provide distinct solutions that deliver compelling value for money.



### TECHNOLOGY

Driving the development of new technologies and capabilities that lead the market.



### PERFORMANCE

Delivering excellence for all our stakeholders through strong leadership, accountability and a lean mindset.

## How we behave

Everything we do as a company stems from our core values

[Read more](#)
[See pages 16-17](#)

### THINK SAFETY FIRST



### DELIGHT OUR CUSTOMERS



### DELIVER QUALITY



### DO THE RIGHT THING



### EXPLORE AND INNOVATE



## Who we are

We have immense pride in our heritage and our history of innovative engineering. We work together, supporting and challenging each other, with a passion to build a stronger legacy for the next generation.

## Our vision

To be the most admired engineering business in our markets

### What does being the most admired mean?

To us, it is when all our stakeholders see Weir as a truly outstanding business to be associated with. We know we are getting there if we consistently deliver the following outcomes:

- Growing faster than our end markets and delivering strong returns to our investors.
- Attracting and retaining the best talent by being the place where our employees can do the best work of their careers.
- Developing enduring strategic partnerships with customers and suppliers.
- And always doing business the right way, living by our values and Code of Conduct.

Like all businesses, we depend on a range of different resources and relationships to succeed. This requires being a good partner to our stakeholders through regular engagement.

### How we engage

- Local open days to better understand our operations
- Collaborations with local schools and universities
- Supporting employment and apprenticeship schemes

### How we engage Group-wide

- Board member responsible for representing employee voice
- All-employee survey
- Monthly 'CEO Briefing' and direct 'Ask Jon' CEO email address
- Global webcasts and social media channel

### Employees

### How do we respond?

- Global employee communications and engagement strategy
- Commitment to building a truly inclusive culture
- Continuous prioritisation of safety above all else to become a zero harm workplace
- Ongoing engagement with our We are Weir framework

### What do they care about most?

- Knowing their voice is heard
- Ensuring everyone is treated fairly
- No compromise on our Safety, Health or Environmental standards
- Feeling alignment between personal and company values

### How we engage on a business level

- Town Hall meetings; toolbox talks
- Safety stand-downs
- Employee safety committees
- Innovation network

### How do we respond?

- Increased investment in research and development
- Technology roadmaps developed through Voice of Customer
- Comprehensive global service network

### What do they care about most?

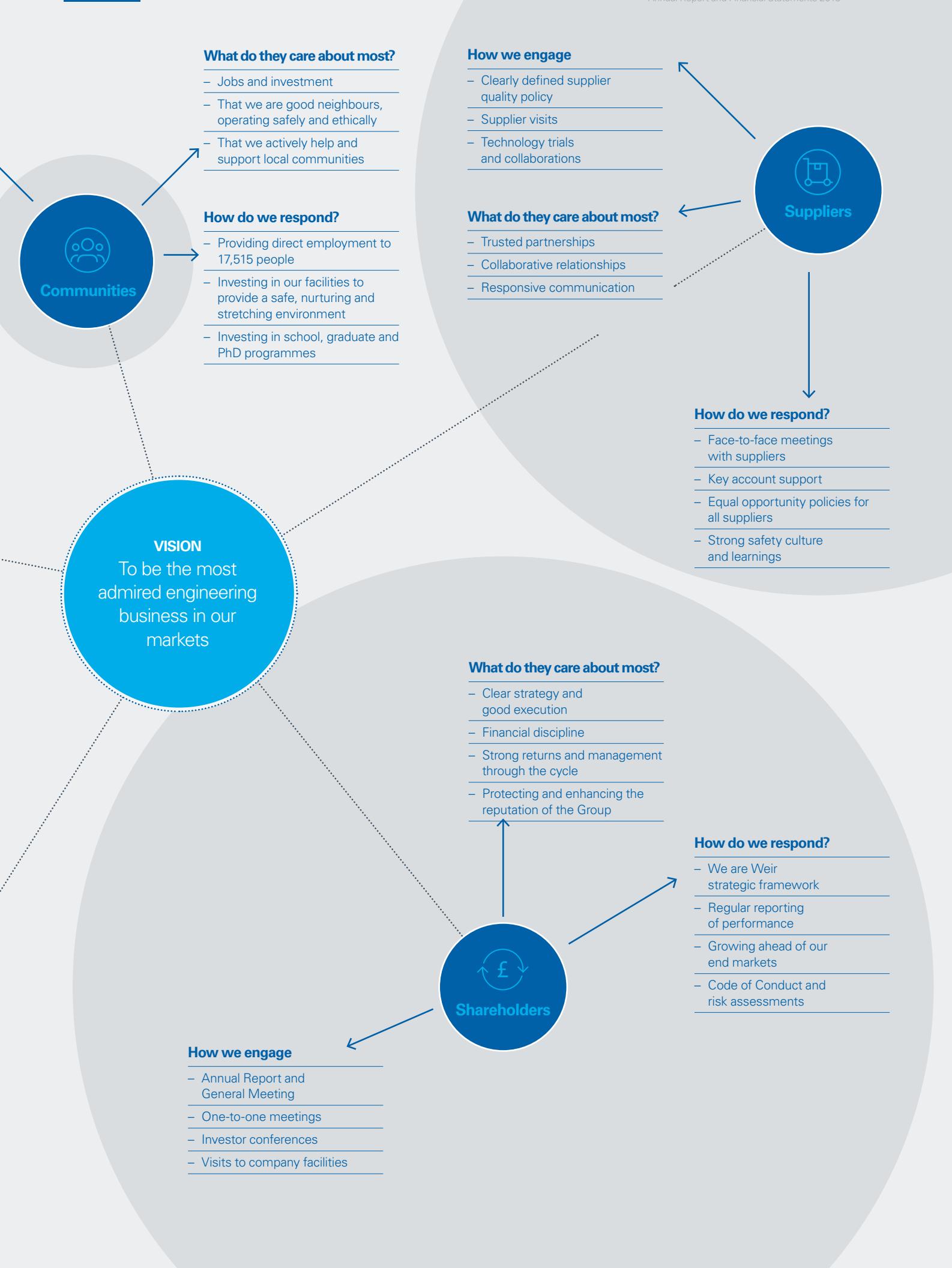
- Safety
- Efficiency
- Smart technologies
- Sustainability
- Trusted long-term partnerships
- Ever-present service

### How we engage

- Embedded sales and engineering teams
- Key account management
- Voice of Customer technology roadmaps
- Developing disruptive technologies



### Customers



## Our mission

To enable our customers to sustainably and efficiently deliver the energy and resources needed by a growing world

**To do this successfully we need to understand our place in a world that is constantly evolving. Here is our view of the potential impact some of the largest global trends could have on Weir.**



### Global population and migration trends

Global population continues to increase. The United Nations projects it will reach 8.5 billion<sup>1</sup> by 2030 – approximately 1bn more than 2017, its last revision year. This, alongside increasing urbanisation, will support increased demand for natural resources and energy, particularly in emerging economies.



### Climate driven change

There is wide international support to hold the rise in global temperatures. In 2018 the Intergovernmental Panel on Climate Change suggested efforts to meet a 1.5°C reduction would require “rapid and far-reaching transitions in energy, land, urban and infrastructure (including transport and buildings), and industrial systems” .



### Globalisation

The global economy continues to grow but the benefits of increased globalisation are being called into question, including in major economies. This has been reflected in the recent trade wars between the USA and China, the world's two largest economies. There is also a continuing debate about the role of businesses in society and how they generate value beyond financial results for a broader range of stakeholders.



### Technology acceleration

The rise of the digital economy has led to disruption across many industries and advances in manufacturing capabilities, materials science and performance monitoring all have the potential to impact industrial markets in the future. These will provide challenges to incumbents but also opportunities to leverage their competitive advantages to develop new solutions for customers and increased productivity in their operations.

#### Our response

- Aligned to markets that benefit from these structural trends
- Supporting economic growth and infrastructure development with equipment that supports the efficient extraction and processing of natural resources
- Global footprint with 38% of revenues from emerging economies

#### Our response

- Supporting efficient supply of commodities such as copper and natural gas that will support transition to lower carbon economy
- Reducing customers' energy and water consumption as part of our technology strategy
- Developing our own sustainability strategy to reduce our environmental impact while supporting business goals

#### Our response

- Broad exposure to developed and emerging economies
- Regular engagement with major stakeholders to listen to their views
- Code of Conduct that ensures we do business the right way

#### Our response

- Continuous innovation in our core product range to maintain market leadership
- Technology strategy that has digitisation and advanced manufacturing at its core
- Technology partnerships with leading universities and commercial partners

## Here are some examples of how we are helping our customers use less water and energy and operate more safely



### Safer, more efficient frack site

A traditional hydraulic fracturing site will contain many steel pipes and connectors linking equipment such as the pumps to the wellhead. It makes set up complicated and time consuming and can increase the likelihood of injury.

To combat these issues the Oil & Gas division has developed the Simplified Frac System.

Its single large-bore design reduces the number of required connections and eliminates much of the ground iron found on frack sites.

The result is a safer frack site that is quicker to set up and de-rig saving unnecessary and expensive downtime and making frack operations simpler and safer.

[Read more on our Oil & Gas Division](#)

See pages 42-45



### Repurposing tailings, reducing waste

The process of crushing, grinding and processing rock on a mine site uses a large amount of water and produces a by-product known as tailings.

This is essentially waste rock that has been ground to the consistency of silt. On a large mine, the tailings dam, where the by-product is stored, will contain millions of tonnes of tailings and once constructed these dams are designed to stay in place for up to 1,000 years.

This poses a major challenge to mining companies: what to do with the tailings by-product other than to store it in a dam for centuries?

Working in partnership with our customers, our engineers have designed a solution that allows tailings to be repurposed.

Firstly, water is extracted from the tailings using Weir's portfolio of products.

Secondly, we recombine the de-watered components to form a dry concrete-like substance that can be reused for applications including building roads and tunnels.

The result is a win-win for the local environment and miners. It reduces the need for ever-expanding dams while also reducing costs of raw materials used in infrastructure.

[Read more on our Minerals Division](#)

See pages 34-37

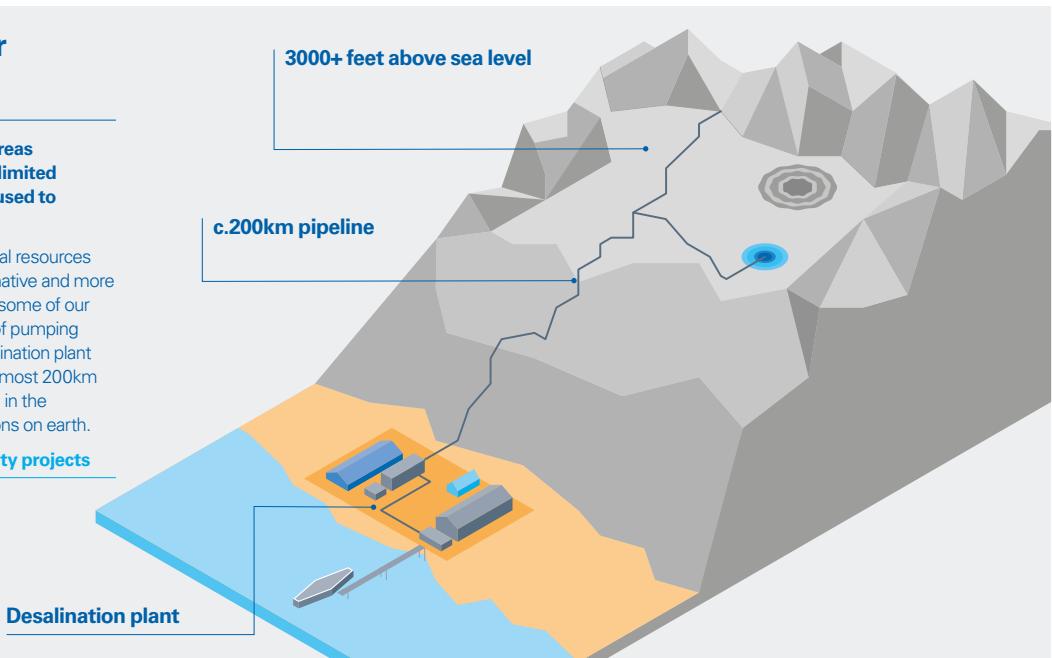
### Protecting local water supplies

Mines are often located in remote areas where access to water resources is limited and so groundwater reservoirs are used to support operations.

However, the demands this puts on local resources means that miners are looking for alternative and more sustainable sources of supply. In Chile, some of our products are helping with the process of pumping millions of gallons of water from a desalination plant by the coast to the mine site which is almost 200km away and 3,000m above sea level, high in the Atacama Desert, one of the driest regions on earth.

[Read more on our other sustainability projects](#)

See pages 62-66



## What we do

At the heart of 'We are Weir' is what we do – our business model and divisional platforms

### How we generate value

**We operate a large and growing installed base of highly engineered original equipment used in abrasive operating environments. This, in turn, drives demand for aftermarket spares and services, providing earnings resilience through the cycle. The embedded nature of our customer care means we can help our customers identify opportunities to improve the efficiency and sustainability of their operations.**



#### Mission-critical solutions

We focus on solutions that are essential to our customers' operations and where our engineering expertise enables them to achieve their business objectives safely, efficiently and sustainably.



#### Intensive aftermarket care

We provide solutions that are used in some of the world's most extreme operating environments. These harsh conditions generate ongoing demand for attractive aftermarket spares and services.

#### Highly engineered equipment

We are the technology leaders in our core markets, supported by almost 150 years of innovative engineering with leading brands that are known for their reliability and performance.



#### Comprehensive global support

Our global service centre network is the most extensive in our core markets, delivering rapid support to customers in the need-it-now industries we serve.

### The value we create

#### Investors

Strong returns from growth ahead of our end markets enabled by a clearly defined and well-executed strategy.

Dividends paid to shareholders:

**£111m** +15%

#### Employees

A safe and engaged workplace that supports innovation, high performance and continuing personal development.

Amount paid in wages and salaries:

**£575m** +14%

#### Customers

A solutions mindset that is innovative, collaborative and fosters enduring strategic partnerships.

Group continuing operations orders

**£2.5bn** +27%

#### Suppliers

A solutions mindset that is innovative, collaborative and fosters enduring strategic partnerships.

Amount paid to suppliers of materials and services:

**£1.5bn** +15%

#### Governments and communities

Engaging with key stakeholders openly and transparently and ensuring we always do business the right way, guided by our Code of Conduct.

Corporation tax paid:

**£73m** +20%

## Our three operating divisions

 See more in the operational reviews from pages 34-46

### Weir Minerals



#### What we do

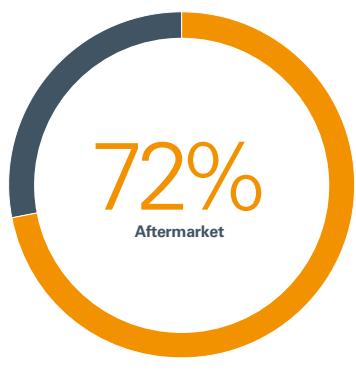
**Minerals** is a global leader in the provision of mill circuit technology and services as well as the market leader in slurry handling equipment and associated aftermarket support for abrasive high wear applications.

Its differentiated technology is used in mining, oil and gas and general industrial markets around the world.

#### Highlights

- 14% increase in orders<sup>1</sup>
- Integrated solutions strategy delivered £93m in additional revenues
- Global service centre network increased to 109

#### Revenue by original equipment/aftermarket



### Weir ESCO



#### What we do

**ESCO** is the world's leading provider of ground engaging tools (GET) used on large mining machines.

The division also provides highly engineered GET solutions to infrastructure markets including construction, dredging and sand and aggregates.

#### Highlights

- 11% increase in pro forma<sup>2</sup> revenues
- 170bps margin improvement post acquisition
- Targeting revenue synergies of at least US\$50m over the next 5 years

#### Revenue by original equipment/aftermarket



### Weir Oil & Gas



#### What we do

**Oil & Gas** provides highly engineered and mission-critical solutions to upstream markets.

Products include pressure pumping and pressure control equipment and aftermarket spares and services. Internationally, it provides equipment repairs, upgrades, certification and asset management, and field services.

#### Highlights

- 17% increase in orders<sup>1</sup>
- Operating margin impacted by market slowdown in second half
- Developed first supercentre in Permian basin of Texas

#### Revenue by original equipment/aftermarket



<sup>1</sup> 2017 restated at 2018 average exchange rates.

<sup>2</sup> Pro forma figures are based on ESCO's adjusted unaudited US GAAP management accounts.



## How we succeed

If we are to become the most admired engineering business in our markets we need to deliver distinctive value to our stakeholders. We have chosen four areas where we think we can make the biggest impact – People, Customers, Technology and Performance. These are central to the way we look at strategic progress and reward.

We are committed to enabling our employees to actively contribute to and have a positive impact on the success of our business. During 2018 we focused on identifying how we can provide a more consistent and positive employee experience and on building a sustainable workforce which enables employees and leaders to continuously grow, and to do the best work of their lives at Weir.

This included:

- Implementing a continuous listening strategy including the launch of our first ever global employee engagement survey
- Developed a Group-wide view of talent and strengthened our talent pipeline into Group Executive roles
- Created a vision for the future for the Weir employee experience
- Revisited our reward philosophy and strategy to ensure global clarity and consistency in reward behaviours
- Undertook work in preparation for our first ever all employee share plan.
- Developed Occupational Effectiveness definition and measures for implementation in 2019

## How we succeed: People

Improve sustainable engagement and organisational effectiveness





Left: On a frack site in Oklahoma, USA



## Our People rated us 7.7/10 as a good place to work

In our first ever global all-employee survey, we asked our people how likely it would be that they would recommend Weir as a place to work. Overall, they rated us as 7.7 out of 10, ahead of industry benchmarks. The survey also gave us great insight into why so many of our people love working at Weir and where we can improve so that we are a business where people can do the best work of their lives.

### Inclusion and diversity

We believe that we will achieve great success if we can combine our common goals as set out in our We are Weir framework, with the uniqueness that each of us bring as individuals. To help us shape our approach to Inclusion & Diversity (I&D) going forward, we have created a brand new global Inclusion & Diversity Steering Committee, comprised of employees from all walks of life, who represent many of the regions and businesses that make up The Weir Group. Following an initial meeting in 2018, the Committee will work together during 2019 to re-define and implement our refreshed global approach to I&D.

### Employee voice

To help ensure that all our people can have a positive influence on our future success, we developed and implemented the first phase of a global continuous listening strategy, aimed at fostering genuine and meaningful dialogue across the organisation.

This builds on the many ways in which we already listen to the views of our people and provides us with further opportunities to create insight and then act upon the feedback to make a positive difference to our working environment.

### Employee engagement

For the first time ever, we conducted a global engagement survey using the very latest in employee insights digital technology. 84% of employees participated in the survey, which was available in 29 languages, giving us incredible opportunities to capture, analyse and act upon the valuable insights of our people.

Having completed our first global survey we plan to conduct these surveys two times a year from 2019 onwards, to ensure we can take regular temperature checks on engagement, and more frequent opportunities for employees to help shape Weir's future.

### Enhancing our employee experience

Through a series of stakeholder interviews, an extensive data collection process and Design Thinking Workshops, we deepened our understanding of employer and leader experiences and created a vision for the future for the Weir employee experience.

To support this vision, we also secured commitment for a significant investment to implement a Group wide global HR system and standardised people processes delivered through a global operating model.

In addition we will implement the Group's first ever global employee share plan in 2019 ensuring everyone has the chance to build a stake in our business.

### Leadership and talent development

We continued to build a sustainable workforce which enables employees and leaders to continuously grow. We made progress in strengthening our talent pipeline, piloting a strategic talent and people planning process to define future capability requirements and for the first time ever, allowed us to conduct a global review of talent.

The senior leadership of the Group has been strengthened through a mix of internal and external hires and a number of key roles have been introduced in support of our technology agenda, in particular. We continue to invest in our talent pipeline with our graduate development programmes.

We also continued with the investment in our leadership development programmes, including Weir Leader 4.0 and the Weir Business Management and MBA programmes, complemented by the introduction of a new Weir Leader framework which is aligned with our We are Weir framework.



## How we succeed: Customers

### Increase market share

## 27% increase in Group continuing operations orders

The Group delivered a 27% increase in orders with Minerals and Oil & Gas recording double-digit growth. This performance was supported by our commitment to staying close to our customers and providing unrivalled service.

[Read more in our operational reviews from pages 34-46.](#)

**The Group serves a diverse range of customers across the world including the world's major miners and oilfield service companies as well as medium and smaller enterprises.**

As providers of mission-critical equipment it is crucial that we have close and enduring relationships with our customers.

The original equipment we supply to a new mine site for instance might be in place for the lifetime of the development, which could last many decades. Throughout that time, it will need ongoing maintenance and support to ensure it continues to help the customer achieve their production objectives efficiently and sustainably.

Similarly, in oil and gas, the frack pumps we provide are used in high abrasion applications that lead to ongoing demand for spares and services.

The costs of unplanned downtime in our markets are significant and therefore our customers attach real value to both the quality and reliability of the original equipment we provide and our ability to meet their aftermarket demand for spares and services quickly.

The mutual dependence between Weir and our customers, often nurtured through long term relationships, also supports our new product development and ensures the Group remains relevant and responsive to our customers' needs.





A Warman® pump, photographed at our Weir Minerals facility in Artermon, Australia.



## Trusted global brands

The Group offers a range of market-leading brands including Warman®, ESCO® and SPM® each of which are technology leaders in their respective slurry handling, extraction and frac applications.

In 2018, Warman® celebrated its 80th anniversary, reflecting its longevity as a brand that has been trusted by generations of mining engineers to keep their plants moving.

The addition of ESCO® to the Group also means Weir is the only provider of premium solutions to mining customers from extraction to concentration. Read more on pages 24-25.

## Customer-led innovation

Ensuring the voice of the customer is clearly heard is at the heart of our new product development programme. Alongside deploying more engineers and managers to customer sites to understand their challenges directly, the Group also operates a key account management programme that develops strategic partnerships with major customers.

In addition, we are upgrading our customer relationship management systems to provide a more comprehensive view of customer trends and target those areas where we can offer the most distinctive value.

## Unrivalled service

In our main markets the Group has developed an unrivalled service network to ensure that we have engineers close to customer sites so that they can develop deep relationships and respond to any issues quickly.

Minerals has a service centre within 200km of every major mine, sometimes embedded on site, while Oil & Gas has service coverage in every major shale basin in North America. In 2018, Minerals opened new facilities to support customers in Africa, Asia-Pacific, North and South America and Europe.

In the first quarter of 2019, Oil & Gas will open its first supercentre in the Permian basin of Texas, the most prolific oil-producing region of the USA. The division also launched the Weir Edge programme to provide rapid on-site root cause analysis of performance issues.

## Solutions mindset

The Group is moving from a traditional focus on individual products to more of a solutions mindset. Where previously our engineers would have looked after one brand they now take a more holistic approach where they first seek to understand our customers biggest challenges and then design a package of solutions which solve those problems.

In 2018, Minerals Integrated Solutions strategy generated an additional £93m in orders while Oil & Gas leveraged their expanded product portfolio in International markets to expand their rig to grid integrated solution.

See more in the operational review section from page 34.



## How we succeed: Technology

### Increase revenues from new solutions

**Innovation is part of the Group's DNA.**  
Back in 1871, our founders, James and George Weir, were engineers who invented a way to make steamships more efficient. They were passionate problem solvers whose curiosity led to important breakthroughs that helped make the world around them more efficient.

Today, the Group's focus is on mining and upstream oil and gas markets but our passion for innovation and leading the technology change in our markets is as strong as ever.

Our new product development process includes working in partnership with our customers to understand their priorities. If we identify an opportunity for fundamental research, we work with our university partners around the world. Academics work alongside our engineers to develop new solutions. We also work with other technology

companies where we can leverage our combined expertise to better serve our customers.

Our incremental innovation is focused on continuous improvement of our core product ranges to enhance performance and longevity in the high abrasion applications they are exposed to. We run trials on customer sites comparing our solutions with competitors. This has the benefit of testing our innovations in real-world settings and giving customers insight into performance enhancements they could achieve by using Weir equipment.

Our longer-term technology strategy is aimed at continuing to lead the change in our markets through materials science, advanced manufacturing and design, digital platforms and increasing water and energy efficiency: areas where we can add the most value to the mine and frack sites of the future.

### Frack site of the future

The frack site of the future will also focus on increasing efficiency, deploying smart, connected products and increasing sustainability.

Our engineers are currently working on innovations that will deliver incremental improvement and potentially more disruptive change.

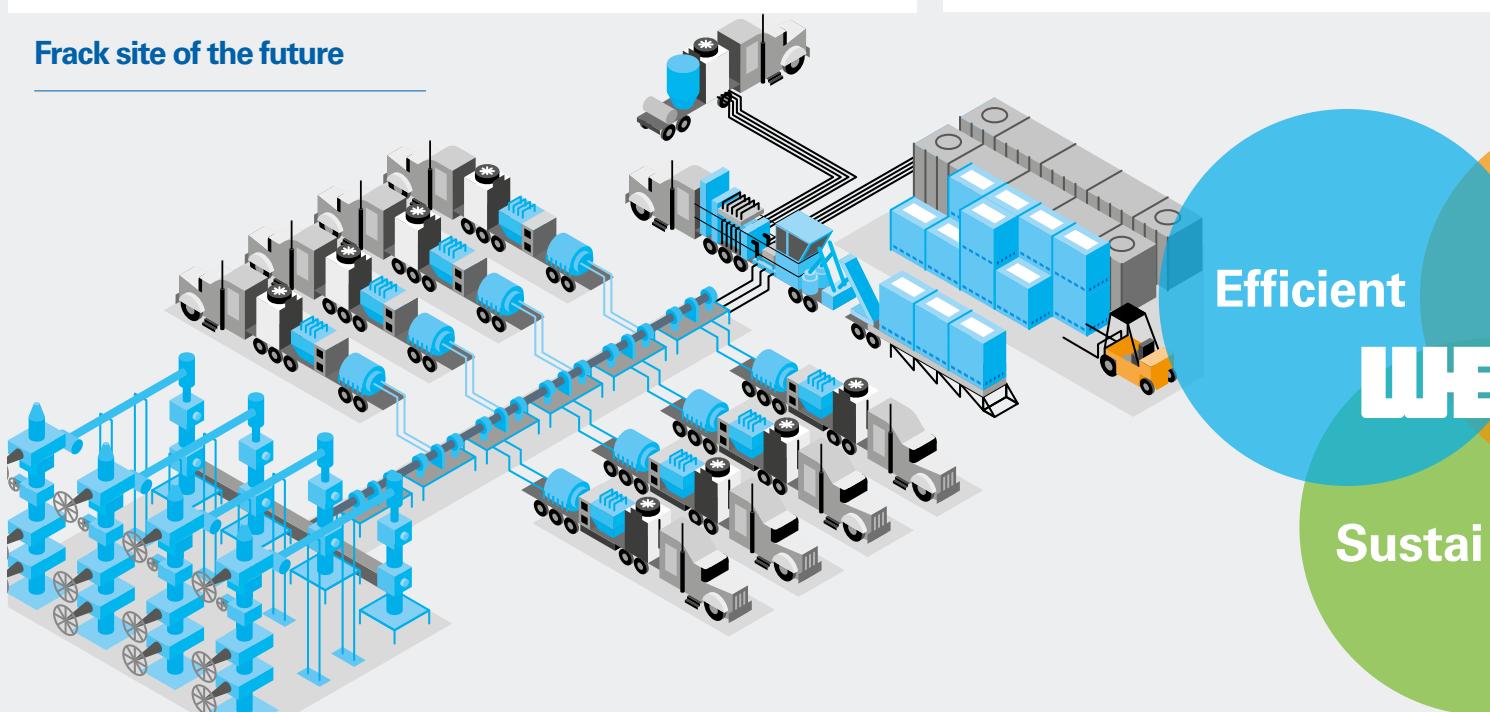
This includes meeting demand for lower total costs and increased uptime. Our asset tracking and monitoring technology is reducing leaks and improving emissions reporting. We are also significantly reducing the footprint of frack sites, making them safer places to work.

We are investigating alternative ways to make sources of energy to support more sustainable frack operations including working with a range of partners to develop potentially breakthrough technologies.

More immediately our continued investment in R&D is delivering a range of answers to our customers challenges over efficiency.

For example, our SPM® QEM 3000 technology can reduce the number of pumps required on a typical frack site by up to 40% given its continuous duty capability. Our simplified frack system is also making it easier to rig-up a site, saving time and money while also making operations safer with up to 85% fewer leak paths as a result of the new technology.

### Frack site of the future



#### Efficient

- Customer challenge**
- Total cost of ownership
- Reliability
- Rig-up efficiency

- Our solutions**
- Continuous duty
- Reduced complexity

#### Smart

- Customer challenge**
- Deeper insights
- Unplanned maintenance
- Enhance performance

- Our solutions**
- Asset tracking
- Performance monitoring
- Intelligent controls

#### Sustainable

- Customer challenge**
- Improve safety
- Reduce emissions
- Site integrity

- Our solutions**
- Reduced footprint
- Electric frack solutions

## Efficient Mine

Mine sites process millions of tonnes of rock. On a copper mine for instance, one of our pumps can typically process over 1,000 metric tonnes of ore per hour. The cost on unplanned downtime can therefore be extremely costly.

We're working on solutions to improve recoveries through hybrid separation.

We are also developing ore hoisting technology that could lead to significant reductions in the number of truck journeys from underground to the surface.

## Smart Mine

Our Smart products include our Synertrex® IoT solution that provides condition monitoring and big data analysis of equipment performance to reduce unplanned downtime.

Our asset tracking tools help prevent loss of teeth from the massive mining machines ESCO supplies. If a tooth dislodges and gets into the crusher it can cost millions of dollars in lost production.

ESCO is also pioneering automated change outs to increase safety by taking people out of harm's way.

## Sustainable Mine

Mining is a large consumer of water and energy. This imposes costs on both miners and the environment which the industry wants to minimise.

Our engineers are developing a range of solutions that will make operations more sustainable.

In comminution applications, where rock is crushed, ground and screened, our crusher technology also enables significant savings of up to 35% compared to traditional grinding circuits.

We are also working closely with customers to improve tailings management. This includes solutions that help dewater the slurry enabling the tailings to be recycled, re-processes or re-purposed as shotcrete or concrete to be used in infrastructure such as building roads or tunnels.

## £42m R&D investment

The Group is committed to increasing its research and development investment to 2% of revenues over the medium term. In 2018, we spent £42m (2017: £40m) on R&D, which represented 1.5% of revenues.

## Mine of the future



### Efficient

#### Customer challenge

- Increase productivity
- Reduce waste
- Optimise recoveries

#### Our solutions

- Hybrid separation
- Hydro ore hoisting
- Condition monitoring

### Smart

#### Customer challenge

- Increase safety
- Automation and control
- Remote monitoring

#### Our solutions

- Digitisation and big data
- Automated change-outs
- Asset tracking

### Sustainable

#### Customer challenge

- Reduce energy
- Reduce water
- Manage tailings

#### Our solutions

- HPGR technology
- Dry tailings
- Repurpose & recycle



## How we succeed: Performance

### Sustainably higher margins through the cycle

**As a business that designs, manufactures and supports a broad product portfolio, operational excellence is a key enabler of the Group's overall performance.**

Our business serves a diverse range of customers based around the world with regional manufacturing operations that support customers' local needs from new build to aftermarket.

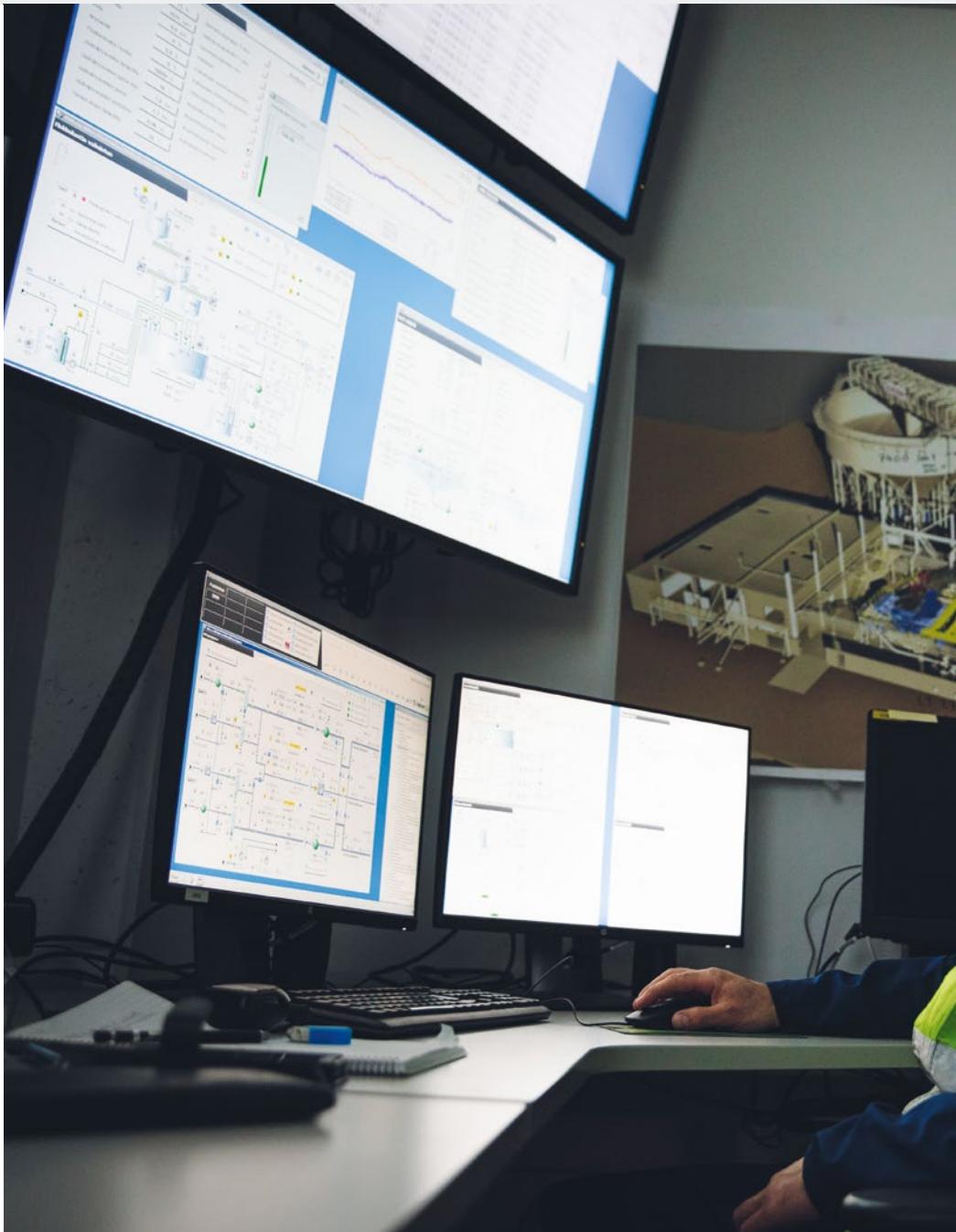
This results in us having to configure our manufacturing capabilities and broader supply chain to satisfy their requirements whilst also allowing us to efficiently manage business-critical areas such as financial forecasting, delivery timelines and levels of inventory.

In 2018 we prioritised improving customer insights, segmentation and fulfilment strategies to improve the efficiency of our operations from quotation to delivery.

We invested in our people with award winning training programmes that improved our capabilities across all areas of the value chain. These initiatives will help ensure we deliver mutual benefit to stakeholders, including customers and suppliers.

These initiatives helped increase efficiency, with working capital as a percentage of sales falling 180bps on a like-for-like basis.

The Group's margin goals are for Minerals to remain in its normal 17%-20% range with ESCO moving towards 17%. We also plan to move Oil & Gas margins back towards 20%.





Members of Weir's Value Chain Excellence team receive the APICS award on behalf of the Group.

## Value Chain Excellence

To continue to improve the Group's operational excellence we undertook 80 Value Chain Excellence projects across our businesses focused on lean, value chain mapping and sales and operational planning.

Our value stream segmentation included tailoring our offering to customers differing needs and putting in place fulfilment strategies to meet the requirements of each customer segment. This had benefits for improved on time delivery and customer satisfaction.

These initiatives also contributed to the 180bps reduction in working capital as a percentage of sales.

## Optimising our operations

The Group consolidated our Novatech manufacturing facility in Texas into our Fort Worth campus to improve operational efficiency. We also restructured our Pressure Control and Eastern Hemisphere oil and gas businesses to provide a stronger platform for international expansion, building on the division's presence in the Middle East and South East Asia.

Operational improvements in Flow Control's downstream oil and gas business also contributed to its turnaround in profitability after a challenging 2017.

Minerals also upgraded its facilities in the UK and Australia while exiting its Malaysia foundry operations.

## Customer collaboration

The Group's customer focus also extends to using Voice of the Customer insights to configure our operations to meet their needs in the best way possible and build a more intimate, mutually beneficial relationship.

For example, our experts visited a leading oil field service customer's site and mapped the 'end to end' journey our products play

in supporting their drilling, well completion, production and downstream operations.

This project also allowed us to improve lead-time and responsiveness whilst fundamentally strengthening our working relationships. This led to a long-term contract for the provision of our products and services.

## Building value chain capability

To achieve sustainable business improvement, strong and widespread end to end value chain capability is required. To deliver this, we invest in both internal and external training programmes.

In 2018, our value chain people development programme was recognised by the global supply chain industry body APICS with both its 'Certificate in Production' and the Prestigious APICS '2018 Corporate Award for Educational Excellence' for our inventory management programme. APICS recognised our ability to apply APICS theory into our working practices globally.

In addition to these programmes we also provide 'Lean for Leaders' and 'Lean Mastery' training. These initiatives provide strong value chain excellence project deployment capability across our businesses.



# How we behave

## Our values are our guiding principles

We want all our people to live our values. Every person, every day whether running a business or operating a machine tool or driving a fork lift truck. These are the guiding principles that apply across our Group and help define the kind of business we are.



### Think safety first



### Delight our customers



### Deliver Quality



### Do the right thing



### Explore and innovate



### Embedding Lifesaving Behaviours across the globe

**The Group is committed to excellent Safety, Health and Environment (SHE) performance. Keeping each other and our trading partners safe is the most important thing we do.**

The Group's headline SHE strategy for 2018 was the introduction of our Lifesaving Behaviours campaign, which forms a central part of our overall 'zero-harm' strategy.

The Lifesaving Behaviours target eleven of our higher risk activities with an overarching behaviour that allows everyone working on behalf of the Group to right to stop any activity, anywhere, if they think it might be unsafe. This authority to 'stop unsafe acts' is provided by the CEO and means that regardless of status or experience or expertise, every person can be a life saver.

The main objective of this campaign is to reduce the number of SHE incidents associated with these activities by targeting the behaviour of those planning, supervising and conducting them. A supporting objective is to improve awareness and encourage the right behaviour of everyone who undertakes these

activities so that they keep themselves safe in their workplace and feel empowered to stop unsafe acts by others.

In late 2017 and early 2018, a significant communications and engagement plan was rolled out for the Lifesaving Behaviours initiative supported by highly visual material in several formats, translated into 12 languages. The cornerstone of this rollout was the monthly tool box talks, town halls and (re)training sessions reminding people of the risks involved in the activities, and the behaviours that will prevent serious injury and potentially save life. None of the activities that the behaviours target are new to people within the Group, so there was a clear emphasis on reviewing and updating protocols, work instructions and Standard Operating Procedures (SOPs) where the lifesaving behaviours were relevant and reminding people of the critical behaviours and states of mind associated with these activities. It is about focusing on the behaviour surrounding the activities themselves.

[Read more](#)

See pages 53-58



## Harnessing a culture of innovation

The essence of the Weir Innovation Network is that anyone in Weir can be an innovator. This initiative is aimed at building on nearly 150 years of successful innovation, to get more teams and individuals around the globe sharing ideas, working collaboratively and adopting cultural best practices. To do this, the Weir Innovation Network will develop the three core requirements needed for successful innovation: culture, process and great ideas. To address these needs, Weir has invested in a dedicated global Innovation Team; a leading software platform to facilitate global innovation knowledge sharing; and the adoption of an iterative framework to underpin a global innovation processes.

The Innovation Team aim to empower and engage all in Weir through greater know-how being distributed across products, services, divisions and geographies; the transparent generation and discussion of ideas focused at addressing the businesses' needs. Furthermore, the Innovation Team objective is to have even more employees skilled in the art of innovation and the practical understanding of what it takes to make great ideas a reality.

The software aspect of the Weir Innovation Network is critical. Based on a social media style of interaction, employees can post and view ideas in relation to a variety of challenges that are set by business sponsors. The extensive network of employees throughout Weir can then collaborate to develop these ideas, provide their input into what ideas are deemed to be the best in relation to the challenge, and ultimately be rewarded and recognised for their efforts. Engaging with a wide network early in the innovation process allows for quick validation of ideas, contributing to a 'Fail Fast/Fail Safe' culture. The recent 'No Time to Waste' sustainability challenge received over 7,000 votes from Weir employees as part of the evaluation phase, demonstrating that the drive and desire to be a part of innovation in Weir is as healthy as ever.

[Read more](#)

See pages 12-13

## Consolidating our Code of Conduct

Following the Group's acquisition of ESCO Corporation in July 2018, we undertook a comparative assessment of Weir's policies and ESCO's policies.

As part of this assessment, we have updated our Code of Conduct and plan to disseminate the updated policy throughout the organisation during 2019. The updated document will be translated into at least 10 languages to facilitate understanding across our organisation, and training will be provided to Weir personnel across the globe to re-enforce the core messages set out within the document.

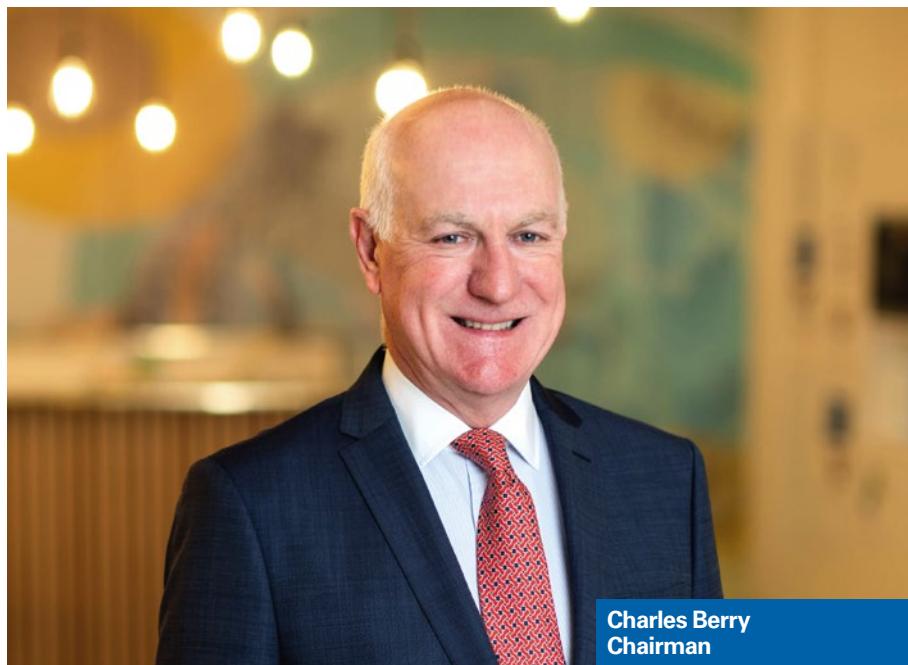
[Read more](#)

See pages 60-61



# Chairman's statement

## An ever stronger Weir



**Charles Berry**  
**Chairman**

### Corporate Governance

You can read more about how we comply with the UK Corporate Governance Code in the sections opposite:

<b>Corporate Governance Report</b>	<b>73</b>
<b>Our Board of Directors</b>	<b>68</b>
<b>Our Group Executive</b>	<b>70</b>
<b>Nomination Committee Report</b>	<b>84</b>
<b>Audit Committee Report</b>	<b>87</b>
<b>Remuneration Committee Report</b>	<b>95</b>
<b>Directors' Report</b>	<b>114</b>

#### Dear shareholder,

There have been many significant years in Weir's history but I think 2018 will be remembered as one of the most transformative.

It was a year that saw the Group reshape our portfolio with the acquisition of ESCO and the agreed sale of Flow Control. We are now a more focused business that concentrates on our core strength: providing premium, mission-critical equipment used in high abrasion applications. I would like to welcome all our new ESCO colleagues into the Group and thank everyone in Flow Control for the longstanding contribution they have made to Weir. We are now a more focused business and as a result will be able to deliver more sustainable long-term growth that benefits all our stakeholders. You can read more from your CEO Jon Stanton on page 20.

#### Financial results

I am pleased to report another strong year of growth for your company. Reported revenues from continuing operations increased to £2.4bn, up 23%. On a constant currency basis, revenues were 28% higher year on year. Pre-tax profits from continuing operations, before exceptional items and intangibles amortisation, of £310m represent a 22% increase from the previous year. Reported profit from continuing operations after tax of £53m was down 71%, primarily reflecting exceptional costs associated with the ESCO acquisition.

Our decision to increase the final dividend by 5% to 46.2p per share reflects our long-term confidence in the Group's strategy and market prospects. You can read more in the Financial Review from page 30.

#### Purpose, culture and values

The Board is fully committed to building a sustainable business where the people, purpose, culture and values of the Group are aligned. We welcome the reforms in the new UK Corporate Governance Code, with its renewed emphasis on good corporate governance. Many of its suggested actions are already either in place or in development at Weir and we look forward to fully complying with the code in 2019.

We continue to develop an open and transparent culture, creating even more opportunities for meaningful dialogue with our employees, empowering them to make a positive contribution to our future success. This is a core component of our We are Weir strategic framework with its focus on building a stronger legacy for future generations.

As the Board has travelled around the business in the past year, members have been fortunate to meet many dedicated people whose passion for Weir and serving our customers is a source of great inspiration and competitive advantage. I would like to thank each of our 17,515 people for their hard work and commitment.

We passionately believe that all our people should share in the success they create and as a result we look forward to introducing the Group's first

**Want to know more about Governance?**

 visit: [www.global.weir/investors/corporate-governance](http://www.global.weir/investors/corporate-governance)

**"The Board is fully committed to building a sustainable business where the people, culture and values of the Group are aligned."**

global all-employee share programme later in 2019. It will ultimately make our people co-owners of our business and in doing so ensure that everyone – from the CEO to the newest apprentice – has a tangible stake in the future of this business.

In addition, Non-Executive Director Mary Jo Jacobi will have responsibility for representing the voice of employees around the Board table. This builds on our existing commitment to making employee engagement and organisational effectiveness a key performance indicator across the Group.

**Our contribution to society**

Our operations span more than 70 countries across the world and we always aim to make a positive contribution to the communities we operate in. That begins with the safety of our people with an aim to make Weir a zero-harm workplace. It also includes the contribution we make in salaries and supply chain employment with more than £575m paid in wages and £1.5bn paid to suppliers annually.

We embrace diversity to help us succeed through growth and innovation. We believe that we will achieve great things if we can combine our common goals as set out in our We are Weir strategic framework, with the uniqueness that each of us bring as individuals.

To encourage a culture that is equally conducive to the progression of men and women, we are committed to gender equality. We help inspire, train and develop the next generation, from working with schools to encourage more females to consider engineering as a career to employing new apprentices and graduates across the business. The Board is committed to increasing the diversity of our leadership by ensuring that at least a third of Board, Group Executive and their

direct reports are female by 2020. There are plans in place to ensure we meet our ambition, with more details on page 59.

**Board changes**

During 2018 Non-Executive Directors John Mogford and Alan Ferguson decided not to seek re-election at the Annual General Meeting after serving ten and seven years respectively. During their tenure both John and Alan were invaluable sources of wisdom, constructive challenge and good counsel and I would like to thank them for their contribution to the Board and the wider Group.

The Board was pleased to welcome three new Non-Executive Directors. Stephen Young, former CEO of global engineer Meggitt PLC, succeeded Alan Ferguson as Chairman of the Audit Committee. Cal Collins, former Chairman and CEO of ESCO Corporation, joined the Board following completion of the ESCO acquisition. With 18 years' service with ESCO, Cal brings extensive experience of mining and infrastructure markets. Finally, Engelbert Haan was appointed on 18 February 2019. Engelbert has extensive global executive experience in multi-national companies including Royal Dutch Shell plc, Sasol Group and Maersk.

Looking to the rest of the year, the Board looks forward to continuing to support the successful execution of our strategy and listening to our stakeholders from employees to customers and shareholders, as together we build an ever stronger Weir.


**Charles Berry**

Chairman

27 February 2019

**Using employee voice to shape our future**

We seek to continuously build employee engagement and to promote an open and transparent culture. Our We are Weir strategic framework articulates a clear, long-term vision and mission and reinforces our values as we grow and succeed. Listening to our people is an ongoing priority, with a strong commitment from the board to ensure that all Weir employees can have a voice in our future success.

In December 2018 we launched our first ever Global Employee Engagement survey, giving us significant insight into what our people think about working at Weir.

The survey tool was fully digital, mobile enabled and put action at the heart of the feedback with real-time dashboards available to managers and a focus on action planning. The survey captured the views of 12,500 (84%) of our employees across 200 sites, was available in 29 languages and was supported by a global communications campaign encouraging every colleague to participate. Key results that emerged:

- Weir was rated as 7.7 out of 10 as a place people would recommend to work
- Colleagues each answered 26 questions across 14 categories, leaving a total of 120,000 comments in the process
- Colleagues feel that Weir performs strongly in aligning its values to those of its people
- The Group's focus on safety as a top priority is being recognised by our people as something we are doing well
- Our people inherently value the relationships they share with others within the business and feel this makes the Group a better place to work.

With such a strong response rate, there were inevitably areas highlighted that show where we need to improve as a Group and our focus is now on action.

All of the insights gained from the engagement survey are allowing us to take action into becoming an even better place to work. The survey tool will become an ongoing channel for listening, with three surveys planned per year for 2019 and beyond.

We hope that by developing this culture of continuous listening we will help to create an environment where people can do the best work of their lives.

[Read more](#) See pages 8-9

## Chief Executive Officer's review

# A simpler, stronger business built for the long-term.



**Jon Stanton**  
**Chief Executive Officer**

**The title of this Annual Report, 'An ever stronger Weir', reflects the culture of our organisation. Weir is a business that has great pride in its past, but an even greater ambition for its future. As a result, 2018 saw the Group undertake some of the biggest changes in its history.**

We reshaped the portfolio, focusing on our core strengths in upstream mining and oil and gas. In July 2018, we completed the acquisition of ESCO, the global leader in ground engaging tools for large mining machines. In February 2019, we also announced we had agreed to sell the Flow Control division for an enterprise value of £275m. This transformation was achieved at the same time as delivering 22% growth in continuing operations profit before tax (before exceptional items and intangibles amortisation) to £310m.

I would like to thank our employees for their hard work and commitment over the year and particularly for their efforts to improve safety across the Group. Our ambition is for Weir to be a zero-harm workplace and 2018 saw a 47% reduction in the severity of incidents across our operations and a 15% decrease in our main safety measure, Total Incident Rate.

### Why change?

When I was first appointed as CEO we conducted a comprehensive review of the Group's strategy. It concluded we were a strong business with leading brands in attractive markets that have good long-term growth prospects. Mining, for example, tends towards

long economic cycles with demand supported by some of the biggest structural changes in the world from urbanisation to the electrification of transport and power infrastructure. Shale oil and gas has also become an increasingly important source of global energy supply and its dynamism has helped the United States to become the world's biggest oil producer.

Our strong leadership positions in providing mission-critical solutions to these markets are supported by a business model that enables the Group to fully capture opportunities when markets are favourable and offers real resilience in more challenging conditions. The result is a Group that is capable of consistently outperforming our markets and delivering sustainable profitable growth.

However, the review also concluded that while this assessment applied to many parts of the Group, it did not apply to them all. To build an 'ever stronger Weir' we needed to focus on what we do best: providing premium mission-critical solutions used in high abrasion aftermarket-intensive applications. That meant looking for a new home for the Flow Control division. While the division has a number of strong positions in niche markets, it doesn't have the same global scale and aftermarket opportunity as its sister divisions and therefore we decided it would be better positioned to attract capital with a new owner.

### ESCO – a natural partner

The acquisition of ESCO for an enterprise value of \$1.3bn increases the Group's exposure to attractive aftermarket-intensive mining markets. It fits our business model perfectly. Its highly engineered equipment is deployed in high abrasive applications such as hard rock extraction with 95% of revenues generated from ongoing consumables. It also meets our strict financial criteria with the acquisition expected to be earnings accretive in the first full year and cost synergies contributing to medium term EBITA margin improvement from around 13% in 2018 towards 17%. You can read more on pages 24-27.

The acquisition creates a unique provider of premium mining solutions from extraction to concentration, providing a great platform for future growth. It also means mining equipment and aftermarket solutions represent around 55% of Group revenues on a pro forma basis. Our increased focus on mining reflects our view of the market's prospects for long-term growth. Demand for copper for instance, where the Group is a leading provider of processing equipment, is traditionally sustained by global economic growth and urbanisation, but is being further supported by the electrification trends outlined earlier. These trends have also seen demand for the Group's equipment increase among lithium miners. As technology leaders we are well placed to help our customers meet future demand with solutions that increase efficiency and sustainability.

### Strong execution across the business

Minerals orders grew 14% with aftermarket orders exceeding £1bn for the first time. Original equipment order growth accelerated as the year progressed with 30% growth in the fourth quarter. Operating margins at 17.7%, were in line with expectations at this growth stage in the mining cycle as we extended our installed base.

Having completed the ESCO acquisition in July we moved quickly to realise the initial benefits of the integration. We delivered a 170bps operating margin improvement to 13% for the division post acquisition. We are ahead of schedule in delivering the \$30m of planned cost synergies and expect to deliver revenue synergies of at least \$50m over the next five years.

Oil & Gas took full advantage of strong demand in the first half of the year, contributing to a 17% increase in orders for the year. However, second half profitability was impacted by the capacity constraints in the Permian basin. This caused a slowdown in demand in North America due to the early exhaustion of budgets and softening oil prices.

## Chief Executive Officer's Q&A

### You've described 2018 as a transformative year – is the change now over?

Change is a constant for Weir but I think we've taken some important steps in 2018 to position ourselves for the years ahead. The increased focus on our core markets reflects where we can make the biggest difference and is supported by what looks like a multi-year upturn in that market. While mining company boards are still relatively cautious about committing to big new projects they are focused on producing more from their current assets – something we are ideally placed to help them deliver. In addition, industry expectations are for increased demand for commodities such as copper, our biggest exposure, to help build the new generation of electric vehicles and power infrastructure. We have positioned the business to take full advantage of these positive fundamentals and with ESCO, we now have a unique offering from extraction to concentration, making us even more relevant to customers.

### How is the ESCO integration progressing?

It is making really good progress. Before we agreed to buy the business we spent a lot of time with its management team and were struck by how closely aligned our business models were and the cultural similarities between both companies. Both had market-leading brands that were known for their quality and innovation, and both were passionate about the importance of staying close to customers and solving their challenges. Since the acquisition those positive first impressions have been reaffirmed. The compatibility between both businesses has been a real highlight of the year and gives me great confidence in the future success of the combination.

### Oil and gas markets had a mixed year, how did Weir react to the volatility?

We had a strong first half to the year in North America as frack fleets were refurbished in anticipation of strong completions activity in shale basins. Then, in the second half, the market changed pretty swiftly with overcapacity in the frack fleet reducing demand for original equipment. The main causes of the downturn were the lack of additional pipeline capacity in the Permian basin and oil companies exhausting their 2018 budgets ahead of schedule, exacerbated by a reduction in the global oil price in the fourth quarter of the year. These clearly had an impact on our business which was further compounded by a legacy product performance issue which led to £24m in exceptional costs. This was fully addressed swiftly but it was clearly disappointing. If you strip away the short-term issues however, shale has been one of the most disruptive technologies of the last ten years. Like all new industries there are growing pains but fundamentally it is an important source of global energy supply and Weir has a great position in this industry.

### How is the Group impacted by trade tariffs and Brexit?

As a manufacturer that transforms raw materials such as steel into finished products we have been impacted by the trade tariffs, both between the US and China and the US and Canada. We estimate the net impact of these in 2018 was about £5m. As a Group we prefer to have as few barriers to trade as possible but at the end of the day these are decisions that are rightly for politicians to make. In terms of Brexit, we don't anticipate any material impact on the Group. We have a regional operating model with manufacturing sites near customer activity and as a Group that is focused on mining and upstream oil and gas, the vast majority of our revenues are generated outside the UK and EU.

### What do you see as the Group's main opportunities and challenges in 2019?

We expect another year of growth for the business assuming market conditions remain favourable. We'll continue to embed ESCO into the Group and seek opportunities to use our increased scale to better serve our customers. Visibility of oil and gas markets is always more difficult, but our customers tell us they expect activity in North America to progressively improve throughout 2019. Our job is to optimise performance whatever the market conditions we face and with the We are Weir strategy we have a clear framework in which to do that. I am always excited about the potential of our people and technology and I look forward to seeing what progress we make in 2019. Ultimately, I want our people to be safer and more engaged, our customers to be more satisfied, our technology to be more innovative and our operational performance to be consistently excellent.

**"We've taken some important steps in 2018 to position ourselves for the years ahead."**

Opening capacity upgrade to foundry in Santiago, Chile.



Learning about our technology capability during a factory tour in Santiago, Chile.



A CEO 'Town Hall' meeting in Sydney, Australia.

## Chief Executive Officer's review continued

**"Our strong leadership positions in providing mission-critical solutions to our markets are supported by a business model that enables us to capture opportunities when markets are favourable and offers real resilience in more challenging conditions."**

### We are Weir

2018 was also a year of good progress in delivering our We are Weir strategic framework with its focus on People, Customers, Technology and Performance. This time last year I discussed the four medium term key performance indicators (KPIs) for the business aligned to these themes:

- Improved employee engagement and organisational effectiveness
- Increased market share
- Improved percentage of revenues from new products
- Sustainably higher margins through the cycle

You can read more about progress in 2018 against these KPIs on page 28. In 2019, we'll continue to focus on what makes us distinctive:

#### People

In 2019 we'll make further progress towards becoming a zero-harm workplace including rolling out the Weir behavioural safety programme to ESCO facilities. I am delighted that we will

be making all employees shareholders in the business, ensuring alignment throughout the business. Having established baseline measures of organisational effectiveness we'll work to build a higher-performing global team. To ensure we have the optimum blend of skills and experience for the future we'll conduct a thorough workforce planning exercise to identify any capability gaps that we need to address.

#### Customers

As we look to increase market share we'll build on our unrivalled global service network to get even closer to more customers around the world and help solve some of their toughest operational challenges. Our ability to be where our customers need us when they need us is a real differentiator. By having more engineers on the ground we are able to more effectively leverage the expertise of our people and the breadth of our portfolio of premium products. In both mining and upstream oil and gas we operate in need-it-now industries and it is important we continue to be a trusted

## Weir investment case

**1 /**

### Closely aligned to long-term structural trends

- Global economic and population growth
- Urbanisation and electrification of transport and power infrastructure
- Resource depletion requiring sustained capital and maintenance investment



**2 /**

### Focused on attractive markets

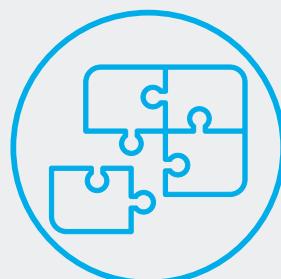
- Hard rock mining with copper as our biggest commodity exposure
- Infrastructure, including construction, sand and aggregates, and dredging
- North American shale and Middle East oil and gas



**3 /**

### Strong global positions

- Unique provider of premium mining solutions from extraction to concentration
- #1 in minerals processing and ground engaging tools for surface mining
- #1 in pressure pumping for shale oil and gas



### Want to know more about our Board?

 visit: [www.global.weir/investors](http://www.global.weir/investors)

partner who can be relied on to support the ongoing success of our customers operations. That customer intimacy is crucial in informing our technology programme with product roadmaps developed with Voice of the Customer input.

#### Technology

Those priorities will guide where we invest our growing research and development (R&D) budget, which increased to £42m in 2018. In both mining and upstream oil and gas our customers are looking towards both the Mine of the Future and the Frack site of the Future. Both will require innovative engineering that increase efficiency, utilise smarter technology and make their operations more sustainable. In 2019 we'll continue to innovate across our core products and develop solutions that meet those needs. This will include expanding the deployment of our Synertrex® IoT solution to more of our installed base. We are also developing in-house additive manufacturing expertise with an

established team to apply the technology to our manufacturing facilities.

#### Performance

Finally, our operational performance is an area where we can do more. 2018 saw some good progress in reducing working capital as a percentage of sales but we have opportunities to improve further. This includes continuing to increase customer satisfaction, inventory turns and manufacturing efficiency. In 2019 we'll focus on improving excellence across the value chain in every business, delivering the cost synergy opportunities of the ESCO acquisition and reducing the costs and impact of our environmental footprint through our sustainability strategy.

#### Group Outlook

Looking to the full year, we currently expect our mining and infrastructure markets to continue to benefit from positive industry fundamentals with oil and gas activity to improve modestly from

current levels. Overall, assuming market and macro-economic conditions remain supportive, we anticipate the Group will deliver another year of good constant currency revenue and profit growth, supported by strong execution of our Weir strategy.



**Jon Stanton**

Chief Executive Officer  
27 February 2019

## 4 / Optimum business model

- Highly engineered mission-critical equipment
- Unrivalled global service network serving need-it-now industries
- Aftermarket-intensive, providing revenue resilience through the cycle



## 5 / Financial strength and discipline

- Consistent growth ahead of end markets
- Strong balance sheet and cash generation
- 36 years of stable or growing dividends



## 6 / A platform for future growth

- Incremental and disruptive technology programmes driven by Voice of Customer
- Extensive direct sales channels enabling rapid globalisation of new products
- Opportunities to continue to consolidate in attractive markets



# Minerals and ESCO: Creating a unique mining services provider

## Premium solutions across the mining value chain

Mining customers are focused on improving productivity by increasing throughput, debottlenecking, and reducing costly downtime. They want a service provider with a broad portfolio of integrated solutions that can help deliver their priorities sustainably and efficiently.

ESCO's materials handling and extraction in the surface mine is adjacent to Minerals position in comminution and concentration, resulting in an expanded Weir portfolio across the mining value chain, supported by unrivalled service and support.

Increased touch points with customers will also support better understanding of their needs and provide future opportunities to further increase Weir's relevance. With ESCO® and Warman® brands spanning the mining value chain, Weir will be uniquely positioned as a premium provider of mission critical solutions that help customers achieve their objectives.

[Read more](#)

 See pages 26-27

## No 1 player with c.40% market share in surface mining

ESCO's customers include the leading global mining companies with ESCO product installed on c.40% of large primary mover machines. ESCO GET typically last significantly longer than rival products and are easier to maintain and replace.

ESCO's extensive GET installed base includes more than 3,000 lip systems used on large mining machines. Once engaging equipment is fitted with ESCO's proprietary technology, the abrasive nature of the applications means that regular replacements are required, with typical annual revenues from spares and services equivalent to 100% of the original equipment cost. Consequently, the business currently generates 95% of annual revenues from aftermarket consumables.

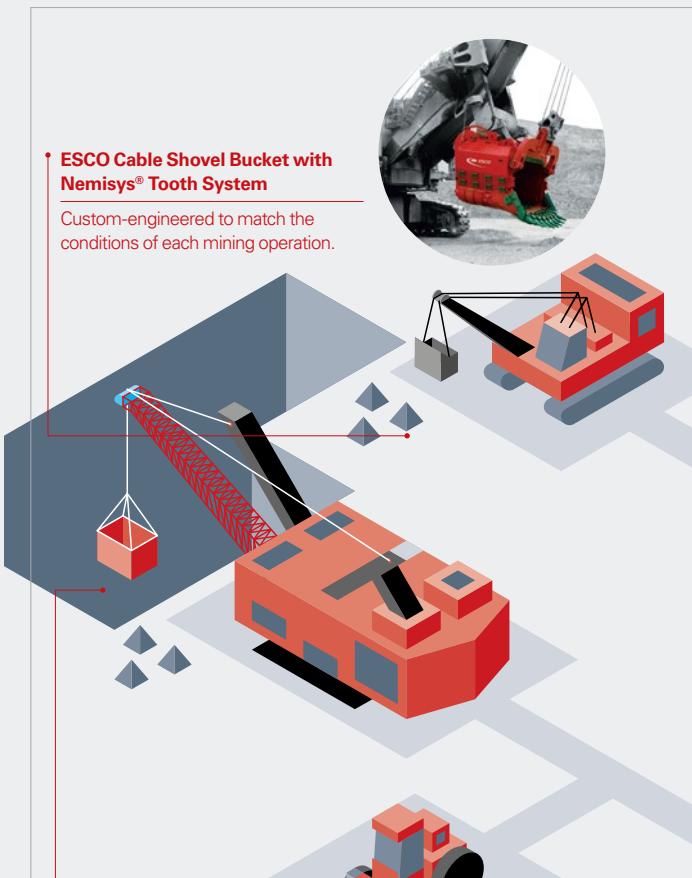
[Read more](#)

 See pages 38-41

## How we generate value



Mission  
critical solutions

### ESCO Cable Shovel Bucket with Nemisys® Tooth System

Custom-engineered to match the conditions of each mining operation.

### ESCO Dragline Bucket with Nemisys® Tooth System

ESCO dragline buckets perform consistently across the wide variety of digging conditions in a mine plan. Tapers are optimised for faster filling with less drag energy.

### ESCO Wheel Loader Bucket with Nemisys® Tooth System

Designed for optimum loading performance in tough mining and aggregate applications.

## ESCO products



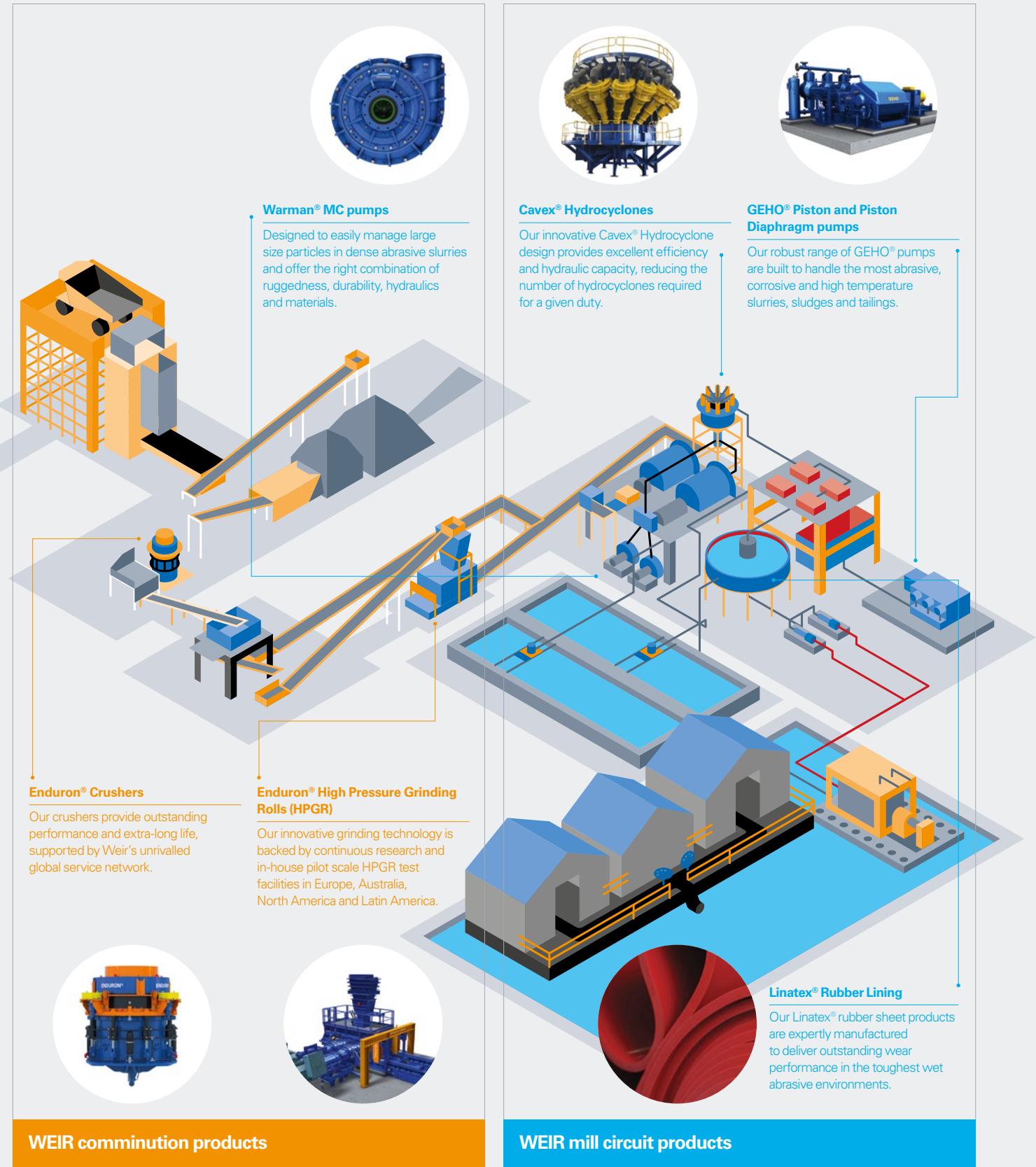
**Highly engineered equipment**



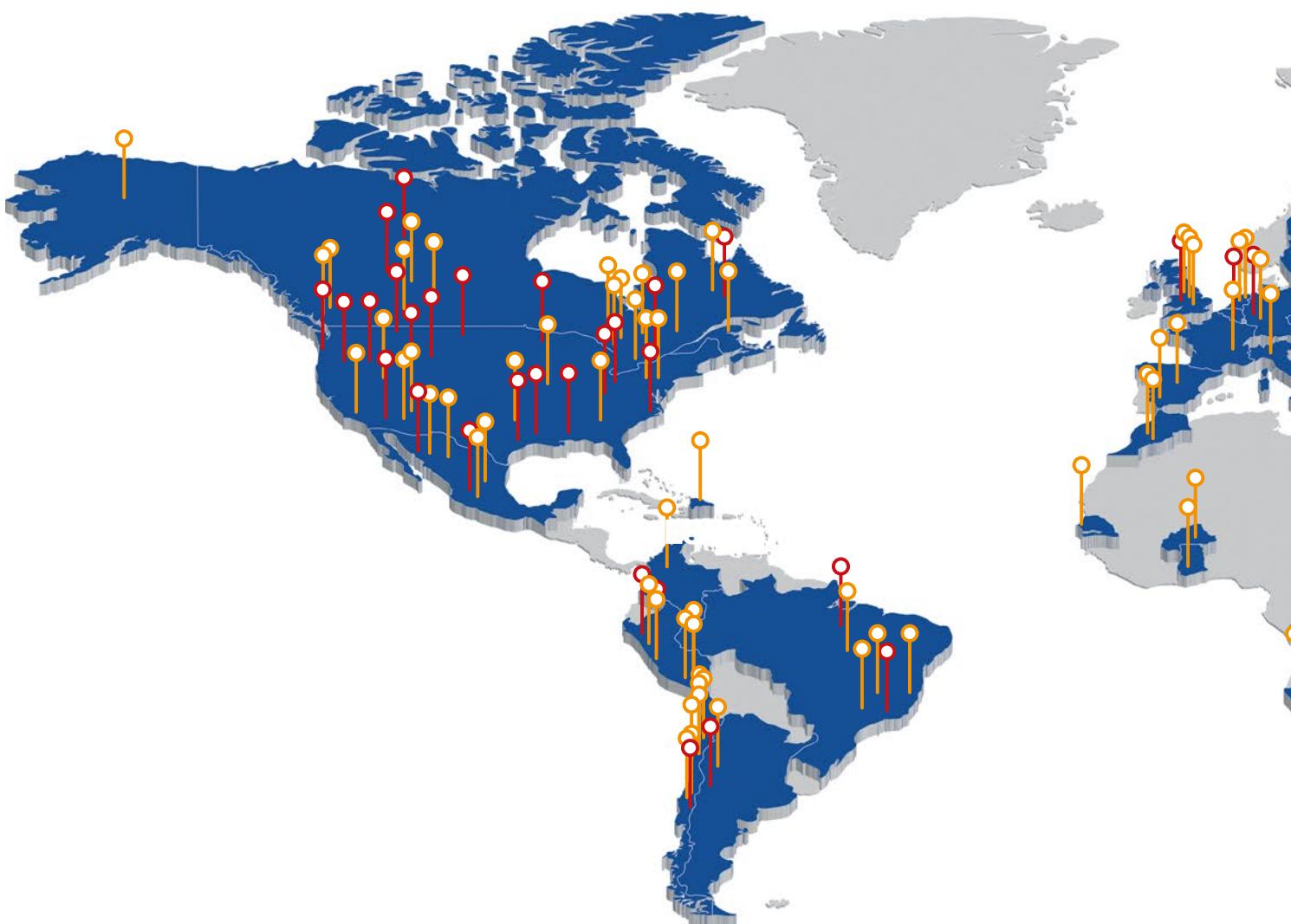
**Intensive aftermarket care**



**Comprehensive global support**



## Minerals and ESCO: Leveraging our unrivalled service centre network



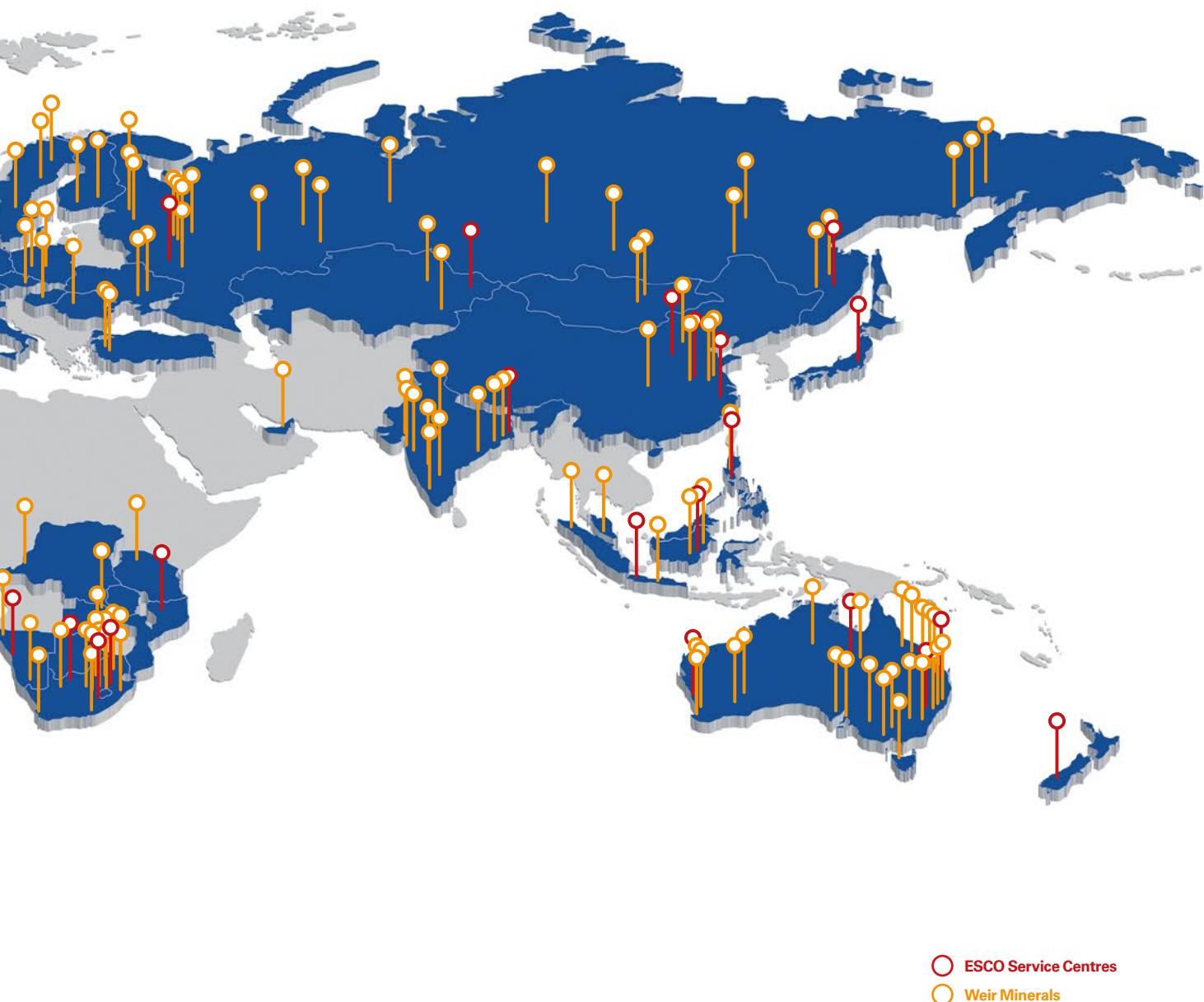
### Building on each other's strengths

ESCO is a global business with 10 manufacturing facilities, 6 foundries and 22 service and supply centres in 19 countries around the world, with its core strength in North America, representing 52% of its revenue. This compares with Weir's unrivalled global minerals equipment service network, with more than 100 service centres ensuring we are close to every major mine site in the world.

Leveraging Weir's global network will significantly increase the number of direct customer relationships available to ESCO. The ESCO business will also provide strong support for Weir's growing comminution offering, with an extensive footprint and dealer network in North America and Europe representing a clear opportunity for Minerals' crusher portfolio.

Minerals has ~4x the service centre coverage of ESCO

4 TIMES



## Improving ESCO margins

**ESCO maintained relatively stable gross margins through the mining downturn, reflecting the strength of its brand and the quality of its products. Our base case assumption is that ESCO performs in line with the GET market which on average is expected to deliver mid-single digit percentage growth. We are targeting moving ESCO's EBITA margins towards Minerals with a target of achieving 17%, supported by improving volumes and delivery of the cost synergies.**

Since the acquisition closed we have delivered cost synergies with a run rate of \$15m, contributing to a 170bps operating margin improvement for the division to 13%.

We are now also targeting revenue synergies of at least US\$50m in the next five years as we build on each others' strengths.

## Revenue synergies

**US\$50m  
in 5 years**

## KPIs

# Measuring our strategic progress

**In the table below you can see details of our progress against our medium term Key Performance Indicators aligned to our We are Weir strategic framework and the Group's remuneration policy.**

Strategic priority	Medium term KPI	2018 Priorities	2018 Performance
<b>Non-Financial</b>			
People	<b>Sustainable Engagement and Organisational Effectiveness</b>	Drive best in class safety culture	<ul style="list-style-type: none"> <li>– Total incident rate of 0.45 compared to 0.53 on a like-for-like basis in 2017 with 47% reduction in days lost per injury</li> </ul>
		Build organisational capability	<ul style="list-style-type: none"> <li>– Defined organisational effectiveness</li> <li>– Completed Group-wide succession planning and talent development</li> </ul>
		Develop a culture of the future that inspires our people to build a personal legacy	<ul style="list-style-type: none"> <li>– Completed first global employee engagement survey with 84% participation rate</li> </ul>
Customers	<b>Increased market share</b>	Increase revenues from service centre networks	<ul style="list-style-type: none"> <li>– £93m in additional orders generated from Minerals Integrated Solutions strategy</li> <li>– First Oil &amp; Gas supercentre built in the Permian basin in Texas</li> </ul>
		Increase number of customer partnerships on technology and development and trials	<ul style="list-style-type: none"> <li>– Partnerships signed with leading technology companies focused on pump engineering and materials science</li> </ul>
		Develop improved Voice of Customer (VoC)	<ul style="list-style-type: none"> <li>– Technology roadmaps developed using VoC for all key product lines</li> </ul>
Technology	<b>Increased percentage of revenues from new solutions</b>	Progress commercialisation of Weir digital agenda	<ul style="list-style-type: none"> <li>– Initial commercialisation of the Group's Synertrex® IoT platforms completed focused on mining applications</li> <li>– First predictive pump maintenance algorithm</li> </ul>
		Further develop advanced manufacturing capability	<ul style="list-style-type: none"> <li>– Established additive manufacturing cell with several 3D printed components now in field testing</li> <li>– Implemented Smart Factory initiatives including machine utilisation dashboards and maintenance control centres</li> </ul>
		Develop Weir Innovation framework	<ul style="list-style-type: none"> <li>– Global innovation team created supported by the Weir Innovation Network to crowd source ideas and share knowledge</li> </ul>
Performance	<b>Sustainably higher margins through the cycle</b>	Improve Value Chain Excellence (VCE) score	<ul style="list-style-type: none"> <li>– Average VCE score increased by 4% in 2018</li> <li>– Reduction in working capital as a percentage of sales by 180bps on a like-for-like basis</li> <li>– Consolidation of facilities in North America and South East Asia</li> </ul>
		Progress IT infrastructure and systems development	<ul style="list-style-type: none"> <li>– Group-wide IT projects including improved cyber security and collaboration tools</li> </ul>
		Begin to implement sustainability strategy	<ul style="list-style-type: none"> <li>– Sustainability pilots launched at major manufacturing locations – target ~10% reduction in energy use</li> </ul>

[Read more about our we manage risk](#)

 See pages 47-55

2019 Priorities	Associated principal risks	Linked to remuneration?
<p>Improve ESCO safety standards and align with the Group's best in class behavioural safety culture</p> <p>Deliver first safety leadership training programme</p>	<ul style="list-style-type: none"> <li>– Safety, Health and Environment</li> <li>– Staff recruitment, development and retention</li> <li>– Technology and innovation</li> <li>– Political and social risk</li> </ul>	
<p>Improve organisational effectiveness building on the measures established in 2018</p> <p>Implement strategic workforce planning to build capability across the business</p>		
<p>Respond to the employee feedback including improving diversity and inclusion</p> <p>Develop a Group-wide Employee Value Proposition</p>		
<p>Expand service network and enhance global capabilities</p>	<ul style="list-style-type: none"> <li>– Market volatility</li> <li>– Contract risk</li> <li>– Political and social risk</li> <li>– Technology and innovation</li> </ul>	
<p>Increase customer technology partnerships and field trials</p>		
<p>Enhance Voice of Customer (VoC) systems and processes</p>		
<p>Build on VoC-led Mine of the Future and Frack Site of the Future technology roadmaps including increased efficiency, smart technology and sustainability solutions</p>	<ul style="list-style-type: none"> <li>– Technology and innovation</li> <li>– IT security and continuity</li> </ul>	
<p>Grow Advanced Manufacturing and Innovation capability</p>		
<p>Incremental improvement of core product portfolio</p>		
<p>Realise benefits from major Group-wide initiatives including integration of ESCO</p>	<ul style="list-style-type: none"> <li>– Ethics, governance and control</li> <li>– Value Chain Excellence</li> <li>– Market volatility</li> <li>– Contract risk</li> <li>– Safety, health and environment</li> </ul>	
<p>Further improve operational performance through increased manufacturing utilisation and on time delivery</p>	<ul style="list-style-type: none"> <li>– Technology and innovation</li> <li>– IT security and continuity</li> <li>– Political and social risk</li> </ul>	
<p>Build sustainability roadmap to deliver tangible value across the Group</p>		

## Financial review

# Delivering strong profit growth and cash generation



**John Heasley**  
Chief Financial Officer

### Overview

2018 has been a year of significant transformation for the Group following the US\$1.3bn acquisition of ESCO, which completed in July 2018, and the £275m agreed sale of Flow Control announced in February 2019. Through this transformation, we continued to execute well across each of our divisions. Against a continued positive market backdrop, our Minerals business continued to see the benefit of recent investment in people and facilities to achieve market beating growth with strong margins. ESCO also benefited from these market conditions to show good growth in the period post acquisition while our integration efforts progressed well to drive initial synergies and increase margins. Oil & Gas delivered another year of growth despite a slowing in market conditions in the second half of the year, while Flow Control executed well with a return to good levels of profitability. The quality of our operations was once again underlined by strong cash generation and reduced leverage.

### Financial Highlights

Continuing operations order input and revenue (on a constant currency and like-for-like basis) both increased by 15%, primarily due to the continued strong demand in North American oil and gas markets during the first half of the year, together with a strong Minerals performance. Like-for-like aftermarket input growth was 13% and original equipment orders grew by 18%. On a reported basis, including ESCO, revenues grew by 23%, impacted by a £75m foreign exchange translation headwind.

Continuing operations reported profit before tax, intangibles amortisation and exceptional items of £310m was up by £55m or 22%, primarily driven by our Minerals division and the post acquisition ESCO contribution. Operating exceptional charges of £158m (2017: £4m) were incurred mainly in relation to the ESCO acquisition, legacy product warranty costs in Oil & Gas and restructuring and rationalisation costs in Minerals. Cash generated from operations (before exceptional cash flows) increased by £190m to £411m as working capital as a percentage of sales improved from 24.7% to 22.9% on a like-for-like basis. The investment in ESCO in the year contributed to an increase of £284m in net debt to £1,127m. Despite this, net debt to EBITDA reduced to 2.3 times (2017: 2.5 times) and is expected to fall further in 2019 following completion of the agreed Flow Control disposal.

### Acquisition of ESCO Corporation

The acquisition of ESCO Corporation, the world's leading provider of ground engaging tools for surface mining and infrastructure, for an enterprise value of US\$1.3bn, was completed on 12 July 2018. The acquisition was funded £465m from cash and £327m from equity issued to the vendor. £356m of the cash consideration was raised through a share placing in April, with the balance funded from existing debt facilities.

On a pro forma full year basis (reflecting ESCO's unaudited US GAAP management accounts) ESCO generated revenue of £525m and operating profit of £64m. For the five and a half month period of Weir ownership from

### Highlights

- Order growth of 27% on a constant currency basis underpinned by Minerals and ESCO acquisition
- US\$1.3bn acquisition of ESCO funded with mix of equity and cash; trading and synergies ahead of plan
- Continuing operations profit before tax, intangibles amortisation and exceptional items increased by £55m; strong execution in discontinued operations increased Group profit before tax by a further £30m
- £190m increase in cash generated from operations (before exceptional cash flows) supported by working capital efficiency
- 5% increase in dividend

[Read more](#)

See pages 123-182

12 July, ESCO contributed £252m revenue and £33m operating profit, including US\$6.5m of realised cost synergies. This resulted in a 13.0% operating margin compared to 11.3% for the period pre-acquisition. Run-rate synergies are now US\$15m compared to our multi-year target of US\$30m meaning we are on track to improve ESCO operating margins to around 17% over the coming years.

### Discontinued operations

An agreement was reached on 25 February 2019 for the sale of Flow Control for an enterprise value of £275m. The Division had been classified as held for sale since the announcement of intention to sell in April 2018. Previously reported as an individual reporting segment, the division is now reported as a discontinued operation and the prior period comparatives have been restated accordingly.

### Continuing operations order input

Order input at £2,544m increased 27% on a constant currency basis and 15% like-for-like. Original equipment orders were £648m. Aftermarket orders were £1,896m.

Minerals orders increased by 14% to £1,500m (2017: £1,321m) with a book-to-bill of 1.06. Original equipment orders were up 16% year-on-year, supported by our integrated solutions initiative as miners invested in brownfield expansions and optimisation projects. Demand for our Geho product line which is purchased earlier in the project cycle was especially strong, driven by demand for copper projects in South America. Aftermarket orders increased by 13% reflecting

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our customers focus on maximising production from existing assets as well as declining ore grades. We continue to deliver maximum returns from these market conditions with our continuing investment in the division's service network, which locates sales engineers able to provide support and solutions, close to our customers. Aftermarket orders represented 70% of total input (2017: 71%).

ESCO orders in the post acquisition period were £245m, supported by the same market trends as Minerals with customers focus on production driving strong demand for high-wear, mission critical ground engaging tools consumables with aftermarket representing 96% of orders.

Oil & Gas orders of £799m (2017: £682m) were up 17% on both a constant currency and a like-for-like basis, reflecting the increased activity levels in North America, especially during the first half. Aftermarket orders were up 15% year-on-year and represented 76% (2017: 78%) of divisional orders. Original equipment was 24% higher,

against a weak comparator, driven primarily by increased demand in North America for frack pumps, flow equipment and wellheads in the first half. Orders slowed in the second half of the year with a 19% sequential decline from the first to second half as customers reignited spending as pipeline constraints emerged in the Permian basin, WTI oil prices fell below \$50 and E&P budgets were exhausted.

#### Continuing operations revenue

Revenue of £2,450m showed growth of 28% on a constant currency basis (15% like-for-like) mainly reflecting the improvement in orders in the Oil & Gas Division in the first half and continued strong input performance in Minerals. Aftermarket accounted for 75% of revenues in line with prior year. Reported revenues increased 23%, impacted by a foreign exchange translation headwind of £75m.

Minerals revenue was 13% higher on a constant currency basis at £1,417m (2017: £1,255m), reflecting order trends. Original equipment

sales accounted for 28% (2017: 28%) of divisional revenues and were 14% higher than the prior year with strong growth in core slurry pumps and mine dewatering across all regions. Aftermarket revenues grew strongly, particularly in core pump and mill circuit technology, reflecting an increased focus on productivity from customers. Reported revenues increased by 8% (2017: £1,306m), after a foreign exchange translation headwind of £51m.

ESCO revenue in the post acquisition period was £252m of which 95% related to aftermarket, following the same trends as order input.

Oil & Gas revenue increased by 19% to £781m on a constant currency basis (2017: £656m) and was up 18% on a like-for-like basis, reflecting order input trends. Original equipment and aftermarket revenues increased by 39% and 14% respectively, with aftermarket accounting for 76% of total revenues (2017: 79%).

Reported revenues were up 15% to £781m after a 4% foreign exchange translation headwind

## Results summary

Continuing operations <sup>1</sup>	2018	2017	As reported	Constant currency <sup>2</sup>	Like-for-like <sup>3</sup>
<b>Orders £m<sup>2</sup></b>	<b>2,544</b>	2,003	n/a	27%	15%
<b>Revenue £m</b>	<b>2,450</b>	1,986	23%	28%	15%
<b>Operating profit £m<sup>4</sup></b>	<b>348</b>	296	18%	22%	13%
<b>Operating margin<sup>4</sup></b>	<b>14.2%</b>	14.9%	-70bps	-70bps	-30bps
<b>Net finance costs £m<sup>4</sup></b>	<b>(38)</b>	(41)	8%	–	n/a
<b>Profit before tax £m<sup>4</sup></b>	<b>310</b>	255	22%	26%	n/a
<b>Reported profit after tax £m</b>	<b>53</b>	184	-71%	n/a	n/a
<b>Earnings per share<sup>4</sup></b>	<b>94.7p</b>	91.7p	3%	n/a	n/a
<b>Total Group</b>					
<b>Reported profit after tax £m</b>	<b>18</b>	160	-89%	n/a	n/a
<b>Cash generated from operations £m<sup>6</sup></b>	<b>411</b>	221	86%	n/a	n/a
<b>Net debt £m</b>	<b>1,127</b>	843	£284m	n/a	n/a
<b>Net debt/EBITDA<sup>5</sup></b>	<b>2.3</b>	2.5	-8%	n/a	n/a
<b>Effective tax rate<sup>4</sup></b>	<b>25.5%</b>	23.8%	+170bps	n/a	n/a
<b>Earnings per share</b>	<b>7.4p</b>	72.7p	-90%	n/a	n/a
<b>Dividend per share</b>	<b>46.2p</b>	44.0p	5%	n/a	n/a

The Financial Review includes a mixture of GAAP measures and those which have been derived from our reported results in order to provide a useful basis for measuring our operational performance. Operating results are for continuing operations before exceptional items and intangibles amortisation as provided in the Consolidated Income Statement. Details of other non-GAAP measures are provided in note 2 of the financial statements.

1 Continuing operations excludes the Flow Control division which has been classified as held for sale and is reported in discontinued operations. 2017 has been restated for IFRS 15 – Revenue from Contracts with Customers.

2 2017 restated at 2018 average exchange rates.

3 2017 restated at 2018 average exchange rates and like-for-like excluding ESCO and KOP acquisitions in 2018 and 2017 respectively.

4 Adjusted to exclude exceptional items and intangibles amortisation. Reported operating profit and profit before tax from continuing operations were £124m (2017: £241m) and £86m (2017: £199m) respectively.

5 Calculation is on a covenant basis with net debt at average rates.

6 Before exceptional cash flows. Net cash generated from operating activities was £218m (2017: £128m).

## Financial review continued

(2017: £680m). North American revenues increased by 17% compared to the prior year but in the second half decreased sequentially by 9%, reflecting challenging market conditions. International revenues were also higher year on year, reflecting the full year contribution from KOP which offset the lower activity volumes in the Middle East.

### Continuing operating profit

Operating profit from continuing operations (before exceptional items and intangibles amortisation) increased by £52m (18%) to £348m. Excluding a £12m foreign currency translation headwind the constant currency increase was £64m.

Minerals operating profit (before exceptional items and intangibles amortisation) increased by 14% on a constant currency basis to £250m (2017: £219m), driven by strong underlying revenue growth and supported by the division's integrated solutions strategy. Operating margins of 17.7% were up from 17.5% last year.

ESCO, including a joint venture, contributed £33m in the post acquisition period supported by US\$6.5m of realised cost synergies in the period, resulting in 13.0% operating margins for the period. Run-rate synergies at the end of the year were US\$15m.

Oil & Gas operating profit (before exceptional items and intangibles amortisation) including joint ventures was £96m (2017: £89m) on a constant currency basis, with the increase driven by higher activity levels and volumes in upstream North American markets in the first half of the year. Operating margins at 12.3% were 130bps lower than the prior year due to reduced North America activity in the second half the year and associated under recoveries, together with continued weakness in our international markets.

Unallocated costs increased £7m from the prior year to £31m supporting our We are Weir strategy with increased investment in digital

and advanced manufacturing technology. Operating profit (including exceptional items and intangibles amortisation) for the year of £124m was £117m lower than the prior year due to an increase in exceptional items and intangibles amortisation of £169m, which offset the increase in underlying operating profit of £52m.

### Continuing operations net finance costs

Net finance costs, before exceptional items, were £38m (2017: £41m). The overall decrease of £3m compared to 2017 was principally due to the repayment of £95m of private placement debt, which was replaced with less expensive Euro Commercial Paper, which offset the increased interest resulting from the ESCO acquisition.

Net finance costs (excluding retirement benefit related amounts and exceptional items) were covered 10.3 times by operating profit from continuing operations, before exceptional items and intangibles amortisation (2017: 7.8 times).

### Continuing operations profit before tax

Profit before tax from continuing operations (before exceptional items and intangibles amortisation) increased by 22% to £310m (2017: £255m). The reported profit before tax from continuing operations of £86m compares to £199m in 2017 due to an increase in exceptional items.

### Continuing operations taxation

The tax charge for the year of £79m (2017: £53m) on profit before tax from continuing operations (before exceptional items and intangibles amortisation) of £310m (2017: £255m) represents an underlying effective tax rate (ETR) of 25.3% (2017: 20.9%). Our ETR is principally driven by the geographical mix of profits arising in our business, movement in our provisions for uncertain tax exposures, the recognition of attributes such as tax losses, and the impact of Group financing and transfer pricing arrangements.

In terms of cash tax, the Group paid income tax of £73m in 2018 across all of its jurisdictions

compared to £61m in 2017. The increase is due largely to increased taxable profits and timing differences arising where cash tax instalment payments (or refunds) are driven partly by prior year current tax liabilities.

### Continuing operations exceptional items and intangibles amortisation

Exceptional items increased to £158m (2017: £4m) with intangibles amortisation at £66m (2017: £52m).

Included in the increase in exceptional items is £94m in relation to the ESCO acquisition including a £63m charge related to the unwind of the inventory fair value uplift booked in accordance with IFRS 3 in the opening balance sheet and a further £31m recognised for acquisition and integration costs.

A legacy product warranty issue which arose in Oil & Gas led to an exceptional charge of £24m, which related to inventory provisions and warranty compensation arrangements.

Restructuring and rationalisation charges in the year of £29m represent costs related to the right-sizing of operations, including facility closures, headcount reductions, tangible asset impairments and inventory write downs.

This includes £17m following the decision to exit the Minerals Malaysia foundry operations.

Following the Lloyds Banking Group High Court ruling on 26 October 2018 in relation to Guaranteed Minimum Pension (GMP) inequality, a charge of £6m for GMP equalisation has been recognised.

Of the £158m total exceptional charge £68m is cash in nature with £37m of that having been incurred in 2018.

The increase in amortisation reflects the impact of ESCO intangible assets acquired in the year.

A tax credit of £46m has been recognised in relation to exceptional items and intangibles amortisation (2017: £39m).

## Operating profit to EBITDA

	2018 £m	2017 £m
<b>Continuing operations</b>		
Operating profit	<b>124.1</b>	240.8
Adjusted for:		
Exceptional items (note 5)	<b>157.7</b>	3.5
<b>Earnings before interest and tax (EBIT)</b>	<b>281.8</b>	244.3
Intangibles amortisation (note 5)	<b>66.3</b>	52.0
Depreciation of property, plant & equipment (note 4)	<b>61.8</b>	49.7
<b>EBITDA</b>	<b>409.9</b>	346.0

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After exceptional items and intangibles amortisation, reported profit for the year from continuing operations is £53m (2017: £184m).

#### Discontinued operations

Flow control orders increased 15% on a constant currency basis with original equipment growth of 22% supported by a number of large nuclear orders while aftermarket growth of 9% was driven by downstream oil and gas demand for pump spares. Revenues reduced by 4% as the prior year benefited from the unwind of a large overdue opening order book.

An improved performance in Flow Control, following one-off issues in the prior year, led to an increase in operating profit from discontinued operations before exceptional items and intangibles amortisation of £30m to £23m (2017: loss of £7m). EBITDA for discontinued operations was £26m. Exceptional items of £52m (2017: £10m) includes a write down to Flow Control's carrying value of £45m to £260m, reflecting the agreed transaction enterprise value of £275m less our latest estimate of future costs to sell including separation costs, transfer value of pension and other liabilities as well as certain capital commitments. Intangibles amortisation of £1m is lower than the £3m in 2017 due to the classification of the division as held for sale in April 2018 which means that from the point of classification no amortisation or depreciation is charged. Reported loss after tax for the year from discontinued operations is £35m (2017: loss £25m).

#### Capital expenditure

Net capital expenditure for the Group increased from £81m to £85m in the current year, reflecting a continued investment in our strategic priorities, together with investment to enhance safety and operational efficiency at ESCO with net capital expenditure at 1.3 times depreciation.

#### Cash flow and net debt

Cash generated from operations (before exceptional cash flows) increased by £190m to £411m in the year which mainly reflected the strong cash generation in both Minerals and Oil & Gas supported by improvements in working capital. Our working capital efficiency was demonstrated by working capital as a percentage of sales reducing from 24.7% to 22.9% on a like-for-like basis.

Free cash flow from total operations (contained within note 2) increased by £133m to £109m (2017: outflow £24m), before cash exceptional items from operating and financing activities of £142m (2017: £29m).

Total Group exceptional cash items from operating and financing activities in the year primarily relate to the ESCO acquisition (£111m) and include acquisition and integration costs, settlement of share-based payments and redundancy costs. £41m of cash was left in the business by the vendor to contribute to the funding of these costs. The remainder of the Group exceptional cash costs relates to the legacy warranty issue in Oil & Gas and the restructuring and rationalisation actions.

Our acquisition of ESCO was completed via a mixture of cash and shares for an equity value totalling £792m. The cash element of £424m (net of cash acquired of £41m) was partly financed via a placement of shares in the first half which raised £356m (net of transaction costs), with the balance being funded from existing debt facilities. The remainder was financed via the issue of share capital totalling £327m during the year. We also took on £121m of legacy ESCO debt as part of the acquisition which was refinanced on completion utilising existing debt facilities.

The above movements resulted in closing Group net debt of £1,127m (2017: £843m), which includes an adverse foreign exchange movement of £55m. Continuing operations net debt is £1,140m. On a lender covenant basis, including a pro forma full year of ESCO, the ratio of net debt to EBITDA was 2.3 times (2017: 2.5 times) compared to a covenant level of 3.5 times. Details of the Group's committed debt facilities are included in note 19.

#### Pension

The Group has a mixture of defined benefit pension plans and other employee compensation or medical plans in both the UK and North America.

The deficit of £149m compares to £138m in 2017. The current year includes a liability of £70m for ESCO schemes acquired in the year, partially offset by £5m of liabilities transferred to discontinued operations. For the legacy Weir Schemes, the deficit decreased by £59m primarily due to actuarial gains of £102m on the liability side, resulting from changes in discount rate over the period (£71m gain), updates to the mortality assumptions (£18m gain) and experience from updating the valuations (£13m gain). This was partially offset by losses of £43m on the asset side. The requirement to recognise an allowance for equalising pensions in the UK (GMP) led to a past service cost of £6m being recognised as an exceptional item.

Insurance policy assets held for the two largest UK schemes now cover 43% (2017: 43%) of

the Group's total funded obligation across all schemes, excluding ESCO, reducing the Group's exposure to actuarial movements.

#### Asbestos provision

Certain of the Group's US-based subsidiaries are co-defendants in lawsuits pending in the United States in which plaintiffs are claiming damages arising from alleged exposure to products previously manufactured which contained asbestos. At the end of 2018, there were 1,383 asbestos-related claims outstanding in the US (2017: 1,657).

Following our triennial review of estimated future indemnity and defence costs in 2017 we have continued to monitor our claims experience and recognise a US asbestos provision of £48m (2017: £53m) in line with the actuarial decay model and the projected claims. The Group has comprehensive insurance cover for these cases and as a result recognises a corresponding insurance asset. Full details of the provision, plus related insurance receivable, are provided in note 21.

#### Key accounting and policy judgements

The key accounting and policy judgements are contained within note 2 to the Group financial statements on page 128.

#### Earnings per share

Earnings per share from continuing operations (before exceptional items and intangibles amortisation) increased by 3% to 94.7p (2017: 91.7p). Reported earnings per share including exceptional items, intangibles amortisation and profit from discontinued operations was 7.4p (2017: 72.7p). The weighted average number of shares in issue increased to 244.1m (2017: 219.9m) following the issue of 33.5m shares during the year in respect of the ESCO acquisition and 1.4m in respect of scrip dividends.

#### Dividend

The Board is recommending a final dividend of 30.45p resulting in a total dividend of 46.2p for the year, a 5% increase on 2017. Dividend cover (being the ratio of earnings per share from continuing operations before exceptional items and intangibles amortisation, to dividend per share) is 2.1 times. If approved at the Annual General Meeting, on 30 April 2019, the final cash dividend will be paid on 6 June 2019 to shareholders on the register as at 26 April 2019.



**John Heasley**

Chief Financial Officer

27 February 2019

# Operational Review: Weir Minerals

## Helping customers solve their challenges



**Ricardo Garib**  
Division President of Weir Minerals

**"Our divisional strategy focuses on building, maintaining and enhancing deeper customer relationships supported by a solutions mindset."**

### Market overview

In mining, robust commodity demand and ore grade declines contributed to ore production growth as customers continued to seek opportunities to debottleneck and increase throughput of existing mines.

Increased capital investment was mainly driven by brownfield expansions and optimisation projects with a small number of greenfield projects given final approval. The pipeline of opportunities continued to grow, although customers remained disciplined about committing to large-scale greenfield developments as they balanced competing priorities for cash. Investment was focused on commodities with the best medium-term prospects such as copper in Latin America, and gold and lithium in Australia. Macro concerns around trade wars and protectionism resulted in some commodity price moderation in the second half of the year; however, quotation activity remained strong. In oil sands, production continued to grow strongly with capex also focused on brownfield projects.

In non-mining markets, aggregates demand remained broadly positive, particularly in Europe and the US as investment in infrastructure and construction projects continued.

### Operating Review

The division's strategy focuses on building, maintaining and enhancing deep customer relationships supported by comprehensive on-the-ground presence, a solutions mindset and technology leadership in minerals processing.

### Highlights

- Safety – 32 % improvement in Total Incident Rate year on year, aided by division-wide safety stand-down and Life Saving Behaviours campaign
- Greater sales and engineering presence at customers sites and service centres contributing to over £93m of integrated solutions wins.
- Launch of Technical Learning Programs and regional Mill Circuit University training.

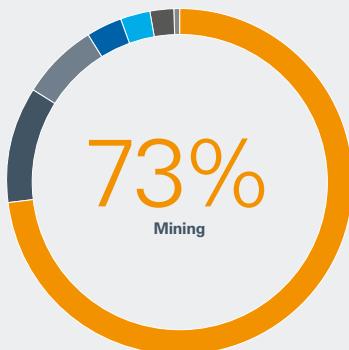
### Revenue<sup>1</sup> £m

**1,417** +13%

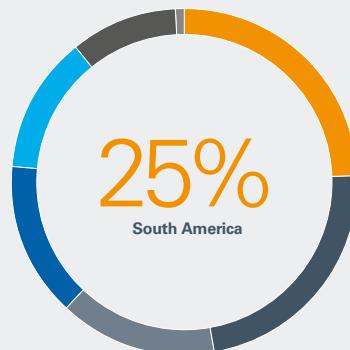
### Operating profit<sup>1,2</sup> £m

**250** +14%

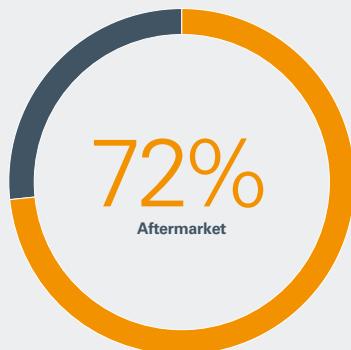
Divisional orders by end market



Divisional orders by geography



Revenue by original equipment/aftermarket



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In 2018, the division intensified its focus on training and development, particularly sharing product knowledge across customer-facing teams and developing project management skills and entrepreneurial leaders, including a strengthened comminution leadership team. It continued to benefit from earlier investment in deploying more sales and engineering experts to customer sites and dedicated more management time to visiting customers and understanding their needs. New service centres were opened in Africa, Australia, Russia, Peru, US and Canada to enhance the division's unrivalled global service network.

These actions contributed to an increase in orders from the integrated solutions initiative, which leverages the division's broad product portfolio. In addition, targeted aftermarket and trial programs facilitated an increase in market share for core product lines.

Technology programmes focused on incremental innovation and the development of digital tools to improve existing mining processes. This included commercialisation of Synertrex® enabled products for condition and performance monitoring, roll-out of Cloud for Service to support our service organisation and existing installed base, and Global Positioning System asset tracking of equipment.

The division developed customer-led technology roadmaps concentrated on how it can help deliver the mine of the future, with customers priorities focused on increased efficiency,

use of smart technology and sustainability. This included the expansion of the Melbourne-based Weir Technical Centre which provides innovative tailings solutions for customers worldwide. In addition, the division established a strategic cooperation agreement with separation technology specialists ANDRITZ, providing access to proven separation and dewatering technologies and products, enabling the division to provide a complete package of tailings solutions to customers.

To ensure that the division can deliver its long-term growth potential, it also developed plans to further optimise its foundry and manufacturing footprint. This included initial expansion projects in the UK and Australia and the exit from Malaysian foundry operations.

#### Outlook

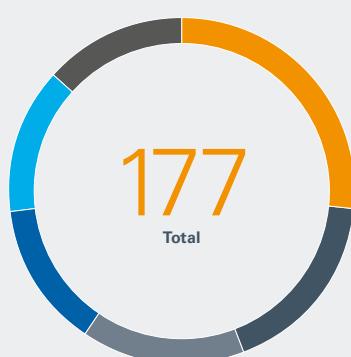
Assuming the current supportive market conditions continue, miners are expected to increase capital expenditure in 2019. Most expansion activity will be focused on brownfield with greenfield investment expected to remain a marginal contributor to overall market improvement, albeit with some increased activity versus 2018. Global ore production growth is expected to continue to support aftermarket demand. In 2019, reflecting the anticipated market context and consistent with this stage in the growth cycle, we expect the division to deliver broadly stable operating margins and good growth in constant currency revenues and profits.

## Our strategy in action: Using IoT to transform the mining industry



2018 saw the global launch of the Group's IoT (Internet of Things) platform, Synertrex®. Synertrex® is a cutting-edge IoT platform which harnesses the latest digital technology to transform productivity, foresee risk and enhance performance. Utilising cloud computing, it involves placing smart sensors on an array of Weir products which gather critical operating data for advanced analysis. The data is transformed into powerful insights which are relayed to the customer through a digital interface and can help to optimise equipment performance across an entire circuit.

Number of facilities



Europe	47
Asia Pacific	31
Australia	28
Africa and Middle East	24
Latin America	24
North America	23

Revenue<sup>1</sup>

2016	£1,179m
2017	£1,255m
2018	£1,417m

Operating profit<sup>1,2</sup>

2016	£243m
2017	£219m
2018	£250m

Total incident rate

2016	0.66
2017	0.58
2018	0.44

Headcount (Average)

2016	8,102
2017	8,506
2018	8,562

<sup>1</sup> Prior years restated at 2018 average exchange rates. 2017 restated for IFRS 15 revenue from contracts with customers.

<sup>2</sup> Adjusted to exclude exceptional items and intangibles amortisation.

## Operational Review: Weir Minerals

# Celebrating 80 years of innovation

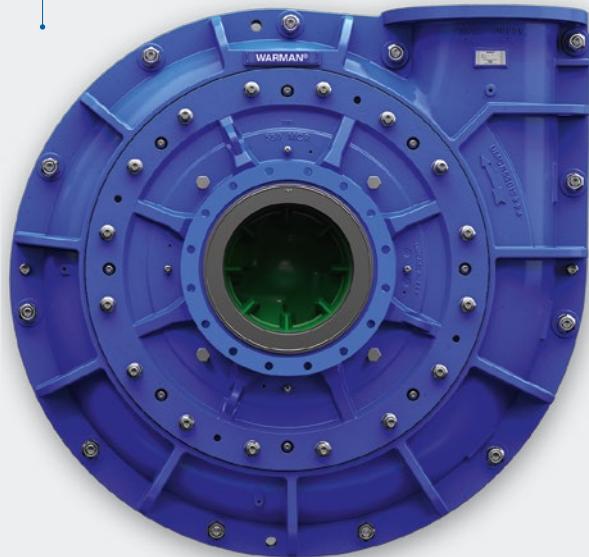
### Warman® AH®

The Warman® AH® pump is the world's standard for heavy duties. A wide variety of impellers and shaft seals provide a perfect fit for a wide range of applications.



### Warman® MCR® 550

Warman® mill circuit duty slurry pumps are designed for the most aggressive duties and provide excellent wear life and reliability.

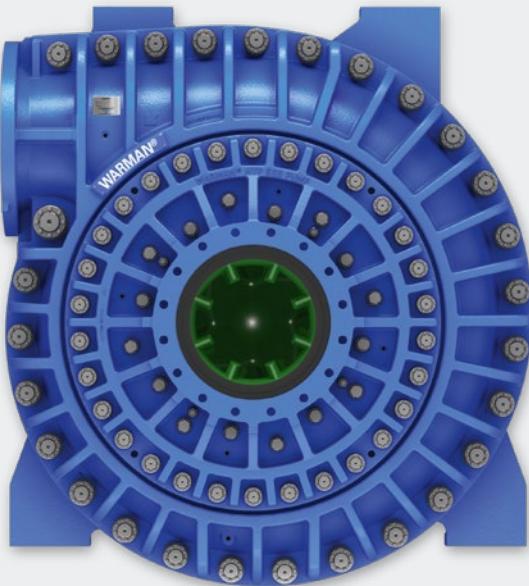


**Warman® WBH® 200**

The Warman® WBH® slurry pump range offers more than 20 enhancements to the state-of-the-art Warman® AH® slurry pump, including a fully adjustable and rotatable throatbush.

**Warman® HTP 650**

The Warman® HTP line represents the highest pressure-rated, large, lined pumps available with priority given to increased safety, wear life and reliability.

**80 years of the very best**

In 1938, Charles Warman came up with an idea that would revolutionise the mining industry. As soon as Warman®'s pumps came on to the scene, they became the very best money could buy.

Today, the Warman® pump has an unparalleled worldwide reputation in slurry pumping, commanding a leading share of the global mining market. There are few mining sites in the world where Warman® pumps cannot be found.

In honour of this legendary brand and innovator, Weir Minerals hosted an event at the end of May 2018 in Kalgoorlie, Western Australia, the birthplace of the first Warman® pump. Throughout the evening, attendees relived the brand's history and gained an insight into some of the future innovations planned.

Weir Minerals' capability of coming up with superior materials technology and superior designs, underpinned by fantastic service and support to customers, is what keeps the Division one step ahead of its competitors.

# Operational Review: ESCO

## A world leader in mining machine technology



**Jon Owens**  
**Division President of ESCO**

**"The division saw attractive regional opportunities and market share gains."**

### Market overview

The division benefited from the same macro mining trends as Minerals with commodity prices supporting increased ore production. Ground Engaging Tools (GET) on large mining machines are vital to the efficient extraction and transport of materials and there was strong demand for technologies that increase productivity, particularly in copper and gold, consistent with miners focus on cash generation and maximising output from existing mines. Iron ore and coal markets were stable, while in North America ongoing production in the oil sands supported consumables demand.

Non-mining markets, which represent around a third of divisional revenues, benefited from infrastructure investment in Europe and North America.

### Highlights

- 500th installation of a Nemisys® lip system achieved in 2018
- Increased market share with more than 100 machine conversions delivered in 2018
- Operational improvements included value chain excellence initiatives which delivered a record on-time delivery performance

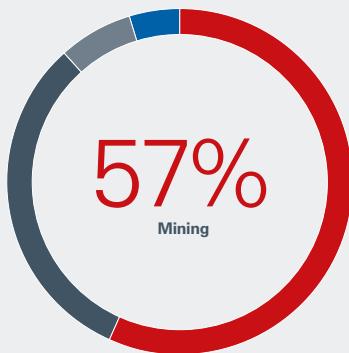
### Revenue £m

**252**

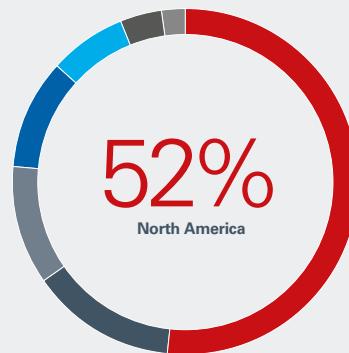
### Operating profit<sup>1</sup> £m

**33**

Divisional orders by end market



Divisional orders by geography



Revenue by original equipment/aftermarket



**Want to know more about our  
ESCO business?**

visit: [www.esco.weir](http://www.esco.weir)

## Operating Review

ESCO's strategy is to extend its market leadership position in GET through technology leadership and customer proximity. This was accelerated with the integration into Weir and the opportunity to further globalise its offering, benefiting from the Group's extensive service network. It is also being supported by an upgraded customer relationship management platform which strengthened sales processes and positioned sales teams to better anticipate customer demands.

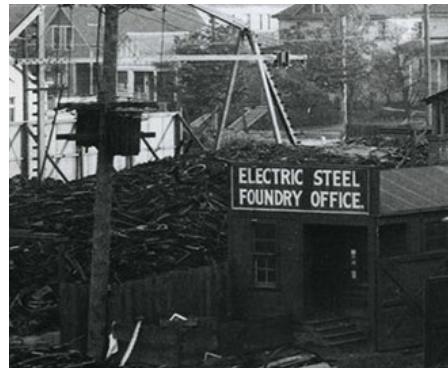
The division's focus on differentiated technology that drives customer productivity saw good market share gains for its Nemisys® lip system, which completed its 500th installation. Nemisys® can significantly reduce machine downtime with proprietary technology that reduces maintenance costs through improved reliability, and faster and safer replacement. Commercialisation of core product innovations, such as loss detection and its tooth removal system, also strengthened the division's technology leadership while enabling customers to improve the safety of their operations.

Operational improvements included value chain excellence initiatives which delivered a record on-time delivery performance, increased forecast accuracy and optimised inventory positioning. To help the division become a zero-harm workplace there was investment in Safety, Health & Environmental programmes at operational sites, with further investment planned for 2019.

The division delivered annualised cost synergies of \$15m, with phasing ahead of initial expectations. It also identified potential revenue synergy opportunities for both ESCO and Minerals of at least \$50m, leveraging Minerals service capability and ESCO's distribution networks in North America and Europe.

### Outlook

Looking forward and assuming supportive market conditions continue, the division expects to deliver good growth in constant currency revenues. Further margin progression will be supported by the ongoing delivery of cost and revenue synergies and operational improvements.



## Timeline: A brief history of ESCO

### 1910's – A company is founded

The ESCO story began as the dream of Portland, Oregon industrialist C.F. Swigert. He saw the need for a local source of steel castings for his own businesses and, the growing wood products industry. The Electric Steel Foundry Company is founded on July 13th, 1913, which will later come to be known as ESCO.

### 1930's – New alloys, facilities and products

After surviving the Great Depression, ESCO opened locations in Eugene, Seattle, San Francisco, Los Angeles and Honolulu to better serve a growing customer base. The company begins to diversify its product portfolio and expand into new markets.

### 1950's – Expansion into the Nuclear Power Industry

In the 1950s, the company seized the opportunity to participate in the promising nuclear power industry. Sophisticated manufacturing and inspection technology was added which allowed ESCO to produce very high quality, high specification components for thermal power plants and the US Navy

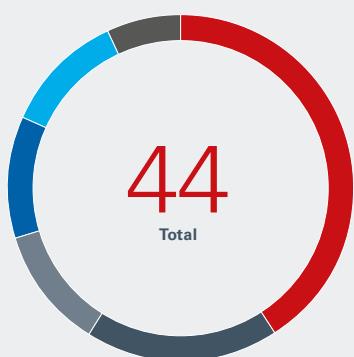
### 1960's – 2000's – Growth and Profitability

In the early 1960s, the patented two-piece, expendable conical tooth system established ESCO as the industry's leading innovator in both products and metallurgy. In the subsequent decades, the company refocused its business model to support the production of Ground Engaging Tools.

### 2010's – Present Day

ESCO celebrated its 100-year anniversary in 2013 as new product development began to pick up pace. The Nemisys® lip system was the first of several new products to be introduced. In July 2018, ESCO is acquired by the Weir Group PLC.

#### Number of facilities



North America	18
South America	8
Europe	5
Africa	5
Asia Pacific	5
Australasia	3

#### Revenue

2018 £252m

ESCO was only acquired in July 2018 and fully comparable financial data is not available.

#### Operating profit<sup>1</sup>

2018 £33m

ESCO was only acquired in July 2018 and fully comparable financial data is not available.

<sup>1</sup> Adjusted to exclude exceptional items and intangibles amortisation.

## Operational Review: ESCO

# Performance enhancing proprietary technology

### Nemisys® N70

ESCO products are trusted at mines worldwide for improving productivity and safety. ESCO's Nemisys® lip system is engineered to deliver these same benefits.

Replacing the ESCO EverSharp® lip system and Posilok® Plus tooth system, all Nemisys components have been resized to better match today's machines and feature a streamlined profile for optimised production and machine working cycles.

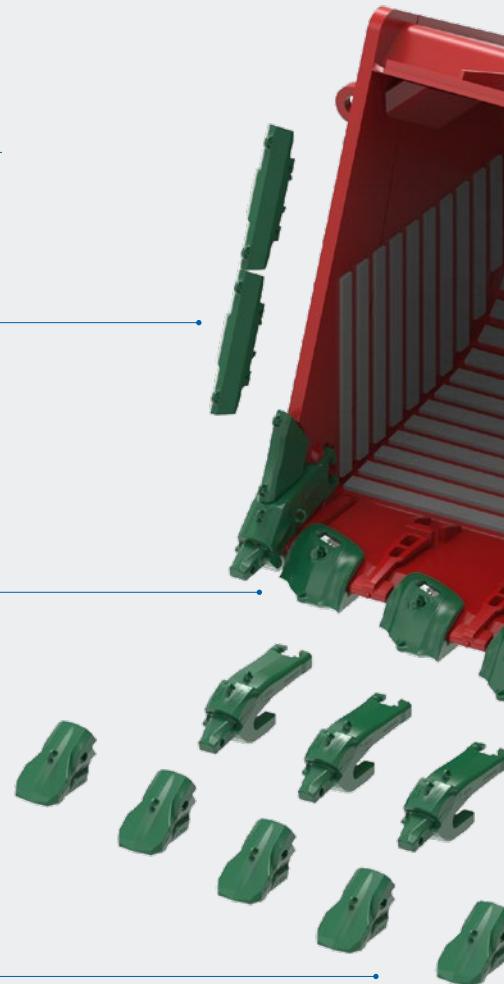
The hammerless tooth and shroud systems help reduce maintenance costs through improved reliability, faster and safer replacement, and improved lip coverage.

#### Toplok® Wing Shrouds

Mechanically attached upper and lower wing shrouds provide optimum bucket protection in severe conditions. The hinge pin locking system offers easy in-field replacement.

#### Nemisys® Lip Shroud System

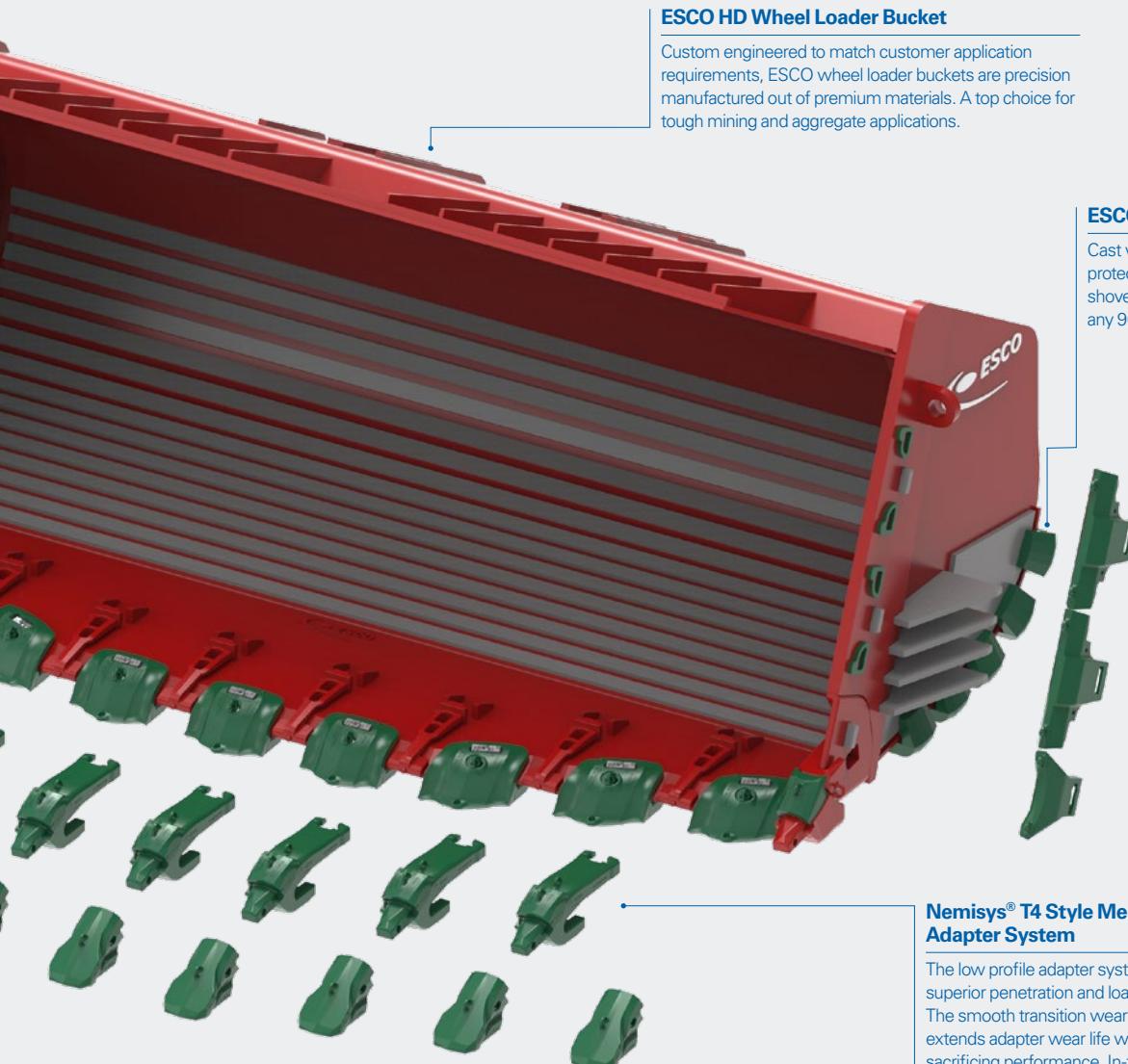
Engineered for loader plate lip systems, the streamlined profile promotes bucket filling while providing maximum lip protection. The integrated hinge pin lock provides the easiest and fastest shroud replacement available.



#### Nemisys® N70 Loader Teeth

A selection of abrasion/penetration teeth that were developed specifically for wheel loader applications. The integrated side lock has field-proven reliability and allows for faster and easier tooth replacement.





## A record-breaking year for the ESCO Division

Shortly after the acquisition by the Group, the ESCO Division announced it had sold its 500th Nemisys Lip System. This landmark further cements ESCO's place at the forefront of the GET market and emphasises the Division's strong performance in these highly abrasive markets.

ESCO also shipped over 4,000 excavator buckets in 2018, marking a company best, and a record year for its construction attachments business. The major milestone reflects a notable increase of more than 1,000 buckets from last year, and a collaborative, coordinated effort between sales, supply chain, manufacturing, products and engineering.

# Operational Review: Weir Oil & Gas

## Focusing on technology and customer service



**Paul Coppinger**  
Division President of Weir Oil & Gas

"The division is focused on differentiating its offering through innovation and customer service."

### Market overview

The first half of 2018 saw strong growth in North American upstream oil and gas markets as oilfield service companies refurbished frack fleets in response to increased demand and anticipated strong growth throughout the year.

Market conditions changed early in the third quarter as concerns over capacity constraints in the Permian basin and the exhaustion of E&P budgets ahead of schedule led to a reduction in frack fleet utilisation, which fell to approximately 60%. This led to overcapacity in oilfield services markets that consequently impacted demand for pressure pumping original equipment. Aftermarket demand was affected by some cannibalisation of idle fleets and an extended seasonal break, which started at Thanksgiving, ahead of normal patterns. The number of drilled but uncompleted wells grew by 31% in the USA but 75% in the Permian reflecting the lack of takeaway capacity.

International markets remained challenging although they did continue to show some early signs of recovery with project quotation activity increasing.

### Operating Review

The division is focused on differentiating its offering through innovation and customer service and in the first half of the year responded quickly to strong demand for its solutions, achieving good market share gains in pumps and flow iron.

### Highlights

- Safety: TIR improved 11% supported by a successful Life Saving Behaviour campaign and increasing mentoring
- Improved customer management and voice of customer initiatives with the implementation of enhanced Customer Relationship Management platform.
- Invested in future leaders by expanding the rotational programme to include individuals from all functions

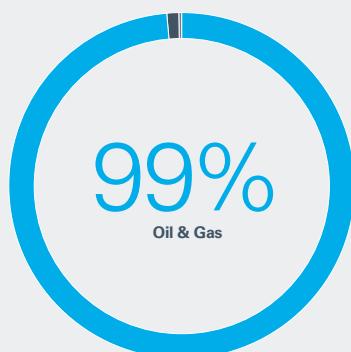
### Revenue<sup>1</sup> £m

**781** +19%

### Operating profit<sup>1,2</sup> £m

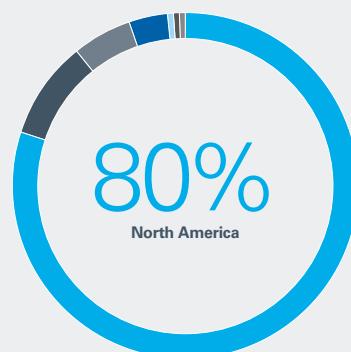
**96** +8%

Divisional orders by end market



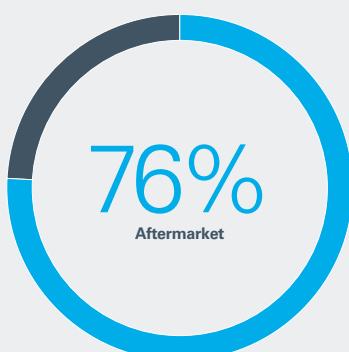
Oil & Gas	99%
Industrial	0.8%
Power Generation	0.2%

Divisional orders by geography



North America	80%
Middle East	9.2%
Asia Pacific	5.6%
Europe and Former Soviet Union	3.7%
Australasia	0.6%
South America	0.5%
Africa	0.4%

Revenue by original equipment/aftermarket



Aftermarket	76%
Original Equipment	24%

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Weir Oil & Gas business?**

 visit: [www.oilandgas.weir](http://www.oilandgas.weir)

The latter part of the year was more challenging as a result of market conditions and the temporary impact on orders of a specific legacy product performance issue. This was fully addressed in the fourth quarter by retrofitting current technology into the legacy design. Investment in research and development supported a range of new product introductions including the SPM® Simplified Frac Iron including the large bore and advances to the SPM® Asset Management Program (AMP) which can reduce customer asset tracking time by nearly 90%.

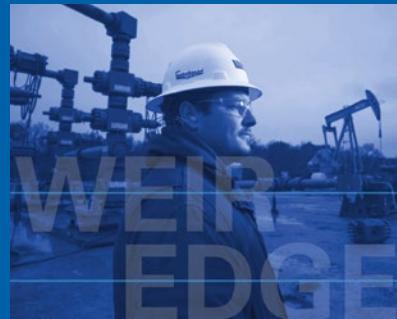
The division broke ground and will open in the first quarter of 2019 a c.100,000 square-foot state of the art customer service facility located in the Permian Basin, the United States' most active oil producing region. Additionally, its Weir Edge Service was developed to leverage the division's field-engineering experts in the U.S. who provide root-cause analysis and 24/7 technical support across major shale basins to reduce customers' non-productive time. Globalisation of the division's pressure control offering resulted in large wellhead orders from key Middle East operators including ADNOC, DNOC and KOC and it continued to strengthen local workforce development to support its 'Rig to Grid' offering of integrated solutions.

Operational and system improvements, supply chain enhancements and investing in its people continued to increase labour productivity across the division.

### Outlook

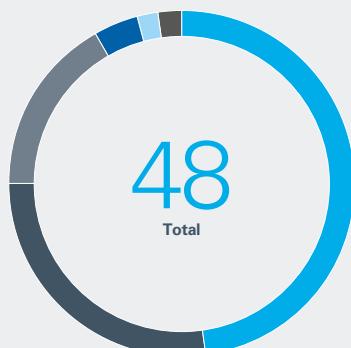
Given recent oil price volatility and capital constraints in North America, operators have adopted a cautious approach to activity in 2019 with E&P capex, frack pump horsepower additions and well completions expected to decline year-on-year. Although pipeline additions in the Permian will add substantial takeaway capacity it is currently expected that this will translate into only a modest pick-up from current activity levels. Assuming these conditions endure the division expects to see lower constant currency revenues with operating profit expected to in the £55m-£95m range.

### Our strategy in action: Providing the Weir Edge



A major oilfield service provider saw nearly a 50% reduction in valve and seat costs with the support of the Oil & Gas Weir Edge Services offering. The service company followed traditional maintenance intervals when replacing valves and seats in their frack pumps until the field engineering team from Weir helped them understand the wear patterns and extended life of the SPM® Valve 2.0. By being with the customer in the field to provide interval inspections, the Weir team was able to guide the customer to utilize the SPM® Valve 2.0 for its full extended life thus improving costs of valve and seats by 50%.

#### Number of facilities



North America	23
Asia Pacific	13
Africa and Middle East	8
Australia	2
Europe	1
Latin America	1

#### Revenue<sup>1</sup>



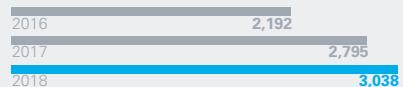
#### Operating profit<sup>1,2</sup>



#### Total incident rate



#### Headcount (Average)



<sup>1</sup> Prior years restated at 2018 average exchange rates. 2017 restated for IFRS 15 revenue from contracts with customers.

<sup>2</sup> Adjusted to exclude exceptional items and intangibles amortisation.

## Operational Review: Weir Oil & Gas

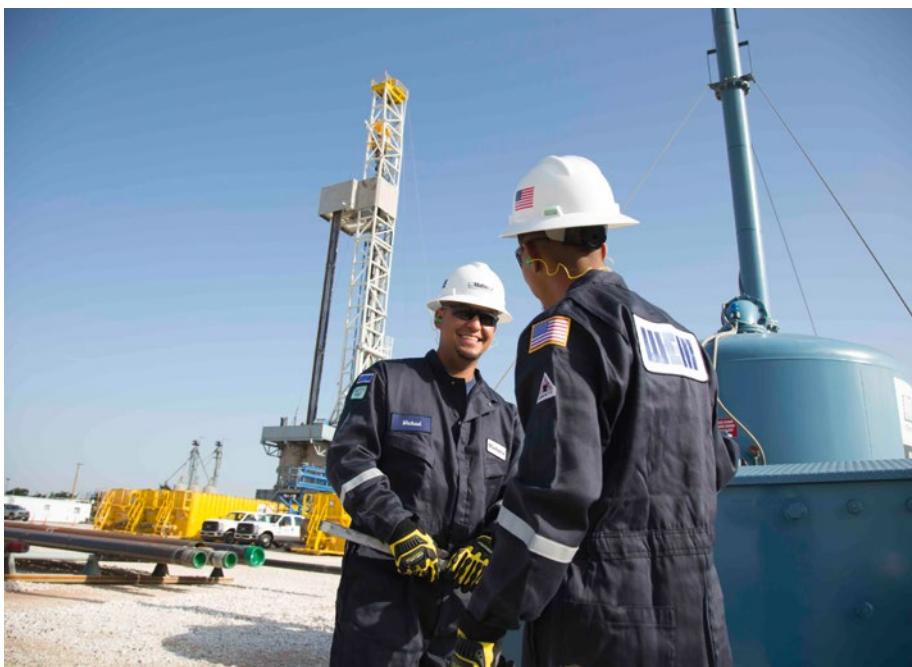
# More customers choose our pressure pumping solutions than any other

### Re-engineering the bottom line

Given their complexity, upstream challenges normally demand more than stock solutions. As a company with a proud engineering heritage, Weir is constantly looking at ways to help customers not only solve their problems, but rethink about the ways they can make the greatest impact in the areas that matter most.

Over recent years, we have attempted to re-engineer and re-think our approach to the frack site, an extreme environment that traditionally reveals vulnerabilities in equipment, productivity and safety. From our One Single Line (OSL) solution, to our groundbreaking SPM® pumps, Weir is constantly looking at ways to solve customers' problems in some of the most challenging environments on earth.

From rig to refinery, we have developed new workflows and technologies, Intelligent Systems, RFID inventory controls and more.



**Unitized Lock-Ring Wellhead (ULR)**

Collaborating closely with customers, Weir has designed the Unitized Lock-Ring Wellhead (ULR) to more effectively minimise the time, risk, and costs associated with surface wellhead installations.

With newly standardised components, the 13 5/8" ULR is compatible with 95% of casing configurations, which means faster deliveries and simplified supply chains. It also means expanded applications in Canada and Latin America, beyond U.S. land projects.

This latest generation is a thousand pounds lighter than its predecessor, further reducing equipment stress.

The ULR is one in a line of proven, streamlined wellhead systems with customised improvements. Developed through close collaboration with customers, our second-generation advancements in the ULR are designed to further improve safety, reduce installation time and lower costs while accommodating ever-deeper wells.

**Upgraded sealing**

Our upgraded sealing offers greater chemical compatibility and reliability for deeper wells.

**Production casing hanger**

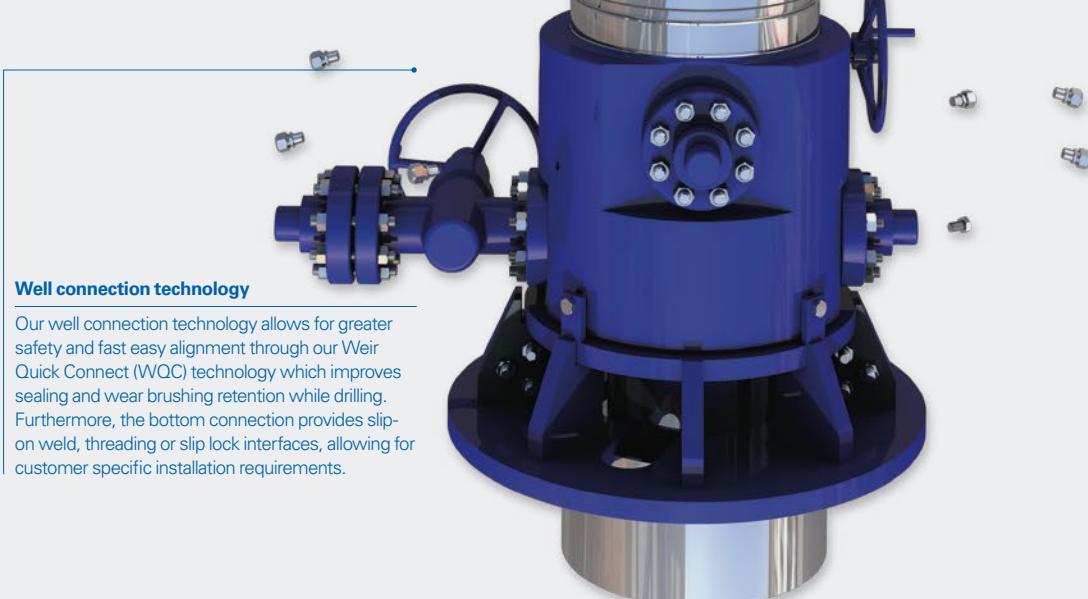
System designed for API and ISO quality management system and design standards.

**Integral lock-ring seal**

Assemblies and interference seals replace numerous lock screws, which can be potential leak paths.

**Mandrel casing hangers**

Now with rotating capabilities, the casing hangers now provide the means to run, land, circulate and cement the casing through the rotary table and BOP meaning no cutting, welding or grinding are required.

**Well connection technology**

Our well connection technology allows for greater safety and fast easy alignment through our Weir Quick Connect (WQC) technology which improves sealing and wear brushing retention while drilling. Furthermore, the bottom connection provides slip-on weld, threading or slip lock interfaces, allowing for customer specific installation requirements.

# Operational Review: Flow Control

## New strategy yields results

### Introduction

Weir Flow Control designs and manufactures valves and pumps as well as providing specialist support services to the global power generation, industrial, oil and gas and other aftermarket-oriented process industries.

Following the announcement that the Group intended to sell the Flow Control division, the division was classified as held for sale. Previously reported as an individual reporting segment, the division is now reported as a discontinued operation

### Market overview

New nuclear developments in the UK and a number of large nuclear valve orders in Asia supported improved demand for original equipment while, with the exception of coal, power markets also supported continuing aftermarket momentum. Project activity in downstream oil and gas also improved and the strong recovery in refinery maintenance continued.

### Strategic Review

The division showed encouraging results from its strategy of globalising its sales and marketing capability to fully leverage its valve and pump product portfolio. It expanded its installed base in attractive long-term nuclear markets in both the UK and Korea. The division also delivered a seventh consecutive quarter of year-on-year aftermarket growth as it leveraged its installed base, particularly in downstream oil and gas markets. Good progress was made in the operational turnaround of the business following the operating losses incurred in 2017.

### Revenue<sup>1</sup> £m

343 -4%

### Operating profit<sup>1,2</sup> £m

23 +407%

<sup>1</sup> Prior years restated at 2018 average exchange rates. 2017 restated for IFRS 15 revenue from contracts with customers.

<sup>2</sup> Adjusted to exclude exceptional items and intangibles amortisation.

# Risk Review

## Managing risk effectively

### Introduction

**We operate in a complex global environment, where opportunities come with corresponding risks. Because our markets are dispersed and decentralised, our objective is to allow our people to be decisive, so we can take advantage of attractive opportunities whilst ensuring we are not exposing the organisation to excessive risk.**

#### The risk agenda

During the year, the Board has reviewed the effectiveness of the systems of risk management and internal control and conducted a robust assessment of the principal risks affecting the Group in line with the Risk Appetite Statement. These activities meet the Board's responsibilities in connection with Risk Management and Internal Control set out in the UK Corporate Governance Code.

The aim of the Risk Appetite Statement remains to highlight the risks that we should be willing to take, as well as those which are unacceptable. The statement includes a series of risk assertions which are aligned to our strategy, together with the risk parameters within which we expect our people to work. The risk appetite is all of the risk assertions and the parameters taken together. The parameters can apply to more than one risk assertion, and therefore the individual risk assertions should not be read in isolation. Compliance with the Risk Appetite Statement is monitored through the Group's functional and front line controls including oversight and reporting mechanisms. The Board will continue to review and update the Risk Appetite Statement on an annual basis.

Details of the review of the internal control and risk management systems undertaken during the year are contained in the Audit Committee Report on page 87.

#### Risk management

The management of risks is at the core of the internal control framework. We have a risk management policy which defines how we expect risks to be identified, assessed and managed throughout the organisation.

Risks are assessed, and quantified, in terms of impact and likelihood of occurrence, both before and after control mitigation. Assessing the gross risk before control mitigation allows the business to review the relative impact of the existing controls by comparing the gross and net risk assessment. This also allows the business to avoid wasting resources on mitigating controls and actions which have a negligible impact on the risk assessment.

The impact of risks is quantified across a range of factors including: financial; strategy; reputation; people and property; ability to perform services; regulation; safety, health and environment; and investors and funding. The risk management policy includes defined criteria for each risk impact factor, supporting a consistent measurement approach. Risk management takes place at the grassroots level, for example in individual projects,

all the way up to Group level assessments, thereby providing an integrated bottom-up and top-down approach to risk management.

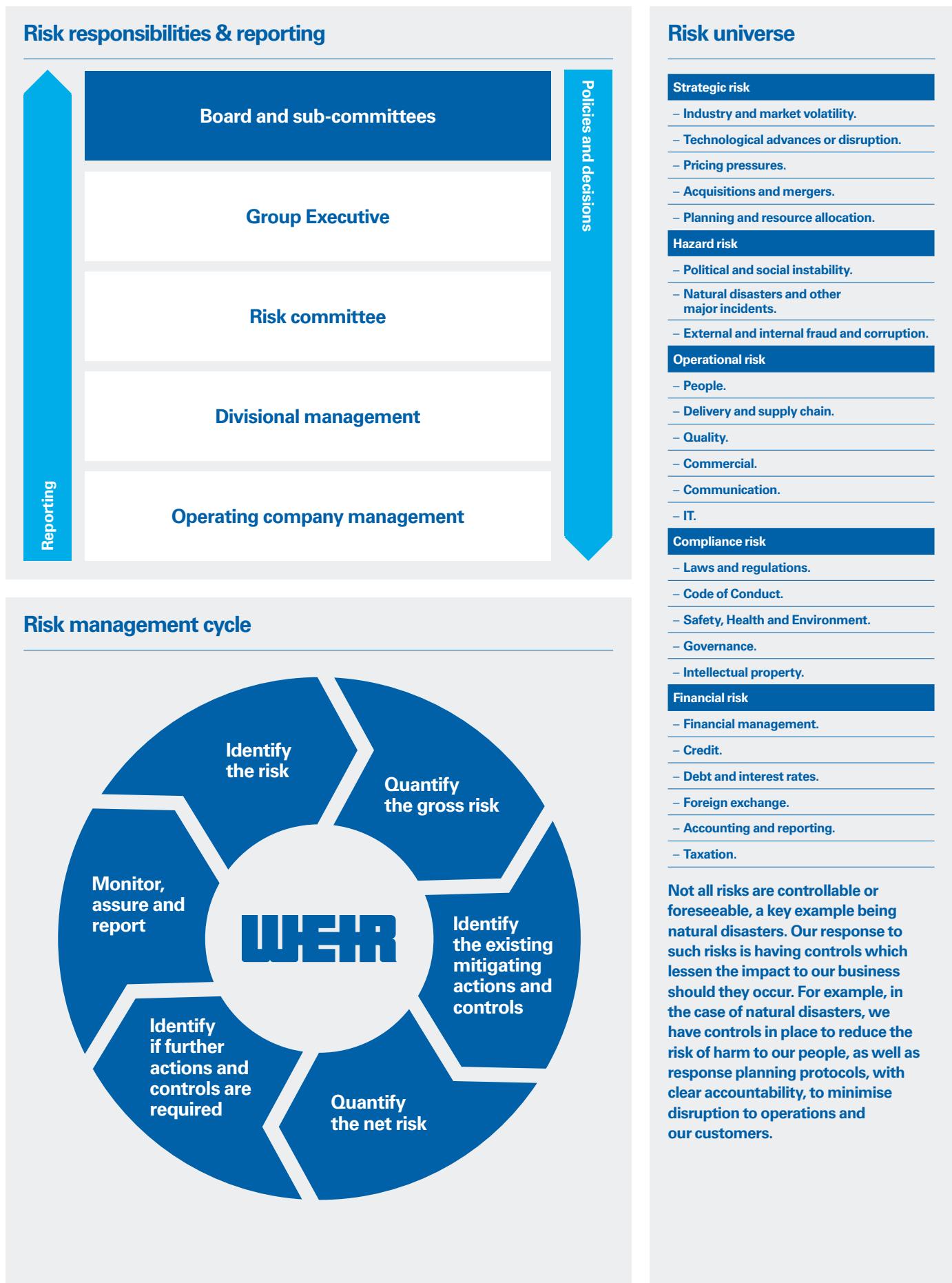
Ultimately, the Board is responsible for the Group's risk and internal control framework. It has set out the decisions, and hence the level of risk, which can be delegated to the Group Executive and divisional and operational company management without requiring escalation. This is articulated in a series of Group policies and delegated authority matrices, as well as the parameters within the approved Risk Appetite Statement. The Board and committee structure can be viewed on page 74.

The bottom-up risk reporting approach requires key risks identified, and reported, at project level to be escalated to the operating company management, which in turn may be escalated to divisional management, and ultimately to the Risk Committee and the Board. This is achieved through risk dashboard reports, which are maintained at divisional and Group levels. The dashboards provide a summary of the major net risks at each respective level, as well as a summary of the key mitigating controls and actions, and further control actions required.

The Risk Committee monitors quarterly risk dashboard reports from the divisions. In addition, the Risk Committee has oversight of the Group Risk Dashboard, along with a routine review of key controls identified to manage each risk and the sources of controls assurance, providing an update to the Board at each Board meeting. The Board obtains assurance over risks and risk management through the internal control framework. More information on the internal control framework can be found within the Corporate Governance Report on page 73 and within the Audit Committee Report on page 87.

The specific risks identified across the business generally fall under one of the categories within the 'Risk Universe' as shown overleaf.

## Risk Review continued



## Risk Appetite Statement

**The Weir Group is strategically positioned in markets with good long-term growth prospects. We will pursue ambitious growth targets, and we are willing to accept a higher level of risk to increase the likelihood of achieving or exceeding our strategic priorities, subject to the parameters below.**

Risk assertions	Risk parameters
<b>1. Organic growth</b> We will rigorously pursue divisional organic growth strategies to meet our market growth objectives.	Investment of resources will be consistent with divisional strategies and expected divisional compound annual growth rates over five year plans.
<b>2. Mergers and acquisitions (M&amp;A)</b> We will actively pursue M&A opportunities that enhance our strategic platform subject to meeting investment criteria.	Post-tax returns should exceed our cost of capital within three years of the acquisition.
<b>3. Returns and profitability</b> We will not pursue growth at all costs, however, we expect high margins, strong returns on capital and working capital discipline together with cash generation.	Short term margin dilution is acceptable in gaining market entry but over the cycle we aim for top quartile operating margins and returns on capital.
<b>4. Capital allocation</b> We will encourage capital expenditure in pursuit of our growth ambitions subject to Internal Rate of Return (IRR) hurdles and capital structure targets.	Local country cash flow projections for investment appraisal purposes discounted at country specific rates to account for risk weighted returns.
<b>5. Capital structure</b> We are prepared to use leverage in pursuit of our growth agenda and will actively seek low cost debt to fund the Group but, recognising cyclical in our end markets, will maintain significant headroom against our financial covenants.	We will seek to maintain the ratio of net debt/EBITDA below two times (current financial covenants 3.5 times) and will retain adequate headroom within our debt facilities at all times.
<b>6. Reputation and stakeholders</b> We will avoid/manage situations or actions that could have a negative impact on our reputation and stakeholders. We aim to be transparent with all of our stakeholders unless prejudicial to our collective interests.	No tolerance for breaches of: <ul style="list-style-type: none"> <li>• Legislative/statutory requirements.</li> <li>• Weir Code of Conduct.</li> <li>• International sanctions.</li> <li>• Delegated authority levels.</li> <li>• Group and divisional policies.</li> </ul>
<b>7. Safety, Health and Environment (SHE)</b> We will not undertake or pursue activities that pose unacceptable hazard or risk to our people, the communities in which we operate, or the broader environment.	<ul style="list-style-type: none"> <li>• No tolerance for breaches of Weir Group Safety, Health and Environment Charter.</li> <li>• Active community and environmental engagement is expected.</li> </ul>
<b>8. Country presence</b> We are prepared to enter new countries which offer opportunities for growth consistent with our overall strategy. We will not enter, or will exit, countries which present a high risk of harm to our people, damage to our reputation, or breach of international sanctions.	No tolerance for breaches of: <ul style="list-style-type: none"> <li>• Legislative/statutory requirements.</li> <li>• Weir Code of Conduct.</li> <li>• International sanctions.</li> <li>• Delegated authority levels.</li> <li>• Group and divisional policies.</li> </ul>
<b>9. Innovation</b> We will invest in technology, research and development to innovate our customer offering allowing us to maintain and expand our market share.	Target research and development spend of 2% of revenues.

## Risk Review continued

### Role and responsibilities

The key roles and responsibilities for risk management are set out below.

Group	Risk management responsibilities
<b>Board</b> Overall responsibility for the Group's risk management and internal control frameworks, and strategic decisions within the Group.	<ul style="list-style-type: none"> <li>Annual review and ongoing monitoring of the effectiveness of the risk management and internal control frameworks.</li> <li>Annual review of the Group's risk appetite.</li> <li>Principal risks presented in every CEO report.</li> <li>On a bi-annual basis, receive a report from the Risk Committee which sets out the current assessment of each principal risk, the effect of mitigating controls on each risk, the direction of travel of each risk versus the prior year, the extent to which each could potentially impact the Group's strategic goals and any relevant findings relating to significant control failings or weaknesses which have been identified.</li> <li>Taking decisions in accordance with the delegated authority matrices.</li> </ul>
<b>Audit Committee</b> Delegated responsibility from the Board to review the effectiveness of the Group's risk and internal control frameworks.	<ul style="list-style-type: none"> <li>Annual assessment of the effectiveness of the risk management and internal control frameworks.</li> <li>Review of reports from the internal and external auditors.</li> <li>Review of the results from the six-monthly self-assessment compliance scorecards.</li> </ul>
<b>Group Executive</b> Executive committee with overall responsibility for managing the Group to ensure it achieves its strategic objectives.	<ul style="list-style-type: none"> <li>Managing risks which have the potential to impact the delivery of the Group's strategic objectives.</li> <li>Monitoring business performance, in particular key performance indicators relating to strategic objectives.</li> <li>Taking strategic decisions in accordance with the delegated authority matrices.</li> <li>Escalating issues to the Board as required.</li> </ul>
<b>Risk Committee</b> Management committee responsible for governance of the Group's Risk Management Policy and Framework.	<ul style="list-style-type: none"> <li>Review of the design and operation of the Group Risk Management Policy and Framework.</li> <li>Identification and assessment of the key risks facing the Group, identification of the key controls mitigating those risks and identification of further actions where necessary.</li> <li>Review of the Divisional Risk Dashboards, considering the appropriateness of management's responses to identified risks and assessing whether there are any gaps.</li> <li>Reporting key Group and divisional risks to the Board.</li> </ul>
<b>Chief Executive's Safety Committee</b> Safety Committee with responsibility to set and monitor the Group's SHE principles, priorities and actions.	<ul style="list-style-type: none"> <li>Executive Committee representation to drive improvements in our safety performance throughout the Group.</li> </ul>
<b>Excellence Committees</b> – Engineering – Safety, Health and Environment – Finance – HR – Group Information Services – Value Chain  Management committees with representatives from across the Group in their respective areas of focus. The committees govern activities and performance in the individual functional areas.	<ul style="list-style-type: none"> <li>Monitoring the management of key risks across the Group associated with the respective remits of the Excellence Committees.</li> <li>Monitoring performance and compliance with Group objectives, policies and standards related to the respective remits of the Excellence Committees.</li> <li>Taking decisions in accordance with the delegated authority matrices.</li> <li>Escalating issues to the Group Executive as required.</li> <li>Reviewing the results from relevant assurance activities.</li> </ul>
<b>Divisional management</b> Responsible for managing the businesses within the divisions to ensure divisional strategic objectives are achieved and there is compliance with Group policies and standards throughout their division.	<ul style="list-style-type: none"> <li>Managing risks which have the potential to impact the delivery of the division's strategic objectives.</li> <li>Monitoring performance and compliance with Group objectives, policies and standards within the divisions and with regard to the outputs from the Excellence Committees.</li> <li>Taking decisions in accordance with the delegated authority matrices.</li> <li>Escalating issues to the Group Executive as required.</li> <li>Reviewing the results from relevant assurance activities.</li> </ul>
<b>Operating company management</b> Responsible for ensuring company objectives are achieved and business activities are conducted in accordance with Group policies and standards.	<ul style="list-style-type: none"> <li>Managing risks which have the potential to impact the delivery of their company's strategic objectives.</li> <li>Monitoring performance and compliance with Group objectives, policies and standards within their company.</li> <li>Taking decisions in accordance with the delegated authority matrices.</li> <li>Escalating issues to divisional management and Excellence Committees as required.</li> <li>Reviewing the results from relevant assurance activities.</li> </ul>

# Principal risks and uncertainties

## Introduction

**As in any business, there are risks and uncertainties which could impact the Group's ability to achieve its objectives in the future. The Group's risk management and assurance framework is designed to make this less likely by clearly identifying and seeking to mitigate key risks.**

The Board has conducted a robust assessment of the principal risks, alongside the Risk Appetite Statement set out on page 49, meeting the Board's responsibilities in connection with Risk Management and Internal Control detailed in the UK Corporate Governance Code. Each of the principal risks is assigned an owner from amongst the Board or Group senior management team and is either a standing agenda item at each Board meeting or subject to formal periodic review by the Board. A summary of principal risks and the Group's mitigating controls is presented at every Board meeting.

The Directors reviewed the Group's risk register, reassessed the validity of the principal risks identified in the prior year and considered whether any new principal risks have emerged or a risk is no longer considered a principal risk. The identified principal risks were subjected to a detailed assessment based on the following considerations:

- Severity of each risk;
- Existence and effectiveness of actions and internal controls which serve to mitigate the risk;
- The overall effectiveness of the Group's control environment, including assurance and any identified control weaknesses; and

- The extent to which each of the principal risks could impact upon the Group's viability, in financial or operational terms, due to their potential effects on the business plan, solvency or liquidity.

The principal risks set out on pages 51 to 55 are those which we believe to have the greatest potential to impact our ability to achieve the Group's strategic objectives or which have the greatest potential impact on the Group's solvency or liquidity.

Strategy	Risk Trend
 People	 Increasing
 Customers	 Decreasing
 Technology	 No change
 Performance	
Viability Statement	

## Technology and innovation



**Failure to innovate or to react to emerging technology developments, and therefore fail to ensure that the business continues to deliver sustainable and attractive solutions for our customers.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
   	<p>The strength of our business is built upon a history of delivering innovative and sustainable solutions for our customers. If we fail to keep abreast of market needs or to innovate solutions, we are at risk of losing market share to our competitors and lowering margins as demand will reduce.</p>	<p>Our existing research and development initiatives within the business, at Weir Advanced Research Centre, are enhanced through partnerships with certain leading universities around the world. These partnerships are designed to help the Group develop game-changing solutions to our customers' challenges and respond to their changing needs.</p> <p>We devote skilled resource to reviewing and responding to developing technologies, with our agreements with specialist external parties to develop Internet of Things (IoT) technology.</p> <p>Engineering strategies are in place at Group and divisional levels with strategic innovation areas defined as part of the innovation strategy.</p>	<p>Technological innovation continues to be at the forefront of the business due to the increasingly competitive market and the pressure to provide customers solutions to improve the efficiency of their operations.</p> <p>Further information on progress made in this area is set out in the Products and Technology section of the Technology Review on pages 12-13.</p> <p>Continued execution of the Technology Vision and Strategy through the year. The Innovation Strategy process has been defined, organisational structures established, and Group and divisional engineering strategies are in place.</p> <p>The Weir Innovation Network was developed in order to improve knowledge sharing and collaboration across the Group.</p>
Risk trend			
			

## Principal risks and uncertainties continued

### Market volatility

**Changes in key markets, including commodity prices affecting mining and oil and gas, have an adverse impact on customers' expenditure plans. This may include delaying existing expenditure commitments. As markets improve we may fail to effectively upscale operations to meet customer needs.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
  	<p>We need to remain sufficiently flexible to allow us to anticipate downturns, to allow us to adjust our operations accordingly, and equally to meet growth in demand when our customers' markets are buoyant and therefore capital investment is high. Otherwise, we are at risk of incurring unnecessary costs during downturns, and not maximising our potential for growth in buoyant markets.</p> <p>In challenging market conditions, our value chain risks are increased. These are described in more detail on page 53.</p>	<p>We maintain regular engagement with our customers to understand their needs and challenges, and ensure our business is appropriately aligned.</p> <p>Improved demand planning and forecasting including Sales and Operations Planning within VCE.</p> <p>Our strategic planning utilises extensive market intelligence to assist in forecasting opportunities and dips in markets.</p> <p>We maintain contingency plans for downturns.</p>	<p>Global macroeconomic concerns around demand and geopolitical concerns around supply have caused oil prices to decline sharply in last quarter of 2018.</p> <p>Other commodity markets are showing continued signs of recovery.</p> <p>We continue to focus on customer relationships, technology development and Value Chain Excellence to manage this risk.</p>
Risk trend			

### Information Technology and Cyber Security

**Failure to maintain business systems or technical infrastructure that serves the business needs.**

**Failure to successfully execute changes to these business systems or technical infrastructure; together with failure to minimise disruption and maintain business as usual activity during technical infrastructure or business system changes.**

**Failure to adequately protect the business operations from cybercrime.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
 	<p>Up-to-date data allows us to make informed decisions about our business. Therefore, we require reliable and efficient IT systems and infrastructure to support our data requirements. Breaches of our IT security could have serious consequences for our business, including: interruption to business operations; and loss of intellectual property and other sensitive data.</p> <p>The Group is investing in a significant IT transformation programme. If this is not managed effectively, the consequences could include interruption to business operations if data is unavailable due to unsuccessful execution of change, impacting our ability to compete and our reputation in the market.</p> <p>At present, the Group's principal exposures to cybercrime relate to the misappropriation of cash and data. Our revenue streams are largely protected as our products are not currently electronic in nature and we do not, as a rule, transact over the internet.</p>	<p>We have an IT Governance Framework with a focus on structured change management techniques, including setting project governance levels in line with risk.</p> <p>Policies, procedures and baseline standards in relation to cyber risk and IT security more generally are continuously updated and rolled out to operations. A programme of user training in relation to cyber risk is in place.</p> <p>All security related incidents are reported to the Group Executive.</p> <p>Security Incident Responder teams monitor our various security systems.</p>	<p>IT security and continuity continues to be a matter of strategic priority for the Group in an environment of increasingly sophisticated cyber security threats. Progress to strengthen the Group's defences in this respect is being made through our IT Next programme.</p> <p>We continually review the effectiveness of our key IT security controls in consultation with external experts. We report upon any unplanned outages and potential security breaches, with lessons learned across the Group.</p> <p>Internal Audit coverage has been extended in 2018 to include increased focus on IT security and resilience.</p>
Risk trend			

## Value Chain Excellence

**Failure to achieve Value Chain Excellence improvements and the associated reduction in costs and enhanced flexibility.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
	<p>If we fail to improve our value chain management, we risk:</p> <ul style="list-style-type: none"> <li>• Losing the opportunity to invest capital into alternative value creating opportunities;</li> <li>• Damaging our reputation and as a consequence losing customers and market share;</li> <li>• Losing market position if the Group fails to demonstrate to customers the value of our products and services;</li> <li>• Incurring penalties as a result of late delivery contractual clauses;</li> <li>• Reducing margins by incurring unnecessary additional costs associated with late remedial actions taken to avoid missing delivery targets; and</li> <li>• Failing to respond to market upturns or downturns quickly enough to respond to market demand or manage costs.</li> </ul>	<p>Regular KPI monitoring of the value chain throughout the organisation.</p> <p>All businesses complete VCE self-assessments, including value stream segmentation, model design and improvement project identification.</p> <p>Value Chain Excellence initiatives have been operating throughout the Group to drive value chain improvements including expanding production in best cost countries.</p> <p>The Group's forward purchase commitments are being closely monitored to manage inventories at levels appropriate to market conditions.</p> <p>Our credit risk management procedures are under continuous appraisal and review.</p> <p>We regularly monitor market activity to ensure we remain competitive.</p>	<p>Value chain excellence is a key area of strategic focus for the Group with Value Chain Excellence initiatives continually developing and the Group realising the benefits of these.</p> <p>The VCE model has continued to develop with audits being performed across the Group providing additional assurance.</p>
<b>Risk trend</b> 			

## Safety, Health and Environment (SHE)

**Failure to adequately protect our people and other stakeholders from harm associated with a breach of SHE standards.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
	<p>We operate in hazardous environments, and therefore have a fundamental duty to protect our people and other stakeholders from harm whilst conducting our business. As well as the personal impact on our people resulting from a failure to meet this obligation, we would also be at risk of:</p> <ul style="list-style-type: none"> <li>• Reputational damage leading to a loss of customers;</li> <li>• Legal action from regulators, including fines and penalties; and</li> <li>• Exclusion from markets important for our future growth.</li> </ul>	<p>The Weir Behavioural Safety system is in place to reduce the risk of safety incidents. In addition, there are initiatives to prevent the most common accident types. The Weir global SHE standards are continually reviewed.</p> <p>The SHE Excellence Committee is responsible for monitoring performance and compliance with Group objectives, policies and standards relating to SHE.</p> <p>The Chief Executive's Safety Committee meets monthly and is committed to achieving the highest of SHE standards.</p> <p>There is a formal SHE assurance programme with issues escalated as required through the reporting structures.</p> <p>Improved SHE incident reporting tools which provide visibility and responsive action of any SHE related issues have now been embedded.</p>	<p>The Group continues to set higher benchmarks for SHE compliance and roll out cohesive programmes to address SHE risks and drive safe and sustainable working practices.</p> <p>Onsite SHE audit assessments have been developed and are now operational. Life saving behaviours and improved training and on boarding is being rolled out. The first formal Groupwide recognition programme delivered in 2018.</p> <p>With the creation of a new Strategy and Sustainability function at the Group, there is increased focus in this area and a number of new projects being piloted.</p>
<b>Risk trend</b> 			

## Principal risks and uncertainties continued

### Political and social

**Adverse political action, or political and social instability, in territories in which we operate may result in strategic, financial or personnel loss to the Group.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
  	<p>We operate across the globe and therefore have to work within a wide range of political and social conditions. Adverse events may occur in the territories in which we operate that may require us to act swiftly to protect our people and our property and regulatory changes could impact our competitiveness. We need to be flexible and able to anticipate such issues.</p> <p>Expansions into new territories are only undertaken after rigorous assessment of the risks, including the social and political situation within the territory.</p>	<p>Regular review of market attractiveness. Monitoring travel by Weir employees to higher risk locations in accordance with the Weir Group travel policy.</p> <p>External expert risk assessments and regular monitoring in higher risk locations.</p> <p>Contingency plans and exit strategy planning.</p> <p>Our strategic planning assists in forecasting potential political and social instability in regions.</p> <p>Proactive monitoring of evolving policy and development of contingency plans as situations materialise.</p>	<p>Given the introduction of tariffs imposed by the United States, we are continuing to assess the impact of these on our business and implement mitigating courses of action.</p> <p>We will continue to monitor Brexit negotiations and risk assess the potential impacts on our UK manufacturing base.</p>
<b>Risk trend</b> 			

### Staff recruitment, development and retention

**Failure to recruit, develop or retain key management and staff may lead to disruption to the Group's operations, functions and processes.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
 	<p>Our people represent our biggest asset and failure to attract, develop and retain key management and staff would have a detrimental impact on the Group's ability to deliver our key strategic objectives.</p> <p>As markets improve we need to continue to recruit high quality staff building on existing capability while recruiting skilled expertise in the right areas of the business and at the right time.</p>	<p>Promotion of the Weir Group Values &amp; Behaviours, Code of Conduct and HR Policies sets the standards and expectations for all our staff, reinforcing our stated commitment to attracting and retaining the very best people.</p> <p>High performer assessments are undertaken to identify and develop our very best talent.</p> <p>Succession plans are in place and periodically reviewed for all of our key management.</p> <p>Personal Development Plans are set and reviewed for the effective development of all of our staff.</p> <p>We continue to offer competitive compensation and benefits packages.</p>	<p>Senior Leadership Conference was held during 2018 to build on the understanding of current priorities.</p> <p>The Talent Development and Succession Planning process is developed and implementation underway.</p> <p>The People Strategy was approved in February 2018.</p> <p>The inaugural global employee engagement survey was launched in December 2018.</p>
<b>Risk trend</b> 			

## Ethics, governance and control

**Interactions with our people, customers, suppliers and other stakeholders are not conducted with the highest standards of integrity which devalues our reputation.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
	<p>We are unwilling to accept dishonest or corrupt behaviour from our people, or external parties acting on our behalf, whilst conducting our business. If we fail to act with integrity, we are at risk of:</p> <ul style="list-style-type: none"> <li>• Reputational damage leading to a loss of customers;</li> <li>• Increased scrutiny from regulators;</li> <li>• Legal action from regulators including fines, penalties and imprisonment; and</li> <li>• Exclusion from markets important for our future growth.</li> <li>• Failure to meet required social standards to maintain licence to operate in our communities.</li> </ul> <p>We expect all areas of the business to do the right thing and conduct business in compliance with procedures, applicable laws, Weir Group operating policies and procedures, and the highest ethical standards.</p>	<p>The Code of Conduct, supplemented with Group policies on related topics, provides a clear benchmark for how we expect our business will be conducted.</p> <p>Regular training is provided using a range of mechanisms including Town Hall style sessions, online and induction training.</p> <p>The financial control framework is continually monitored for effectiveness.</p> <p>Internal Audit's remit includes regular review of the anti-bribery and corruption and financial controls across the Group. The Group Legal team is responsible for monitoring compliance with the Code of Conduct.</p> <p>A Whistleblower hotline is available to all members of staff. Reports are investigated on a timely basis and summary reports provided to Group Executive and Board.</p>	<p>The governance and legislative environment in which the Group operates continues to evolve and become more complex. We routinely review operations in geographies where ethical standards may not be as well established as in other countries.</p> <p>With the introduction of General Data Protection Regulation (GDPR), we have taken proportionate measures to ensure compliance with the regulations.</p> <p>Compliance "sub-function" within Group Legal created to enhance global focus on compliance.</p>
<b>Risk trend</b> 			

## Contract risk

**Failure to adequately manage contract risk and, as a result, commit to obligations which the Group is unable to meet without incurring significant unplanned costs.**

**In addition, failure to follow Group policies and procedures may lead to commitments without the desired level of contractual protections.**

Impact on strategy	Why we think this is important	How we are mitigating the risk	Changes during 2018
	<p>We operate in an increasingly complex and competitive environment where customers are not only highly focused on price and service but are also more challenging in contract negotiations. Business models are also changing, reflecting these developments.</p> <p>As we offer a broader range of products and services to our customers, including those that are more technologically advanced, we risk exposing the Group to reputational and financial loss should our contract acceptance, negotiation and approval processes fail to protect the Group accordingly.</p>	<p>The Group has policies and procedures for contract acceptance and approval.</p> <p>These are under continuous review and improvement to ensure they are adequate for current and future circumstances.</p> <p>The tools and training available to employees responsible for contract management are similarly under continuous review.</p>	<p>Given the competitive environment in which the Group operates contact management continues to be a key area of focus. Existing policies and procedures are continually reviewed and refreshed to provide employees with improved tools to assist them in their contract training and management activities.</p>
<b>Risk trend</b> 			

## Sustainability Review

# Integrating sustainability throughout our business

### Why sustainability matters to Weir

Our mission is to enable our customers to sustainably and efficiently deliver the energy and natural resources needed by a growing world. Sustainability underpins our strategic priorities and is intrinsic to our purpose and values.

Acting in a sustainable way protects and creates long-term value for our shareholders, other stakeholders and the long-term future of Weir.

We have a clear commitment to meaningfully reduce the impact we and our customers have through technology and innovation.

### Our approach to Sustainability

We focus on priority areas which balance the broad environmental and societal benefits of our business with potential impacts arising from our operations.

Through the effective management of the priority areas we can reduce our impacts and create positive outcomes. We will continue to review the balance and content of our sustainability priorities, so they reflect the development of our current and future programmes.

In 2019 we will co-create our sustainability strategy roadmap with key stakeholders and experts both internal and external to identify and communicate the highest business value Group-wide priorities that will deliver tangible value across the Group.

### Sustainability Highlights

#### Employees

- Launched our first ever global employee engagement survey
- Reduced the total incident rate (TIR) by 15% to 0.45
- Mean pay gap reduced from 8% to 6%
- Median pay gap reduced from 10% to 8%

#### Ethics

- Inclusion in the FTSE4GOOD index series
- Updated our Code of Conduct after a comparative assessment
- Delivered eLearning on the General Data Protection Regulation

#### Communities

- Celebrated 10 years of Weir Cares India
- Total amount of charitable donations made was £504,178.90

#### Environment

- Scored B in the 2018 CDP Climate Change Submission
- Successfully implemented energy pilot projects in major locations
- Launched 'No Time to Waste Innovation Challenge' and engaged over 7,000 votes

# Non-financial information statement

Non-Financial Reporting Requirement	Polices and standards which govern our approach and due diligence	Relevant Group Principal Risk	KPI's	Outcomes and additional information
<b>Employees</b>	Code of Conduct <sup>1</sup> SHE Charter <sup>1</sup> SHE Management System <sup>1</sup> Diversity and Inclusion Policy <sup>1</sup> Board Diversity Policy <sup>1</sup> Chief Executive Officer's Safety Committee SHE Excellence Committee Risk Committee	Staff recruitment, development and retention <sup>2</sup> Safety, Health and Environment (SHE) <sup>2</sup>	Rating within the SHE performance measurement process. Total Incident Rate Gender pay gap results Employee engagement survey participation rates Employee engagement eNPS Organisational effectiveness measure <sup>3</sup>	People (pages 8 and 9) Becoming a Zero Harm Workplace (page 58) Promoting Inclusion and Diversity (page 59)
<b>Human Rights</b>	Code of Conduct <sup>1</sup> Human Rights Policy <sup>1</sup> Modern Slavery Statement <sup>1</sup> Risk Committee	Ethics, governance & control <sup>2</sup>	FTSE4Good score Sustainably Higher Margins through the cycle <sup>3</sup>	Doing business, the right way (pages 60-61)
<b>Anti-Corruption and Anti-Bribery</b>	Code of Conduct <sup>1</sup> Conflicts of Interests Policy <sup>1</sup> Gifts Policy <sup>1</sup> Hospitality Policy <sup>1</sup> Member of Transparency International Supply Chain Policy Risk Committee	Ethics, governance & control <sup>2</sup>	FTSE4Good score Training completion Anti-bribery reviews Sustainably higher margins through the cycle <sup>3</sup>	Doing business, the right way (pages 60-61)
<b>Social matters</b>	Code of Conduct <sup>1</sup> Risk Committee	Ethics, governance & control <sup>2</sup>	Charitable Giving FTSE4Good score	Working with our Communities (pages 62-64)
<b>Environmental Matters</b>	Code of Conduct <sup>1</sup> SHE Charter <sup>1</sup> SHE Management System <sup>1</sup> SHE Excellence Committee Risk Committee	Safety Health and Environment <sup>2</sup>	Rating within the SHE performance measurement process GHG Emissions CDP score FTSE4Good score Material reuse Sustainably higher margins through the cycle <sup>3</sup>	Respecting the environment (pages 65-66)

1. These policies are available on our website <https://www.global.weir/sustainability/policies/>.

2. More information about our principal risks can be found on page 51.

3. More information about medium term Key Performance Indicators and priorities which are aligned to our We are Weir Strategic Framework and the Group's remuneration policy can be found on page 28.

## Sustainability Review continued

# Becoming a zero-harm work place



## Introduction

**People are at the heart of the Group's 'We are Weir' strategy with our commitment to caring for our colleagues, our neighbours and the environment and inspiring them all to flourish.**

The quality and commitment of our people has always been a competitive advantage for the Group, from the engineers that design our equipment to the operations staff who manufacture it and the on-site experts who support our customers around the world.

As a business that relies on a high-performance culture, we appreciate the importance of offering our people the opportunity to fulfil their potential and provide a workplace that keeps them safe, engaged and inspired to do the best work of their lives.

To achieve that, we invest in safety programmes, learning and development opportunities and leadership. We are also committed to developing a new sustainable engagement score to measure our progress in developing an even more effective organisation.

In addition to developing our employees, the Group takes its responsibility to developing the next generation of employees seriously. This includes supporting programmes that encourage more young people to consider engineering as a career.

[Read more](#)

See pages 8-9

### Chief Executive Officer's Safety Committee

The CEO's Safety Committee was established in 2016 to give Board-level leadership to the Group's ambition of becoming a zero-harm workplace. The Committee is chaired by the CEO and consists of senior leaders from across the Group, including the four divisional presidents and the Chief People Officer and embodies the priorities of our Safety, Health and Environment Charter. The Committee oversees Safety, Health and Environment (SHE) performance, ensuring the Group systems and processes are best set up to deliver our Zero Harm vision.

### SHE Excellence Committee

The Safety, Health and Environment (SHE) Excellence Committee supports the CEO's Safety Committee and provides leadership, co-ordination and support for the delivery of the Group SHE objectives. The progress towards an increasingly behavioural safety culture has been the priority of the SHE Excellence Committee and is evident in the focus on the engagement elements of our Zero Harm strategy.

### SHE performance

In 2018 we maintained our continuous positive trend regarding recordable injuries and it was another year without fatality on our operations. The number of lost time injuries reduced by 20% from 20 to 16 and, on average, the numbers of days lost to each injury reduced by almost half. This and an overall reduction in recordable injuries reduced the total incident rate (TIR) by 15% to 0.45. 77% of our key businesses are accredited to both OSHAS 18001 and ISO14001 with plans to ensure we make the transition to ISO45001 by late 2020. One of the key contributors and enablers of 2018's excellent performance is the cumulative effect of our emphasis on engagement at all levels and our insistence that everyone can be a SHE leader

### Strategic developments in SHE

2018 saw the introduction of the Group's Life Saving Behaviours. These are a series of 12 critical behaviours that have the potential to save life and avoid serious injury. They are underpinned by the overarching life saving behaviour to stop any task or activity which any person working for or on behalf of Weir considers might be unsafe. This 'stop work authority' comes straight from the CEO and applies to Weir employees wherever they are working. The remaining 11 Life Saving Behaviours focus on our highest risk activities. As part of the drive towards developing our behavioural safety culture the safety conversations have become a common feature of everyday life in Weir as employees are

increasingly given the opportunity to share their views and concerns about their work

### Standing up for Safety

In both the Minerals and the Flow Control Divisions this year all work stopped for a four hour period on every shift in every location across the Weir footprint. The aim was to remind people that safety is our number one priority and that nothing is important enough to get in the way of keeping our people safe.

Leaders were tasked with organising their employees into multi-function teams that normally would not work together and given a variety of tasks to review, update and improve tasks and processes to make them safer. Teams were challenged to identify hazards, improve work flows and then share their findings across the various Group communications platforms. Everyone from the Divisional President to the most junior apprentice and including all those in the offices in 'less hazardous' environments took part in the activities.

In Flow Control the aim was to ensure employees feel engaged, empowered and listened to. We were particularly keen to empower teams and individuals to challenge the way things are done ensuring that what Group asks for is realistic. But also to give them the freedom to approach the challenges in a way that suited them. This even resulted in songs and poems being written in some of the businesses.

In Minerals the aims were similar in terms of generating global employee engagement, being creative about developing the safety culture, identifying opportunities to eliminate risk and using the Shield management system to track outputs from the stand down.

Perhaps the most positive outcome was the amount of feedback stating that we should do this more often indicating that people want to engage with safety more. We already have plans to programme similar events across the whole Group in 2019.

Oil & Gas sent leaders to all their service centres to hold safety sessions and highlight the right of every Weir employee to stop any process they feel is unsafe and talk to their colleagues about how they can ensure everyone returns home to their families safely.

# Promoting Inclusion and Diversity

A copy of the full Gender Pay report can be found on our website

visit: [www.genderpay.weir](http://www.genderpay.weir)

## Achieving growth by encouraging and embracing diversity

**As a global company, we recognise the value that a truly inclusive culture can bring to our individual and collective success.**

**At Weir, we aim to be the most admired engineering business in our markets and we seek to recruit, develop and promote people regardless of their background and personal circumstances.**

The diversity of our people, backgrounds, skills and experience reflects our customers and makes us stronger, more effective and better placed to deliver long-term and sustainable value.

## Current Performance

Male	Female
Total employees	

14,865 2,650

### Board

7 3

### Group Executive (excl CEO and CFO)

5 2

### Senior Management

203 41

## Weir gender pay gap report 2018

In our second year of reporting, we have made progress towards closing our pay gap, with the mean pay gap reducing from 8% to 6%, and our median pay gap reducing from 10% to 8%.

As forecast in last year's report our bonus gap increased, from 22% to 40% due to the increased number of long term incentive awards vesting in 2018. Only leadership roles participate in these plans and most of the individuals in these roles are male. We do not anticipate this gap to close soon, as awards held by our Executive Directors and UK based Group Executive team will start to pay out. The median bonus gap swung in favour of females, as their median bonus was 22% more than the male median bonus.

Although we are encouraged by our progress in closing the pay gap, we recognise that this is only a small shift and we need to continue with our efforts to bring in and retain more women at Weir and to deliver opportunities to develop their careers.

### The requirements and our outcomes

The UK Government's Gender Pay Gap Regulation requires legal employing entities with 250 or more employees to publish details of their gender pay and bonus gap. In Weir, there are two employing entities required to publish this data, but we have taken the opportunity to publish the

consolidated data for our four UK companies as this is more representative of our UK organisation. ESCO's UK operation is not included as it was not part of the Weir Group in April 2018.

### Mean and median pay and bonus gap

	Mean	Median
Gender Pay Gap	6%	8%
Gender Bonus Gap	40%	(22.1)%

### Proportion of males and females receiving a bonus

Male	12%
Female	17%

### Proportion of males and females in each pay quartile band

Pay Quartile	Male	Female
Upper	86%	14%
Upper Middle	89%	11%
Lower Middle	90%	10%
Lower	76%	24%

### Gender Pay and Equal Pay

The gender pay gap is different from equal pay, which relates to men and women being paid the same for similar roles or work of equal value. Our pay policies are designed to ensure equal pay for equal jobs and we have processes in place to ensure pay levels are reviewed consistently.

## Closing the female talent gap

### Learning and development

In common with other companies in our sector, many of our employees are male, and we know that more needs to be done to attract females. We are proud to be involved in several initiatives to encourage females to consider STEM as a career:

- Weir Wise
- Primary Engineer
- Take a Girl Child to Work

Identifying and building capability to deliver the customer proposition

In 2018 we exceeded our target of increasing the percentage of females on our graduate programmes. The percentage split as at 31 December 2018 was males 52%/females 48%.

### Recruitment and Promotion

During 2018 we continued working to ensure our development programmes enabled greater

diversity in our succession plans, and we worked closely with our recruitment partners to ensure diverse shortlists. This has resulted in a slight improvement in the number of females being promoted and recruited into senior roles within our leadership group.

### Mentoring

We are a long-standing supporter of The Mentoring Foundation, which owns and operates the FTSE100 Cross-Company Mentoring Executive Programme and the Next Generation Women Leaders Programme. Jon Stanton has acted as a mentor and we have placed a mentee into the programme. We are pleased to be able to make this contribution and to offer our high-performing and aspirational women this opportunity to further their careers.

Further details are provided in our Gender Pay Report on our website.

## Sustainability Review continued

# Doing Business the Right Way



## Introduction

**At Weir, we are proud to be a business which strives to achieve the highest ethical standards and sound business principles. This is firmly reflected in our corporate values and in our Code of Conduct. We understand our role in the communities where we work and beyond, and the influence we can have to drive change.**

We also recognise the responsibilities that we share with our suppliers and we remain committed to establishing open and transparent relationships with them.

We are committed to business integrity and high ethical standards. We operate under a Code of Conduct which promotes honest and ethical behaviour and our aim is to ensure that our customers, suppliers, investors, employees, and the communities where we operate have the confidence to trust us.



### FTSE4Good

We have been a member of the FTSE4Good index series for eight years. FTSE4Good is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. We are proud to have been able to meet the rigorous requirements to be included within this series and to have improved upon our previous years' score. This year we have put in place a mechanism to be able to obtain and publish greater levels of data related to our ESG actions and are committed to further improving our performance in 2019.

### Human Rights

We respect the human rights of all those working for or with us, and of the people in the communities where we operate. We will not exploit anyone, wherever in the world we are working. We will not do business with companies, organisations or individuals that we believe are not working to comparable generally accepted human rights standards. Our Human Rights Policy communicates to our customers, suppliers, investors, employees and the communities where we operate, the ethical and social values we respect and our commitment to uphold human rights.

### Tax Transparency

Our approach to tax is governed by five key principles which are set and adopted by the Board and are stated as follows;

1. We are committed to compliance with all applicable tax laws and regulations, including timely submission of tax returns and tax payments;
2. We aim to develop and maintain effective, collaborative and co-operative working relationships with tax authorities in all territories where we operate based on both openness, honesty and transparency, and by providing all relevant information in a timely manner with a view to resolving any disputes early;

3. Our businesses make use of legitimate tax incentives, exemptions and statutory alternatives offered by governments. Tax planning is undertaken only where it is consistent with the substance of our business and with full regard to the aims of our stakeholders, our reputation and our broader commercial and economic goals;

4. We adhere to the standards for the disclosure of tax information in our published financial statements, in accordance with industry and generally accepted practice; and

5. We ensure compliance with our tax obligations by maintaining appropriate tax management arrangements including the roles and responsibilities taken on by our people.

These five principles are reflected and more information about our approach to tax are set out in our tax strategy which can be found on our website: <https://www.global.weir/investors/corporate-governance/matters-reserved-to-the-board/>.

### Transparency International

We are a member of Transparency International UK's Business Integrity Forum, the UK's leading anti-corruption forum for businesses in all sectors. This membership enables us to support Transparency International's global movement of seeking a world free from corruption. We have signed up to a set of principles and remain committed to fight against corruption and ensure that we are honest and accountable in the business that we do and that we strive to respect fundamental human rights and freedoms.

### Code of Conduct

Our Code of Conduct sets out the Weir values in a clear and concise manner. It promotes compliance with applicable laws, rules and regulations and provides details on how we expect our people to conduct themselves on a day-to-day basis, both internally and externally. The Code of Conduct provides a clear framework for decision-making in line with our values and behaviours. It applies to all Weir employees, agents and suppliers. We not only stress the importance of complying with the Code of Conduct but also encourage our employees to speak up and report any concerns or apparent breaches that they may become aware of without fear of retribution. Employees can also choose to report concerns anonymously through our Ethics Hotline.

Following our acquisition of ESCO Corporation in July 2018, we undertook a comparative assessment of Weir's policies and ESCO's policies. As part of this assessment, we have updated our Code of Conduct and plan to disseminate the updated Code of Conduct throughout the organisation during 2019. We plan to translate the updated Code of Conduct into at least 10 local languages to facilitate understanding across our organization, and we plan to provide updated Code of Conduct training to Weir personnel to re-enforce the core messages set out in the Code of Conduct. Any employee found in breach of the Code of Conduct may be liable to disciplinary action, up to and including termination of employment or cancellation of contract.

#### **Conflicts of interest**

Our Conflicts of Interest Policy places particular emphasis on outlining what may constitute a conflict and the correct process for disclosing any perceived conflict to management. The policy provides clear guidance to all of our employees to assist them with understanding the mandatory requirements for the identification, reporting and management of actual or potential conflicts of interest.

#### **Anti-bribery and corruption**

Our Code of Conduct sets out our expectations regarding compliance with anti-bribery and corruption laws. In addition, our internal audit department undertakes anti-bribery and corruption reviews as part of their standard internal audit programme.

#### **Gifts and hospitality**

Our Gifts Policy and Hospitality Policy together set out our expectations as to when gifts and hospitality are appropriate to give or receive, and the approvals and reporting required in connection with any such giving or receiving. In 2019, we plan to combine the two policies into one policy as part of simplifying our processes.

#### **Modern Slavery Act**

We understand our role in eradicating slavery or forced labour of any kind. Following a review of our existing policies and practices and in light of the introduction of the Modern Slavery Act in the UK, we published our first annual Modern Slavery Statement in March 2017. A copy of our current statement can be found on our website. This statement details the steps we have taken and are taking to ensure that slavery and human trafficking do not take place in any of our supply chains or in any part of our business.

#### **Conflict Minerals**

The EU Conflict Minerals Regulation will come into full force on 1 January 2021, and lays down supply chain due diligence obligations for 'Union importers' of 3TG. Weir in 2019 plans to amend its policies to help ensure that Weir does not use conflict minerals in the production and manufacture of its products and that Weir complies with the due diligence requirements set out in the EU Conflict Minerals Regulation. Weir companies in the US, when requested by customers which are subject to the US Dodd-Frank Act, complete Conflict Minerals reporting.

#### **Data Privacy and General Data Protection Regulation (GDPR)**

We are committed to ensuring we comply with all applicable laws relating to data privacy, including the GDPR.

In 2018 we undertook significant cross-functional work in order to ensure we were prepared for, and could comply with, our obligations under the GDPR as the regulation took effect.

#### **Suppliers and third parties**

We source raw materials, components and services across the globe. Our suppliers play a critical role in our business and our relationships with them are based on achieving the best performance, product delivery, service and total cost in an ethical and sustainable manner.

We recognise that our responsibilities extend to our supply chain. We have a Supply Chain Policy which sets out the minimum standards we expect our suppliers to abide by with respect to:

- business ethics;
- how they treat their workforce;
- legal and regulatory compliance;
- health and safety; and
- environmental standards.

Weir is a member of the UK government-sponsored Prompt Payment Code (PPC), which sets standards designed to support on-time payment to small and medium sized enterprises as well as wider payment procedures. Best practice is administered by the Chartered Institute of Credit Management and compliance with the principles of the PPC is closely monitored and enforced by the PPC Compliance Board. In addition, the Group is committed to working only with third parties, including customers, sub-contractors, suppliers and joint venture and strategic alliance partners, whose business ethics and behaviours are consistent with our own Code of Conduct.

Our Code of Conduct is issued to all of our key suppliers. Assessments are undertaken with regard to compliance with Group standards and Group policies as part of the vetting process for new suppliers.

In addition, key suppliers are audited regularly to ensure ongoing compliance. Wherever possible, we work with our suppliers to support them to address weaknesses identified.

**Want to know more about our Modern Slavery Act training?**

 visit: [www.global.weir/site-information/modern-slavery-statement.pdf](http://www.global.weir/site-information/modern-slavery-statement.pdf)

## Sustainability Review continued

# Working with our communities



## Introduction

**The Weir Group has a global presence operating in many countries around the world, the impact we have on our local communities is therefore of paramount importance to us. We respect the communities we operate in and we strive to make a positive impact by the responsible running of our operations and by investing in local initiatives in away which benefits the local community.**

We believe that any investment in a community should create a meaningful and sustainable impact on that community. It should be relevant to the local needs but at the same time aligned with our business and carried out in partnership with local organisations.

We aim to identify the possibilities for investment through contact with local people and organisations including local non-Government bodies, charities and community groups. We are committed to focusing on projects with strong educational, health and community themes.

Our core values include making sure that we always do the right thing and we are committed to leaving a legacy for future generations. We always respect the traditions, cultures and laws of the countries and the local communities where we operate. We aim to employ local people in our businesses wherever possible. We listen to the concerns of the local communities and try to act in a way that deals with their concerns where we can.

During any engagement we ensure that we respect the rights of the individuals in the local communities in which we operate. Our engagement is conducted in an open and transparent manner as we want to build and sustain productive relationships with our communities. Each Weir company seeks to ensure that it acts as a good and responsible citizen in the communities in which it operates and adopts good practices aimed at minimising the impact of its operations.

The Weir Group does not make any political donations or contributions, nor does it allow any of its operating companies to do so. This includes cash and non-cash items such as services, materials, employee time and use of corporate facilities.

We make a positive contribution to the countries in which we operate through our direct activity including through local employment, local payment of taxes and local purchasing. Within these local economies we have created jobs, enhanced education and skills development, and improve health care provisions for our staff, their families and wider communities.

We support local communities who need help through charitable contributions and by encouraging employees to donate their time to community and charitable initiatives.

We encourage learning and development at all levels across the communities in which we work. In 2018 Weir sponsored TEDx Venlo, TEDx



## 10 Years of Weir Cares India

Weir Cares a Weir Minerals India initiative established in January 2008 celebrated its 10th year in 2018. The objective of this project is to contribute to the sustainable economic development of the local community which in turn will improve quality of life.

Weir Cares have worked with several Non-Governmental Organisations including Integrated Project for Development, Association of People with Disability, Akshaya Patra Foundation and the Lions Blood Bank. The initiative focuses on Health, Education and Economic Development Projects.

Projects in 2018 have included a plastic reduction innovation challenge, litter free campaign for an important tourist area, tree planting, sponsored fundraising through

sports, supporting local community groups and engaging with schools.

One of the projects which had a meaningful impact on the local community is the partnership with the Akshaya Patra Foundation. The foundation prepares and delivers midday meals to school children. Weir Cares donated the food distribution vehicles which ensure that hot and hygienic meals can be served to children. In doing so it provides not only a health benefit to the children but allows the children to have a nutritious meal that will sustain and enable them to learn in school.



## Pink in the Basin

### Health Case Study

In October 2018, our Oil & Gas division attended The Permian Basin Oil Show in Odessa, Texas alongside our customers we had a pink pumping truck with our SPM pump on display to highlight Breast Cancer Awareness month.

The division has also committed to donating \$5000 to a collective pool to support a local breast cancer charity "Pink in the Basin"

[Read more](#)

visit: <http://pinkthebasin.com>



ESCO divisions take Your Child to Work Day—we create an engaging, hands-on experience for our employees' children, introducing them to the foundry floor and our innovation centre, to learn what it's like to work at a world-class engineering company, and the possibilities available from a STEM based career.

The Weir Advanced Research Centre partnership is a dedicated engineering research centre that delivers and coordinates fundamental and applied research around the world on behalf of Weir's businesses. Partnership findings are applied within university courses, building understanding of regulatory environments for new solutions. WARC experiences have helped shape teaching modules and similarly the partnership will help define new materials science educational programmes that will not only add value and capabilities to the careers of students today, but will also enhance many others far into the future.

Mechanical engineering students from across Asia Pacific battled it out for the chance of winning the annual Warman Design and Build Competition. Organised by Engineers Australia and sponsored solely by Weir Minerals, the 2018 competition saw around 5,000 students participate, following in the footsteps of the 50,000 students who have participated since the competition's inception in 1988. This year held special significance as it is the 80th anniversary of the iconic Warman Pump.



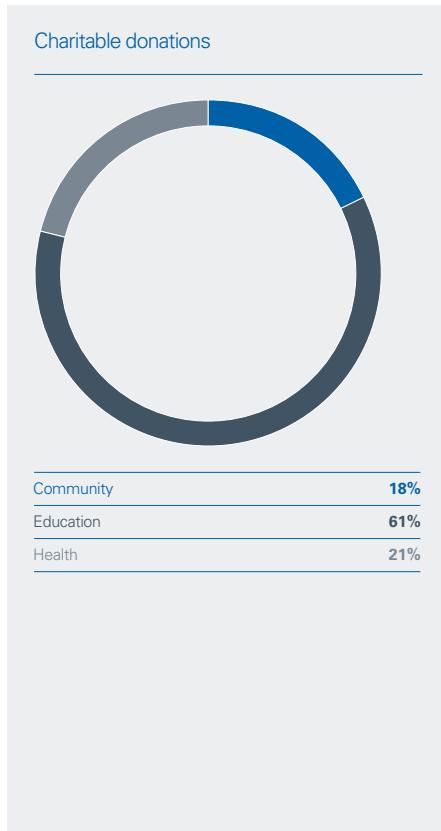
## Chilean Month of Mining

### Community Case Study

Our Minerals colleagues were asked to take part in events for the month of mining organised by the Mining Ministry in Chile.

The objective of this public event was to bring the community closer to the mining industry, we shared details about our products and processes to inform, educate and engage the public.

## Sustainability Review continued



### Charitable giving

In 2018 the total amount of charitable donations made was £504,178.90. In line with our We are Weir framework, we are committed to doing the right thing by caring for our colleagues, our neighbours and the environment and inspiring them to flourish, allowing us to leave a legacy for the next generation. We know that undertaking charitable activities will help us grow and succeed. We see the benefit that charitable giving can have on our communities and our employees.

Our businesses are given autonomy to operate their own charitable giving policies to ensure that the charitable work conducted is aligned with the local community's needs. This includes direct donations, providing support or equipment or through staff time. Throughout 2018 several charitable projects were undertaken and a small selection of these are included within this section.



### The Oregon Metals Initiative

#### Education Case Study

Our ESCO division works with the Oregon Metal Initiative, which is a consortium of local metal manufacturing companies and research institutions that pursues research to improve the long-term competitiveness of the metals industry and the research infrastructure in Oregon.

Each year, OMI partners member companies with a local university to develop and complete a research project. These projects help the company gather fundamental information on material properties and behaviours during manufacturing processes and provide research opportunities to local engineering students. The member companies make financial contributions to the research projects, which are fully matched by the State of Oregon.

For several years, our team at ESCO has partnered with the Mechanical & Materials Engineering department at Portland State University. This gives PSU students the opportunity to work on industrially relevant projects which helps relate the material science taught in the classroom to the practical application and importance of heat treatment in an industrial setting.

# Respecting the environment



## Introduction

**We believe that acting in an environmentally sustainable way protects and creates long term value not just for our shareholders but for all our stakeholders and supports the long term future of our business.**

In a competitive world with finite resource, managing the environmental performance of our operations makes good business sense. We aim to minimise the impact of our operations and our products on the environment.

We are playing our part in a growing and changing world. We actively invest in research and development to allow us to develop and exploit emerging technologies to enhance our products and create new solutions. Within our technology strategy we are focusing on supporting our customers to gain competitive advantage through improved operational efficiency including using water and energy more efficiently.

Creating opportunities to improve the environmental performance of our operations and those of our customers.

### Operational control

The Weir SHE Management Standards set our expectations and provide a framework for environmental risk management, incorporating key elements such as regulatory compliance, risk assessment, self-audit, and employee engagement.

Our continued commitment to robust environmental protection is well reflected in the performance of our facilities. Based on the 31\* sites which were audited this year, across the group, against the environmental compliance criteria with our SHE standards including air emissions, energy and waste, we delivered an average score of 78% during 2018.

### Environmental protection

No significant environmental incidents, penalties or fines were reported at sites under the operational control of the Group during the year ended 31 December 2018.

### Climate Change

The UN Intergovernmental Panel on Climate Change (IPCC) released a report in 2018 highlighting that “urgent and unprecedented changes” are needed to reach the target to limit global warming to a maximum of 1.5 degrees. The report says there must be rapid and significant changes in four big global systems including industry.

We have a clear commitment to reduce the impact we and our customers have on the environment through technology and innovation. Equally important is harnessing the substantial potential from all Weir employees worldwide thinking and acting sustainably.

We welcome and support efforts, such as those led by the Task Force on Climate-related Financial Disclosures (TCFD), to increase transparency and to promote investors’ understanding of companies’ strategies to respond to the risks and opportunities presented by climate change. In 2018, Our Group Exec and Board teams both participated in Carbon Economy risk and opportunity workshops as part of our annual strategic planning process.

In 2018 through the process of completing our CDP Climate Change Submission we were able to assess the areas in which we could improve, to meet the requirements of the TCFD recommendations. We believe that companies should be transparent about how

they plan to mitigate and be resilient in the face of climate change.

We submit annual CDP reports to share our risk management approach to climate change and our greenhouse gas (GHG) emissions performance

In 2018, we achieved a score of B improving on our score of C in 2017, for changes implemented relating to business strategy, risk disclosure, opportunity disclosure and emissions reduction initiatives.

### 2018 CDP Climate Change Score



We are working to align our reporting with the TCFD recommendations related to Climate Change Governance, Strategy, Risk and Metrics and Targets to ensure effective disclosures which, where commercially possible, will be most relevant and useful to stakeholders.

### Operational Resilience

As a business with operations around the world we can be exposed to a wide range of extreme weather events. In 2018, this has included; flooding in China, wild fires which have impacted the local communities close to our sites in the USA – California and Europe – Sweden.

We were fortunate that none of our employees have been harmed and very little disruption has occurred at our sites due to these incidents. In the case of such an event occurring, we have put in place measures to ensure operational resilience for ourselves and our customers. We do recognise that climate change will impact upon our business. In 2018 we commissioned a natural catastrophe study for some of our key locations considering the likelihood and impact of different natural catastrophe events occurring.

### Greenhouse Gas Emissions

We have focused in 2018 on improving energy efficiency which will help to reduce GHG emissions and improve our efficiency. As an energy and carbon intensive business operating, now with the addition of ESCO, 13 foundries worldwide in 2018, the Group recognises the importance of measuring and minimising the greenhouse gas (GHG) emissions from operations over which it has control.

We have not included within the total annual GHG emissions the GHG emissions from our ESCO division acquired in 2018, as the processes and procedures to be able to accurately record

## Sustainability Review continued

and report this information are being developed. We have advised that we consider the addition of this division to be material and the GHG emissions indicative estimate based on available data is 38,212 tCO<sub>2</sub>e since the acquisition date of July 2018.

The Group's total annual GHG emissions in tCO<sub>2</sub>e for the year ended 31 December 2018 were 142,080. This comprises a reduction in total absolute GHG emissions for the Group when compared with 2017 figures. During 2018, total GHG emissions for our seven foundries were 59,134 tCO<sub>2</sub>e. Carbon intensity of the metals poured reduced with the use of lower carbon fuels.

### Resource Efficiency\*

Over 17,400 tonnes of scrap metal was reused within our foundry operations during 2018, comprising 46% of all metal poured in the foundries (2017: 42%)\* In 2018 we launched the No time to waste open innovation challenge to all employees worldwide focused on where can we redesign our products and processes, or those of our customers, to meaningfully reduce our waste impact. We received over 7,000 votes on the ideas submitted.



### Energy Efficiency

We are running energy efficiency pilots at some of our largest sites this year. We have been working in collaboration with the sites and an external partner to conduct detailed energy and water audits, install new metering at each site and identify and deliver the biggest savings opportunities. We anticipate that we will achieve energy use reductions of circa 10%.

This year we undertook a review of our systems and process related to monitoring and managing our energy use. We have adopted a new environmental sustainability system which will enable more detailed analysis and opportunities for improved efficiency at our sites.

The Strategic Report covering pages 1 to 66 of the Annual Report and Financial Statements 2018, has been approved by the Board of Directors in accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

On behalf of the Board of Directors

**Graham Vanhegan**

Chief Legal Officer and Company Secretary  
27 February 2019



## Environmental Stewardship

Weir Minerals Africa won the Steel and Engineering Industries Federation of Southern Africa (SEIFSA) Environment Stewardship Award 2018 for going above and beyond to invest in the environment and successfully implementing environmental initiatives in its core business operations.

The team have implemented initiatives including rain water harvesting and water use optimisation, energy use reduction and efficiency, air emission reduction initiatives, refurbished oil usage and reduction of diesel powered vehicles. This substantial investment of over £1m (19,319,663 South African Rand) has improved efficiency and reduced the environmental impact of the business.

## Total annual GHG emissions\*

	Global annual GHG emissions (tCO <sub>2</sub> e)			GHG emissions intensity (tCO <sub>2</sub> e per £m revenue)		
	<b>2018</b>	2017	Baseline: 2013	<b>2018</b>	2017	Baseline: 2013
Scope 1 emissions: fuel combustion and operation of facilities	38,586	36,728	53,316	15.2	15.6	21.9
Scope 2 emissions: purchased electricity and heat	103,493	107,869	107,581	40.7	45.8	44.3
<b>Total</b>	<b>142,080**</b>	144,597	160,897	<b>55.9</b>	61.4	66.2

## Annual GHG emissions from foundries\*

	Annual GHG emissions (tCO <sub>2</sub> e)		Proportion of global annual emissions (%)		GHG emissions intensity (tCO <sub>2</sub> e per tonne of metal poured)				
	<b>2018</b>	2017	Baseline: 2013	<b>2018</b>	2017	Baseline: 2013	<b>2018</b>	2017	Baseline: 2013
Scope 1 emissions: fuel combustion and operation of facilities	10,569	10,893	16,738	7.4	7.5	10.4	0.3	0.3	0.5
Scope 2 emissions: purchased electricity and heat	48,565	52,515	48,705	34.2	36.3	30.3	1.3	1.5	1.4
<b>Total</b>	<b>59,134</b>	63,408	65,443	<b>41.6</b>	43.9**	40.7	<b>1.6</b>	1.8	1.9

Scope 1 emissions: fuel combustion and operation of facilities. Scope 2 emissions: purchased electricity and heat.

We report on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. We do not have responsibility for emission sources that are not included in our consolidated statement. We have not included within the total annual GHG emissions the GHG emissions from our ESCO division acquired in 2018, as the processes and procedures to be able to accurately record and report this information are being developed. We have advised that we consider the addition of this division to be material and the GHG emissions indicative estimate based on available data is 38212 tCO<sub>2</sub>e since the acquisition date of July 2018.

Annual emissions figures for 2017 have been restated to reflect the collation of more accurate consumption data and the correction of emissions factors, which had resulted in an understatement. The need to restate was identified during our standard review process.

We have referred to the 'GHG Protocol: Corporate Accounting and Reporting Standard' (revised edition) and used emission factors from the UK Government's 'GHG Conversion Factors for Company Reporting 2018' and other region-specific emissions factors where available.

\* Excludes ESCO division

\*\* Numbers do not sum due to rounding

# Chairman's introduction to Governance

## Strong Governance to drive success



**Charles Berry**  
Chairman

### Highlights

- Promoting a culture of accountability
- Engaging with our stakeholders to promote the long term success of the Company
- Continuing focus on assessing and monitoring culture

**The Company has complied in full during 2018 and to the date of this report with the provisions of the UK Corporate Governance Code published in 2016.**  
**The Code is publicly available at the website of the Financial Reporting Council at [www.frc.org.uk](http://www.frc.org.uk).**

#### Dear Shareholders,

I am pleased to present the Corporate Governance Report for 2018. In this report I describe our Corporate Governance framework and explain how the Board works to ensure that this framework remains appropriate and effective.

The following Corporate Governance Report, including the Committee Reports and the Directors' Report, sets out how we apply our governance standards in practice and demonstrates our compliance with the UK Corporate Governance Code 2016.

#### Leadership and Purpose

Under my Chairmanship, I continue to focus on ensuring that the Board remains effective and leads by example to demonstrate the desired values and culture of the Company. The Board recognises that strong Corporate Governance is essential to deliver the strategy, to drive success and to create long term value for its stakeholders.

#### Effectiveness

The Board operates effectively and each Board member demonstrates the correct balance of skills, experience, independence, knowledge, and the ability to commit sufficient time to undertake their duties and responsibilities appropriately.

#### Accountability

The Board is committed to the highest standards of integrity and accountability. It oversees a system of prudent and effective risk management and internal control systems and has well established committees to assist it in the undertaking of its duties.

#### Engagement

The Board ensures ongoing engagement with stakeholders throughout the year and acknowledges the clear responsibility it has to promote the long-term success of the Company for its stakeholders. This long term approach defines how the strategy is set and allows the Board to assess risk and deliver sustainable value for stakeholders.

#### Remuneration

The Board ensures an open and transparent remuneration policy for the effective recruitment and retention of Board members and Company employees. A formal procedure exists to ensure the alignment of remuneration with the culture and strategic plan.

#### The UK Corporate Governance Code

The UK Corporate Governance Code is published by the Financial Reporting Council and sets out the standards of good practice in relation to matters such as Board composition and effectiveness, the role of Board Committees, risk management, remuneration and relations with shareholders.

We are required to explain how we have complied with the Code and applied its principles and provisions. We must also provide an explanation of any instances where we have not.

This Corporate Governance Report, together with the Nomination, Audit and Remuneration Committee Reports, details how the Company has applied the main principles of the UK Corporate Governance Code 2016.

The Company has also considered and adopted the spirit of the new UK Corporate Governance Code 2018 and will ensure that its principles and provisions are applied in full throughout the course of 2019.

The Financial Conduct Authority's Disclosure and Transparency Rule 7.2.6 (DTR 7.2.6) requires the corporate governance statement to contain certain information required by Schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

This information relates to significant interests in the securities of the Company, securities carrying special rights with regard to the control of the Company, restrictions on voting rights, rules regarding the appointment and replacement of Directors, rules regarding changes to the Company's Articles of Association and the Directors' powers in relation to the issuing or buying back by the Company of its shares. The relevant information can be found within the Directors' Report on pages 114 to 115.

**Charles Berry**  
Chairman  
27 February 2019

## Board of Directors

# The right skills and experience to deliver our strategy

**Charles Berry**

Chairman

**Tenure on Board:**

5 years and 10 months

**Nationality:****Independent:**

Yes, since appointment in March 2013

**Committee memberships:****Experience:**

Charles was an Executive Director of Scottish Power plc from 1999 to 2005 and Chief Executive of its UK operations between 2000 and 2005. Prior to joining Scottish Power, he was Group Development Director of Norwest Holst, a subsidiary of Compagnie Générale des Eaux, and held management positions within subsidiaries of Pilkington plc.

He is a former Non-Executive Director and Chairman of Eaga plc, Drax Group plc, Senior plc and Thus Group plc, and a former Non-Executive Director of Impax Environmental Markets PLC and Securities Trust of Scotland plc.

**Key external appointments:**

Charles is Non-Executive Chairman of Centrica plc and a member of the steering group of the Hampton-Alexander Review.

**Jon Stanton**

Chief Executive Officer

**Tenure on Board:**CEO – 2 years and 3 months  
FD – 6 years and 5 months**Nationality:****Independent:**

No

**Committee memberships:****Experience:**

Since becoming CEO in 2016, Jon has led the portfolio transformation and delivery of the We are Weir strategic framework to create a long term pathway to sustained performance improvement.

Jon joined the Board as Finance Director in 2010. Before joining Weir, he was a partner with Ernst & Young, one of the world's largest professional services companies, where he led global board-level relationships with a number of FTSE-100 multinational companies.

Jon is a chartered accountant and a member of the Institute of Chartered Accountants in England and Wales.

**John Heasley**

Chief Financial Officer

**Tenure on Board:**

2 years and 3 months

**Nationality:****Independent:**

No

**Committee memberships:****Experience:**

Prior to his appointment as Chief Financial Officer, John was the Divisional Managing Director for Weir Flow Control.

Prior to joining Weir in 2008, he held a number of senior financial, commercial and operational roles, including positions at PricewaterhouseCoopers and Scottish Power.

He is a chartered accountant and a member of the Institute of Chartered Accountants of Scotland.

**Rick Menell**

Senior Independent Director

**Tenure on Board:**

9 years and 9 months

**Nationality:****Independent:**

Yes, since appointment in April 2009

**Committee memberships:****Experience:**

Rick was appointed Chief Executive of Anglovaal Mining in 1996, then Executive Chairman in 2002. In 2005, he was appointed President and Chief Executive of TEAL Exploration & Mining Inc. He was formerly Chairman of Avgold Ltd and Bateman Engineering BV.

Rick is a senior adviser to Credit Suisse and Chairman of Credit Suisse Securities (Johannesburg) (Pty) Limited.

He is a fellow of the Geological Society (London), and of both the Australasian and South African Institutes of Mining and Metallurgy.

**Clare Chapman**

Non-Executive Director

**Tenure on Board:**

1 year and 5 months

**Nationality:****Independent:**

Yes, since appointment in August 2017

**Committee memberships:****Experience:**

Clare is the former Group People Director of BT Group plc and Director General of Workforce for the NHS and Social Care. Clare was previously a Non-Executive Director of TUI Travel plc and Chair of its Remuneration Committee.

Clare was also Group HR Director of Tesco plc from 1999 to 2006 and HR Vice President of PepsiCo's west and central European operations from 1994 to 1999.

**Cal Collins**

Non-Executive Director

**Tenure on Board:**

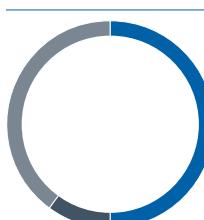
6 months

**Nationality:****Independent:**

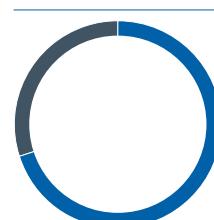
No

**Committee memberships:****Experience:**

Cal served as Chairman and Chief Executive Officer of ESCO Corporation, the world's leading provider of ground engaging tools for surface mining and infrastructure markets, from 2012 to 2018.

**Board diversity by tenure**

Tenure Range	Male	Female	Total
0-3 years	3	2	5
3-5 years	1	0	1
5-10 years	3	1	4

**Board diversity by gender**

Gender	Count
Male	7
Female	3

## Want to know more about our Board?

 visit: [www.global.weir/investors/corporate-governance/board](http://www.global.weir/investors/corporate-governance/board)

**Mary Jo Jacobi**

Non-Executive Director



## Tenure on Board:

5 years

## Nationality:



## Independent:

Yes, since appointment in January 2014

## Committee memberships:



## Experience:

Mary Jo advises companies on international affairs and reputation management.

She was formerly a senior executive of BP America, Royal Dutch Shell, Lehman Brothers, HSBC Holdings and Drexel Burnham Lambert and a Non-Executive Director of Tate & Lyle plc.

Mary Jo was Special Assistant to President Ronald Reagan, Assistant US Commerce Secretary for President George H W Bush, a British Civil Service Commissioner, and a member of the Advisory Committee on Business Appointments from 2010 to 2017.

**Barbara Jeremiah**

Non-Executive Director



## Tenure on Board:

1 year and 5 months

## Nationality:



## Independent:

Yes, since appointment in August 2017

## Committee memberships:



## Experience:

Barbara previously spent over 30 years in a number of roles with Alcoa Inc. (now demerged into Alcoa and Arconic Inc.), the global aluminium producer. Her roles in Alcoa included Executive Vice President, Corporate Development and Chairman's Counsel.

Barbara also previously served as the Chairwoman of Boart Longyear Limited.

Barbara is a qualified lawyer.

**Sir Jim McDonald**

Non-Executive Director



## Tenure on Board:

4 years

## Nationality:



## Independent:

Yes, since appointment in January 2015

## Committee memberships:



## Experience:

Jim is Principal and Vice Chancellor of the University of Strathclyde and has held the Rolls-Royce Chair in Electrical Power Systems since 1993. He is also Chairman of the Institute for Energy and Environment.

He co-chairs the Scottish Energy Advisory Board and is a fellow of the Royal Academy of Engineering, the Royal Society of Edinburgh, the Institution of Engineering and Technology, the Institute of Physics, and the Energy Institute.

**Stephen Young**

Non-Executive Director



## Tenure on Board:

1 year

## Nationality:



## Independent:

Yes, since appointment in January 2018

## Committee memberships:



## Experience:

Stephen was Chief Executive of Meggitt PLC between 2013 and 2017, having previously served as Finance Director for a period of nine years from 2004.

Before joining Meggitt, Stephen held senior positions with Ford Motor Company, Mars Incorporated, Grand Metropolitan (now Diageo) plc, Thorn EMI plc, the Automobile Association and Thistle Hotels plc.

**Graham Vanhegan**

Chief Legal Officer and Company Secretary



## Tenure on Board:

N/A

## Nationality:



## Independent:

N/A

## Committee memberships:



## Experience:

Graham joined Weir as Chief Legal Officer and Company Secretary in 2018 from international exploration and production company ConocoPhillips where his roles included Deputy General Counsel and most recently, Vice President of Business Development.

A graduate of the University of Glasgow, Graham is a solicitor qualified to practice in both Scotland and England and is an attorney-at-law before the State Bar of New York, USA. During his 24-year career with ConocoPhillips he held a number of senior positions for the company in Asia and North America.

## Key external appointments:

Mary Jo is a Non-Executive Director of Mulvaney Capital Management Limited and on the Board of Directors of the Foundation to Restore Accountability.

She is a senior adviser to Boston Consulting Group, a Faculty Advisor to GLG Institute and serves on the International Advisory Board of Spain's IE Business School.

## Key external appointments:

Barbara is currently the Remuneration Committee Chair of Aggreko plc and a Non-Executive Director of Russel Metals Inc and Allegheny Technologies Incorporated.

## Key external appointments:

Non-Executive Director of Scottish Power Limited, Non-Executive Director of UK Offshore Renewable Energy Catapult Board, Non-Executive Director of National Physical Laboratory .

President of the Conference of European Schools for Advanced Engineering Education and Research (CESAER).

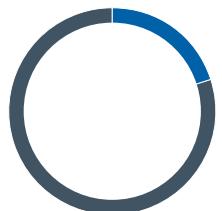
## Key external appointments:

Non-Executive Director, Audit Committee Chairman and member of Risk and Remuneration committees of Derwent London plc. Non-Executive Director of Mondi PLC.

## Key external appointments:

None

## Executive/Non-Executive



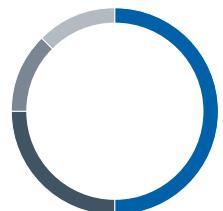
## Executive

2

## Non-Executive

8

## Non-Executive nationality



## British

4

## American

2

## British/American

1

## South African/American

1

## Committee membership key

- █ Chair
- A Audit Committee member
- N Nomination Committee member
- R Remuneration Committee member
- S Secretary to the Committees

The Board considers that each Director standing for re-election at the AGM in 2019 continues to contribute a specialist skill set that is both valuable to the Company and complementary to the skills of the Board as a whole. For further details please refer to the Notice of Annual General Meeting 2019 and the Nomination Committee Report on pages 84 to 86.

Alan Ferguson and John Mogford stepped down as Non-Executive Directors on 26 April 2018.

Christopher Morgan stepped down as Company Secretary on 1 May 2018.

## Group Executive

# The right skills and experience to deliver our strategy

**Paul Coppinger**

President of Weir Oil & Gas



**Tenure:**

4 years

**Nationality:**



**Experience:**

Paul is the President of the Oil & Gas Division, based in Fort Worth, Texas, USA. He has held this position since January 2015. Paul joined Weir in 2011 as President of SPM. Prior to joining Weir, Paul was the President of the Energy Group for 10 years at Cincor International, Inc., a diversified manufacturer of valves and related products. He has been a director of the Petroleum Equipment & Services Association since 2007 and has served as the Association's Chairman. Paul is presently a non-Executive Director and Nominating/Corporate Governance Committee Chair of Now Inc.

He holds a Bachelor of Science degree in Petroleum Engineering from Texas Tech University.

**Geetha Dabir**

Chief Technology Officer



**Tenure:**

1 year and 10 months

**Nationality:**



**Experience:**

Geetha became Weir's first Chief Technology Officer in March 2017. Geetha is an electrical and software engineer who has most recently been Vice President and General Manager of Internet of Things (IoT) Applications at Intel Corporation, having previously worked for Cisco Systems for 13 years, latterly helping lead their IoT efforts. Business Insider named Geetha as one of the 25 most powerful women in Engineering and Technology.

**Ricardo Garib**

President of Weir Minerals



**Tenure:**

3 years

**Nationality:**



**Experience:**

Ricardo joined the Group Executive in January 2016 and is President of Weir Minerals. Ricardo joined Baker Hughes in 1980 and became the Managing Director of Weir Chile following the purchase of Baker Hughes' Minerals division in 1994 by the Weir Group. In 2001 he was promoted to Regional Managing Director of Weir Minerals Latin America. Ricardo is Vice President of the Mining Suppliers Association and an elected council member of the Board of the Chilean Federation of Industry. He holds an MBA and is a Civil Mechanical Engineer.

**Rosemary McGinness**

Chief People Officer



**Tenure:**

1 year and 5 months

**Nationality:**



**Experience:**

Rosemary joined Weir as Chief People Officer in 2017. Rosemary was Group HR Director of William Grant & Sons, the international premium spirits group, for 12 years. Having started her career in line management with Forte Hotels, Rosemary has held a range of positions covering all aspects of Human Resources across the globe, including being based in New York in her role as Senior Vice President of HR for document management company Bowne Business Solutions.

Rosemary is an Advisory Board Member to the School for CEO's and an Advisory Board Member of the University of Strathclyde Business School. She is also a Fellow of the Chartered Institute of Personnel and Development.

**Jon Owens**

President of ESCO Division



**Tenure:**

6 months

**Nationality:**



**Experience:**

Jon Owens joined the Group Executive in July 2018 on completion of the acquisition of ESCO Corporation and is President of Weir's ESCO Division. Jon joined ESCO in 1986 and during his career with the company held a number of senior operational and management roles including responsibility for the company's European Division, Global Operations, Global Supply Chain, Mining Business Unit and Asia Pacific Region. Jon became Chief Operating Officer of ESCO in 2014 and President in 2016.

Jon is also a Non-Executive Director of Columbia Machine Inc.

**David Paradis**

President of Weir Flow Control



**Tenure:**

1 year and 11 months

**Nationality:**

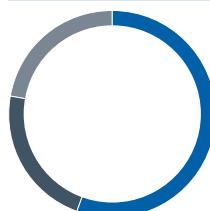


**Experience:**

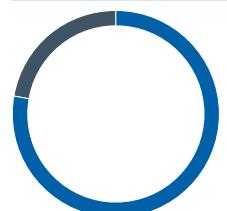
David was appointed President of the Flow Control Division in January 2017. Prior to this he held the position of President of Pressure Pumping. Before joining Weir, David spent 22 years in the flow control industry including 14 years with Tyco Flow Control. He holds a Bachelor of Science degree in Mechanical Engineering and a Masters of Business Administration from Texas A&M University, where he currently serves on the Masters of Science in Marketing Advisory Board in the Mays Business School. In addition, he is an Advisory Board member of the Petroleum Equipment & Services Association.

Jon Stanton, John Heasley and Graham Vanhegan are also members of the Group Executive Committee. Their biographical information can be found on the previous pages.

**Group Executive by tenure**



**Group Executive by gender**



**Group Executive by nationality**



## Board statements

Requirement	Board statement	Where to find further information
<b>Compliance with the UK Corporate Governance Code 2016 (the 'Code')</b>	The Company has fully complied with all the principles of the Code for the year ended 31 December 2018, and from that date to the date of approval of this Annual Report.	 <b>Corporate Governance Report pages 67-116</b>
<b>Going concern basis</b>	The Directors have a reasonable expectation that the Group has adequate resources to continue to operate for a period of at least 12 months from the date of approval of the financial statements. 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 in note 29 to the Group financial statements on pages 173 to 181. Each of these items has been considered in relation to the Group's banking facilities described in note 19 on pages 158 and 159.	 <b>Directors' Report pages 114-115</b>
<b>Viability statement</b>	In accordance with provision C.2.2. of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group over a three-year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 51 to 55 of the Annual Report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.	 <b>Risk review: How We Manage Risk pages 47-55</b>
<b>Robust assessment of the principal risks facing the Group and annual review of systems of risk management and internal control</b>	During the year, the Board has reviewed the effectiveness of the systems of risk management and internal control and conducted a robust assessment of the principal risks affecting the Group in line with the Risk Appetite Statement. These activities meet the Board's responsibilities in connection with Risk Management and Internal Control set out in the UK Corporate Governance Code.	 <b>Risk review: How We Manage Risk pages 47-55</b>
<b>Fair, balanced and understandable</b>	The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.	 <b>Statement of Directors' responsibilities page 116</b>
<b>Modern Slavery Statement</b>	As a Company, we understand our role in eradicating modern slavery. Following an extensive review of our existing policies and practices in light of the Modern Slavery Act, the Company prepares an annual Modern Slavery Statement and has developed a training programme.	 <b>A copy of this Statement can be found on our website: <a href="http://www.global.weir/site-information/modern-slavery-statement.pdf">www.global.weir/site-information/modern-slavery-statement.pdf</a></b>

## Board of Directors

# Leadership: A view from the Boardroom

### Board Q&A



**Charles Berry, Chairman**

**How has the Board overseen the cultural integration of ESCO?**

"ESCO Corporation was a proud business that had a 105-year record of independence and a strong family culture underpinned by substantial shareholdings held by descendants of the ESCO founder C.F. Swigert. When we first approached their board about joining Weir, they made clear the importance of handing over the company to a business that shared their culture and values. They recognised that Weir would be a good steward for their company and from initial meetings through due diligence and post completion, we prioritised clear communications with all employees, introducing Weir to ESCO and ESCO to Weir. This took the form of employee meetings, webcasts and site visits. Our approach throughout was to be open, honest and welcoming. The result was an increase in employee engagement from the announcement of the acquisition through completion, achieved while also delivering strong growth in positive markets."



**Barbara Jeremiah, Non-Executive Director**

**Does Weir have diversity initiatives and are they linked to the organisational strategy?**

"We see a clear alignment between our diversity initiatives and our organisational strategy. We believe that only with a truly inclusive culture will we be in a position to achieve our vision of becoming the most admired engineering business in our markets. By harnessing the diversity of our employees, we are able to fully understand and deliver distinctive solutions to our equally diverse customer base. Recognising and celebrating difference will act as a catalyst and enabler for innovation and the new ideas that can allow us to outperform in every aspect of our business. In 2018 we established the first ever Global Inclusion & Diversity Steering Committee and named Chief Financial Officer John Heasley as our Group Executive Sponsor for Inclusion & Diversity. The committee is comprised of 14 employees from various roles and locations across the globe and has been tasked with working together to identify Weir's approach to Inclusion & Diversity going forward. Key initiatives will focus on:

- Gender: To encourage a culture that is equally conducive to the progression of men and women, we are committed to gender equality.
- All other diversity: Looking at how we can develop an environment where all individual differences are respected, allowing us to grow and succeed, both as an organisation and as individuals."



**Sir Jim McDonald, Non-Executive Director**

**What considerations and steps has Weir taken towards effective engagement with wider stakeholders?**

"We take pride in developing and sustaining mutually-successful relationships with all of our stakeholders, ensuring that we hear the voices of our customers, suppliers and the wider communities in which we operate based on open and honest communication, trust and mutual respect.

Our Weir strategy recognises the value in working in partnership with our customers to provide distinctive solutions that deliver compelling value for money. For example, within our mining operations, our strategy over the past couple of years has allowed us to expand geographically in key markets and moved our focus very much to integrated solutions. At a community engagement level, across the world we have strong relationships with the communities in which we are based. Supporting communities is one of the key pillars of our philanthropic approach (alongside our other pillars of health and education) and we engage with our communities on many levels including donations to community causes. Additionally, many of our global sites encourage local community involvement by supporting volunteering days and matched giving activities for local causes."



**Rick Menell, Senior Independent Director**

**What makes the Weir business model successful and how does it align with the Company's purpose and values?**

"The Weir business model is at the heart of how our Group creates value for all our stakeholders. Its simplicity is part of its strength. We make highly engineered mission critical solutions used in aftermarket-intensive operations that require comprehensive global support. That supports our vision and mission and underpins our culture of innovative engineering. Our business model helps us focus on where we can make the biggest difference and provides a bedrock for the Group, from how we construct our portfolio to where we invest our research and development funding. It builds success by maximising opportunities in market upturns and in more challenging conditions provides real resilience due to the high proportion of ongoing aftermarket revenues it generates. It gives our people a clear sense of what Weir does and why we do it and it is therefore crucial to our purpose and values."



**Cal Collins, Non-Executive Director**

**How does the Board use technology to monitor the culture of the Company?**

"The Board is mindful of the role it has to play in monitoring the culture of the Company and leading by example to demonstrate the Weir values. In 2018 the Company undertook its first ever global employee survey. We partnered with Peakon and used their state of the art engagement survey technology. This allowed us to benefit from the latest approaches in engagement including multi language survey questions (the survey was offered to employees in 29 languages), and its real-time reporting and manager dashboard.

This has empowered our managers to get access to local insights and use these insights to take progressive action with their teams."

# Corporate Governance

## Roles and responsibilities of Directors

The Board of Directors has a collective duty to promote the long-term success of the Company for its shareholders. The Board sets the strategic aims of the Group and provides leadership and guidance to senior management to ensure that the necessary resources are in place to achieve the agreed strategy. In determining the long-term strategy and objectives of the Group, the Board is mindful of its duties and responsibilities not just to shareholders but also to customers, employees and other stakeholders. The Board reviews management and financial performance and monitors the delivery of strategy and the achievement of business objectives. At all times, the Board operates within a robust framework of internal controls and risk management. The Board also develops and promotes the collective vision of the Group's purpose, culture, values and behaviours.

## Board composition

During 2018, the Board was comprised of two Executive Directors, the Chairman and up to nine Non-Executive Directors. Stephen Young and Cal Collins were appointed to the Board in 2018. Engelbert Haan was appointed to the Board on 18 February 2019. Graham Vanhegan was appointed as Chief Legal Officer and Company Secretary in 2018. Alan Ferguson stepped down from the Board and as Chair of the Audit Committee in April 2018. John Mogford stepped down as a Non-Executive Director in April 2018. Christopher Morgan stepped down as General Counsel and Company Secretary in May 2018.

Biographical information on the Board of Directors, including their relevant experience, expertise and significant appointments, can be found on pages 68 and 69. The key responsibilities of the Board and the Company Secretary are set out below.

Directors	Responsibilities
<b>Chairman of the Board</b> Charles Berry	<ul style="list-style-type: none"> <li>• Leading the Board in an ethical manner and promoting effective Board relationships.</li> <li>• Building a well-balanced Board, considering succession planning and the Board's composition.</li> <li>• Ensuring the effectiveness of the Board and individual Directors.</li> <li>• Overseeing the Board evaluation and acting on its results.</li> <li>• Ensuring appropriate induction and development programmes.</li> <li>• Setting the Board agenda and chairing the Board meetings.</li> <li>• Ensuring effective communication with shareholders and other stakeholders.</li> </ul>
<b>Chief Executive Officer</b> Jon Stanton	<ul style="list-style-type: none"> <li>• Planning the Group objectives and strategy for Board approval.</li> <li>• Ensuring the effective delivery of Group strategy.</li> <li>• Providing leadership to the Group and communicating the Company's culture, values and behaviours.</li> <li>• Day-to-day management of the Company.</li> </ul>
<b>Chief Financial Officer</b> John Heasley	<ul style="list-style-type: none"> <li>• Ensuring an effective financial control environment which is compliant with regulations.</li> <li>• Ensuring effective management of Group capital structure and financing needs.</li> <li>• Provision of timely and accurate financial reporting.</li> <li>• Assisting in formulating the Group objectives and strategy.</li> <li>• Delivery of the Group value chain excellence and IT strategy.</li> <li>• Day-to-day management of the Company.</li> </ul>
<b>Senior Independent Director</b> Rick Menell	<ul style="list-style-type: none"> <li>• Supporting the Chairman in his duties where necessary.</li> <li>• Leading the annual review of the performance of the Chairman.</li> <li>• Being available to Directors and Shareholders with concerns that cannot be addressed through the normal channels.</li> </ul>
<b>Non-Executive Directors</b> Clare Chapman Cal Collins Mary Jo Jacobi Barbara Jeremiah Professor Sir Jim McDonald Stephen Young	<ul style="list-style-type: none"> <li>• Contributing independent challenge and rigour.</li> <li>• Assisting in the development of the Company's strategy.</li> <li>• Ensuring the integrity of the financial information, controls and risk management processes.</li> <li>• Monitoring the performance of the Executive Directors against agreed goals and objectives.</li> <li>• Advising senior management.</li> <li>• Succession planning for the Board and senior management.</li> </ul>
<b>Chief Legal Officer and Company Secretary</b> Graham Vanhegan	<ul style="list-style-type: none"> <li>• Advising the Board on governance, legislation and regulatory requirements.</li> <li>• Ensuring the presentation of high-quality information to the Board and its Committees, in a timely manner.</li> <li>• Ensuring best practice in Board procedures.</li> <li>• Facilitating induction and development programmes.</li> <li>• Supporting the Chairman and other Board members as necessary, including the management of the Board and Committees and their evaluation.</li> </ul>

## Corporate Governance continued

### Board Committees

The Board has a number of Committees to assist in discharging its responsibilities. The principal committees are the Nomination Committee, the Audit Committee and the Remuneration Committee. The work of the Committees is essential to the effective operation of the Board and the Committees consider matters in greater depth and detail on behalf of the Board. The responsibilities of the Board committees are set out in the individual Terms of Reference of each committee, which are available on the Company's website. The Committee Terms of Reference are reviewed annually to ensure their continuing appropriateness. Only Committee members are entitled to attend meetings, however, other Board members may attend at any time if they choose to do so. Professional advisers and members of the senior management team attend committee meetings when they are invited to do so.

The Board may also set up separate committees to consider specific issues when the need arises.

### Board and Committee structure

The composition of the various committees along with their accompanying Terms of Reference, the matters reserved to the Board for approval and delegated authority matrices combine to create a clear authority matrix across the Group for timely and effective decision-making. This structure provides the Board with confidence that important decisions are being taken at the appropriate levels, and information flows both up and down the reporting lines.



## Board meeting attendance 2018

Name	Scheduled board meetings 2018								% of meetings attended
	23 Jan	26 Feb	26 Apr	19 Jun	27 Jul	04 Sep	22 Oct	17 Dec	
Charles Berry (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	100%
Jon Stanton	✓	✓	✓	✓	✓	✓	✓	✓	100%
John Heasley	✓	✓	✓	✓	✓	✓	✓	✓	100%
Rick Menell	✓	✓	✓	✓	✓	✓	✓	✓	100%
Clare Chapman	✓	✓	✓	✓	✓	✓	✓	✓	100%
Cal Collins <sup>1</sup>	n/a	n/a	n/a	n/a	✓	✓	✓	✓	100%
Mary Jo Jacobi	✓	✓	✓	✓	✓	✓	✓	✓	100%
Barbara Jeremiah	✓	✓	✓	✓	✓	✓	✓	✓	100%
Sir Jim McDonald	✓	✓	✓	✓	✓	✓	✓	✓	100%
Stephen Young	✓	✓	✓	✓	✓	✓	✓	✓	100%
Alan Ferguson <sup>2</sup>	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	100%
John Mogford <sup>3</sup>	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	100%

Name	Unscheduled board meetings 2018					% of meetings attended
	22 Feb	27 Mar	08 Apr	15 Apr	30 Sep	
Charles Berry (Chairman)	✓	✓	✓	✓	✓	100%
Jon Stanton	✓	✓	✓	✓	✓	100%
John Heasley	✓	✓	✓	✓	—	80%
Rick Menell	✓	✓	✓	✓	✓	100%
Clare Chapman	✓	✓	✓	✓	—	80%
Cal Collins <sup>1</sup>	n/a	n/a	n/a	n/a	—	0%
Mary Jo Jacobi	—	✓	✓	✓	✓	80%
Barbara Jeremiah	✓	✓	✓	✓	✓	100%
Sir Jim McDonald	✓	✓	✓	✓	✓	100%
Stephen Young	✓	✓	✓	✓	✓	100%
Alan Ferguson <sup>2</sup>	—	✓	✓	✓	n/a	75%
John Mogford <sup>3</sup>	✓	✓	✓	✓	n/a	100%

1. Cal Collins was appointed to the Board on 12 July 2018.

2. Alan Ferguson stepped down on 26 April 2018.

3. John Mogford stepped down on 26 April 2018.

### Board Meetings

The Board meets regularly in order to effectively discharge its duties. Board meetings are held in person or by telepresence video-conferencing. During 2018, there were 8 scheduled meetings and 5 additional unscheduled Board meetings. The table above details the attendance at Board meetings of each of the Directors during their term of office for the period to 31 December 2018.

Due to business requirements, on occasion unscheduled Board meetings are required to be called at short notice. This can result in some Directors being unable to attend due to prior commitments. Directors who are unable to attend still have the opportunity to review

the relevant Board papers and provide their feedback accordingly.

In October 2018, the Board meeting was held in Portland, USA and full details can be found on page 78.

In addition to the formal Board meetings, the Board maintains an open dialogue throughout the year and contact by telephone occurs whenever necessary. As encouraged by the Code, the Non-Executive Directors, including the Chairman, met during the year without Executive Directors present.

The Board's annual timetable is discussed at least 12 months prior to its commencement to allow the Directors to plan their time accordingly.

The 2019 annual timetable was discussed at the Board meeting in 2017 and circulated as soon as it was finalised. The 2020 timetable was reviewed during 2018. This process ensures that the Chairman can be comfortable that each Director is able to devote the time and resources required to act as a Director during that period. The system for establishing the agenda items means that both the Chairman and the Board have the confidence that all required items are included at the most appropriate time of the year and there is sufficient time allocated for discussion by the Board, allowing the Directors to discharge their duties effectively.

## Corporate Governance continued

### Board Activities During 2018

During the year, the Chairman, supported by the Chief Executive Officer and the Company Secretary, maintained a rolling 12-month agenda for Board and Committee meetings.

At each meeting, the Board received reports from the Chief Executive Officer and other members of the Group Executive. This included updates and information on safety, strategy, legal and financial matters. The Board also receives updates from each Committee Chair on items from the most recent committee meeting as well as periodic updates as required. Standing items also included reviewing the Group's risk dashboard and internal controls, safety, strategy and succession planning.

In order to effectively discharge their duties, the Non-Executive Directors met regularly with senior management and received presentations by members of the Group's senior management team and other external advisers as required. The Board also received an annual review on the following matters: asbestos, insurance and risk management, the Ethics Hotline, Value Chain Excellence, HR, tax, treasury and agents.

The Board's time during 2018 can be grouped into six key areas as outlined above. A portion of their time is also spent on administrative matters.

Directors are informed of important changes to laws and regulations affecting the Group's business and their duties as Directors. In addition, the Board meets once a year or more at one of the Group's operational sites, which includes presentations from key senior employees and the opportunity to meet employees across the global operations.

The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties. The Chairman ensures that Non-Executive Directors are properly briefed on any issues arising at Board meetings and Non-Executive Directors have the ability to communicate with the Chairman at any time.

### Company Secretary

The Company Secretary plays a leading role in the good governance of the Company by supporting the Chairman and helping the Board and its Committees to function efficiently. The Company Secretary advises the Board on governance matters and is available to all Directors for advice as required. Together with the Chairman, the Company Secretary keeps under review the governance processes adopted by the Company to ensure that they remain fit for purpose and considers any improvements that could strengthen the governance framework of the Company. The Company Secretary is the Secretary to the Board Committees and ensures that the Committees adhere to the highest standards of Corporate Governance and apply the provisions and principles of the UK Corporate Governance Code.

## Board Activity

<b>Strategy</b>	<ul style="list-style-type: none"> <li>Setting strategy targets.</li> <li>Reviewing potential mergers and acquisitions.</li> <li>Product development and innovation.</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>Risk Appetite Statement.</li> <li>Group's risk and internal control framework.</li> <li>Crisis management.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Legal updates and new disclosure requirements.</li> <li>The UK Corporate Governance Code.</li> <li>Board review. Succession planning.</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>Oversight of the preparation and management of the financial statements.</li> <li>Dividend policy. Pensions.</li> <li>Tax and treasury.</li> </ul>
<b>Stakeholder engagement</b>	<ul style="list-style-type: none"> <li>AGM and other shareholder feedback.</li> <li>Investor calls, meetings and roadshows.</li> <li>Oversight of remuneration consultation process.</li> <li>Employee engagement</li> </ul>
<b>Safety</b>	<ul style="list-style-type: none"> <li>SHE Standards and Management System.</li> <li>SHE Audit System.</li> </ul>

### Re-election

In accordance with the Company's Articles of Association and good practice, Cal Collins and Engelbert Haan will offer themselves for election at the Company's AGM on 30 April 2019. All other Directors on the Board at 31 December 2018 will seek re-election at the Company's AGM in compliance with the Code.

The Executive Directors have contracts of service with one year's notice, whilst Non-Executive Directors' appointments can be terminated with six months' notice. The letters of appointment of the Chairman and the Non-Executive Directors are available for inspection at the Company's registered office and set out the required commitment to the Company. Further details can also be found in the Directors' Remuneration Report on pages 95 to 113. Details of the Directors' service contracts, emoluments, the interests of the Directors in the share capital of the Company and options to subscribe for shares in the Company are disclosed in the Directors' Remuneration Report on pages 95 to 113.

### Directors and their Other Interests

Under the Companies Act 2006, a Director of a company must avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Company has a formal procedure in place to manage the disclosure, consideration and, if appropriate, the authorisation of any such possible conflict. Each Director is aware of the requirement to notify the Board, via the Company Secretary, as soon as they become aware of any possible

future conflict or a material change to an existing authorisation. Upon receipt of any such notification, the Board, in accordance with the Company's Articles of Association, will consider the situation before deciding whether to approve the perceived conflict. At the outset of every Board meeting, the Chairman also checks that no new conflicts have arisen. Only those Directors who have no interest in the matter being considered are able to take part in the relevant decision and Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate. The Director in question will then be notified of the outcome. Overall, the Board is satisfied that there are appropriate procedures in place to deal with conflicts of interest and that they have operated effectively.

None of the Non-Executive Directors have any material business or other relationship with the Company or its management. Sir Jim McDonald is the Principal and Vice Chancellor of the University of Strathclyde, but he has no direct involvement on a day-to-day basis in relation to the Weir Advanced Research Centre (WARC) which is operated by the Company in conjunction with the University of Strathclyde. Nevertheless, he will offer to recuse himself from any discussions in relation to the relationship between the Group and the University of Strathclyde, whether in relation to WARC or otherwise.

## Board effectiveness evaluation cycle

The Board Effectiveness Review operates on a three-year cycle. This year, the Board Effectiveness Review was undertaken by The Effective Board LLP, who have no other connection with the Company. The process is detailed in the table below. The findings of this year's Review have been positive and confirmed that the Board and its Committees operate effectively and that each Director contributes to the overall effectiveness and success of the Group.

Year 1	Year 2	Year 3
<b>Internal Evaluation</b> <ul style="list-style-type: none"> <li>Circulate findings report from previous year</li> <li>Online confidential questionnaire</li> <li>Analysis and discussion at Board meeting</li> </ul>	<b>Internal Evaluation</b> <ul style="list-style-type: none"> <li>Circulate findings report from previous year</li> <li>Online confidential questionnaire</li> <li>Analysis and discussion at Board meeting</li> </ul>	<b>External Evaluation</b> <ul style="list-style-type: none"> <li>Interviews</li> <li>Observation</li> <li>Analysis and discussion at Board meeting</li> <li>Individual meetings with Chairman and Directors post evaluation</li> </ul>

### The process was divided into four stages:

<b>Stage 1</b> The questionnaire was split into various categories; Success, Strategy, Board Composition, Executive Team, Financial and Operational Resources, Communication with Employees, Shareholders and other Stakeholders, Performance Measurement Systems, Risk Management Systems and Board's processes, procedures and resources.	<b>Stage 2</b> The on-line questionnaire was completed by the Board and the Company Secretary.	<b>Stage 3</b> The Board Effectiveness report was sent to the Chairman and the Committee Effectiveness reports were sent to each of the Committee Chairs.  The effectiveness reports of the Chairman and Company Secretary were sent to the SID and Chairman respectively.  Follow up meetings were held with the Chairman.	<b>Stage 4</b> The Chairman presented the findings from the Review to the Board at the December 2018 Board meeting and actions for the forthcoming year agreed.
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### Outcomes from 2017

- Further enhancement of Non-Executive Directors' engagement with various levels of the business and a more structured schedule of informal site visits.
- Continued increased focus of the Board on people and culture, as the new Chief People Officer works with the Executive team on succession planning, talent management and employee engagement as well as enhanced reporting to the Board in these areas.
- A review and possible refinement of the annual calendar and schedule of meetings.

### Progress against outcomes from 2017

- Increased number of Non-Executive Directors' site visits and a procedure approved by the Board on NED site visit protocol taking into account employee engagement.
- Deep dives and increased updates provided at Board meetings from the Chief People Officer in relation to employee engagement, succession planning and talent management.
- The annual Board calendar and cycle of Board and Committee meetings was reviewed. The schedule now allows for Committee meetings to be held the day before the Board meetings, allowing the Board members more time for discussion and consideration.

### Findings from 2018

- The Board were positive in their views of the Board's effectiveness.
- Succession Planning works well at Board level however further improvements should be planned for Executive level and below.
- It was agreed that the Board has improved the level of Diversity, but further development is required.

### Outcomes from 2018

- Continue to focus on Succession Planning below Executive level.
- Support the further development of Diversity.

### Board Effectiveness

The Board considers that it has the right combination of skills, experience, independence and knowledge to be effective in meeting the needs of the Group. More than half of the Board are Non-Executive Directors who are considered by the Board to be independent in character and judgement.

This combination of individuals and skills ensures that the Board is sufficiently balanced and that no individual or group of individuals can dominate the decision-making process. It also allows for an effective division of responsibilities within the Board and its Committees. The positions of Chairman and Chief Executive Officer are held separately and are clearly defined in writing. Each Director devotes sufficient time and attention in order to perform their duties

effectively. Each Director brings different skills, experience and knowledge to the Company, with the Non-Executive Directors bringing additional independent thought and judgement. The roles of the Chairman and Chief Executive Officer are separate, with each having clearly defined duties and responsibilities which are set out in writing and approved by the Board. The roles and responsibilities of the Senior Independent Director are also set out in writing and are available on the Company's website.

### Board Induction

When a new Director is appointed to the Board, they are provided with information on the Group's structure, operations, policies and other relevant documentation. The induction process also includes meetings with senior Executives in the Company, a formal briefing on legal and

governance matters from the Company Secretary and visits to the Company's operations.

The Chairman regularly reviews and agrees with each Director their training and development needs. Additional induction and training is also available to new committee members as required. Training is also built into the Board meetings, with relevant topics being covered.

## Corporate Governance continued



## Governance in action: Board visit to Portland, USA

**In October 2018 the Board spent three days at ESCO divisional headquarters in Portland, Oregon, meeting people and learning more about the Group's newest division.**

During the first day of their visit Non-Executive board members, Mary Jo Jacobi, Clare Chapman and Barbara Jeremiah along with Group Executive members Geetha Dabir (Chief Technology Officer) and Rosemary McGinness (Chief People Officer), joined a panel discussion, hosted by the ESCO Women's Network. ESCO engineer, Yesenia Torres, lead discussions on diversity and inclusion in the workplace, professional and personal development and collaboration.

Speaking after the panel discussion, Sun Ah Cho, from the Weir Oil & Gas Fort Worth team, but currently working in Portland, commented, "My initial feeling was a sense of inclusiveness as one of many women working in the industry."

The overall takeaway from the discussion is that I was encouraged to take chances...and be part of finding solutions to problems."

The Board were also given a tour of ESCO's manufacturing Plant 3 during their visit. Plant 3 has made remarkable progress in upgrading their facility to Weir Safety, Health & Environment standards during the last few months. "Every employee had a role in helping to make facility improvements" said Kat Robinson, SHE manager for Plant 3. "While there is still progress to be made, this strategic alignment will help make our workplace safer for all employees."

The Board rounded off their visit at the Hank Swigert Center for Innovation. This research and development facility is a key hub in the growth of advanced technology and allowed the board to see products including Core mining GET (Ground Engaging Tools), a Warman pump, and the suite of Weir and ESCO digital products up close and in-action.

Software Engineer, Vikram Sitaram, was given the chance to present a brief overview of digital applications. Following the visit Vikram said, "It was exciting to be able to see the keen interest displayed by the board and the questions that they had around the product."

## Mary Jo Jacobi to lead the Board's employee engagement work

- Strengthening the links between employees and the Board.
- Building employee engagement to promote an open and transparent culture.
- Working to ensure that all Weir employees can have a voice in our future success.



**Mary Jo Jacobi**  
**Employee Engagement Non-Executive Director**

### Why do you think it is important that the voice of employees is a part of Board room discussion?

As a Board member my job is to offer constructive challenge informed by my experience. I have spent much of my career helping organisations to communicate effectively and a key lesson is to listen first. The success of every enterprise depends on its people, and for the Board to operate effectively the views and feedback of our employees are vital.

At Weir, I have always admired the candour of people across the organisation and am delighted to be able to help build on the broader engagement strategy already in place to ensure those perspectives are represented in our decision-making. It is an honour for me to represent the views of the workforce around the Board table.

### What does your role involve?

I see the job first as listening and then articulating and advocating the views of the employees to help the Board make better informed decisions based on the broad perspectives of the workforce, as well as other stakeholders. Weir Board members have always had great conversations when we visit facilities but we are formalising that process to ensure there is greater consistency to gathering employee feedback and promoting two-way conversations.

### How will you ensure that the views of employees are integrated into the work of the Board and the strategy of the business?

Weir's global engagement strategy involves ensuring regular and constructive dialogue between employees and leadership. As Non-Executive Directors specifically, we have regular and varied engagements with employees, including site visits such as those we undertook in Portland and Madison in 2018, and the engagement undertaken during the onboarding of our newest Non-Executive Directors which presented excellent opportunities. From 2019 onwards we're going to go further by setting up new 'Employee Voice Forums' to share feedback with the Board and Group Executive.

These forums will be organised geographically, in line with our Board and Group Executive meeting schedule. They will comprise a diverse range of employees who will meet with us to discuss a range of business topics where employee feedback will help drive the Company forward and improve how we do things. The employee voice representatives participating in these forums will be encouraged to gather a broad range of their colleagues' voices before meeting with the Board, and they will be prepared to provide feedback after the meetings.

This approach to employee voice forums will also align with our plans to introduce regional employee AGMs in line with our all employee share plan launch in 2019.

In addition to these structured events, we are developing mechanisms for less formal engagement between the Board and Weir teams around the world, such as encouraging travelling Non-Executive Directors to visit sites.

### Why has the Board decided that this is the most effective way to bring employee voice to the Board table?

This is the start of a long journey that will include a variety of mechanisms to build on Weir's broader employee engagement approach. We will monitor our progress and refine our approach to ensure we get good results. We will know what's working because people across the Group will tell us, and we'll be listening. Weir's culture is a great advantage for us in these endeavours.

# Accountability

## The Audit Committee and auditors

Details on the roles and responsibilities of the Audit Committee and its members can be found in the Audit Committee Report on pages 87 to 94. Information on the Company's external auditors is contained within the Audit Committee Report.

### Internal Control and Risk Management

In accordance with the Code and the accompanying Guidance on Risk Management and Internal Controls, the Group has an ongoing process for identifying, evaluating and managing the significant risks through an internal control framework. This process has been in place throughout 2018. More information on how the Group seeks to manage risk can be found on pages 47 to 55.

The Board in seeking to achieve the Group's business objectives, cannot offer an absolute guarantee that the application of a risk management process will overcome, eliminate or mitigate all significant risks. However, by further developing and operating an annual and ongoing risk management process to identify, report and manage significant risks, the Board seeks to provide a reasonable assurance against material misstatement or loss.

The Audit Committee conducted a review of the effectiveness of the Group's systems of internal control and risk management during 2018, as detailed on page 88.

### Functional and front line controls

This includes a wide spectrum of controls as seen in most organisations, including, for example: standard operating procedures and policies; a comprehensive financial planning and reporting system, including quarterly forecasting; regular performance appraisals and training for employees; restricted access to financial systems and data; delegated authority matrices for review and approval of key transactions; protective clothing and equipment to protect our people from harm; IT and data security controls; business continuity planning; and assessment procedures for potential new recruits.

### Monitoring and oversight controls

There is a clearly defined organisational structure within which roles and responsibilities are articulated. There are monitoring controls at operating company, regional, divisional and Group level, including standard key performance indicators, with action plans to address underperforming areas.

A compliance scorecard self-assessment is completed and reported by all operating companies twice per annum. The scorecard assesses compliance with Group policies and procedures.

Financial monitoring includes comparing actual results with the forecast and prior year position on a monthly and year to date basis. Significant variances are highlighted to Directors on a timely basis, allowing appropriate action to be taken.

### Assurance activities

We obtain a wide range of assurance to provide comfort to management and the Board that our controls are providing adequate protection from risk and are operating as we would expect.

Following the Board and Committee structure set out on page 74, various internal and external sources of assurance report to the Board and management. These sources of assurance were reviewed by the Board during the year, and principally comprise of external audit, internal audit, SHE audits, legal and intellectual property audits, engineering audits, Value Chain Excellence and procurement audits, IT audits and production system lean audits.

The various audit teams plan their activities on a risk basis, ensuring resources are directed at the areas of greatest need. Issues and recommendations to enhance controls are reported to management to ensure timely action can be taken, with oversight provided from the relevant governance committees, including the Audit Committee and the Excellence Committees.

### Ethical and cultural environment

We are committed to doing business at all times in an ethical and transparent manner. This is supported by the Weir values which are the core behaviours we expect our people to live by in their working lives. The Weir Code of Conduct also contributes to our culture, providing a high benchmark by which we expect our business to be conducted. Any examples of unethical behaviour are dealt with robustly and promptly.

The Ethics section on page 60 within the Sustainability Review provides more details on the Group's activities to promote ethical behaviour.

The Group's internal control procedures described on page 88 of the Audit Committee Report do not cover joint venture interests. We have Board representation on each of our joint venture companies, where separate, albeit similar, internal control frameworks have been adopted.

## Our internal control framework has four key layers:



# Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the directors have assessed the viability of the Group over a three year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 51 to 55 of the Annual Report. Based on this assessment, the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

The directors have determined that a three year period to 31 December 2021 is an appropriate period over which to provide its viability statement. The Group's key markets are by nature cyclical and therefore, while the Group operates a five year strategic planning process, market cyclicity and the related lack of visibility over commodity prices in particular indicate that a period of three years is appropriate. We believe that this approach presents the Board and readers of the Annual Report with a reasonable degree of confidence over this longer term outlook.

The strategic plan is a bottom up analysis prepared annually and submitted to the Board for consideration. The output of this plan is used to perform central debt and headroom profile analysis, which includes a review of sensitivity to 'business as usual' risks, such as profit growth, working capital variances and return on capital investment. This analysis, in conjunction with the current year results and 2019 Budget, provides the basis for the viability model on which we have overlaid a number of severe but plausible events to reflect our risk assessment.

In making this statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that could threaten its business model, future performance, solvency or liquidity.

While the review has considered all the principal risks identified by the Group, the following risks were focused on for enhanced stress testing: market downturn, major site and customer shocks, significant loss of market share in key markets and regulatory shock. The resulting scenarios were modelled as a series of individual one-off 'shocks', in combination with commodity price based market downturn scenarios. Refer to page 55 for the Group's principal risks, specifying those risks considered during this review.

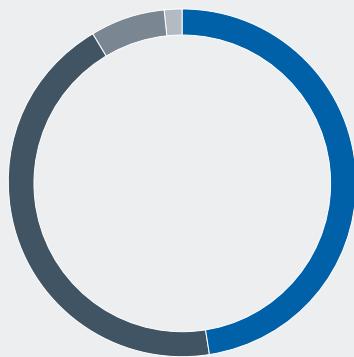
The geographical and sector diversification of the Group's operations helps minimise the risk of serious business interruption or catastrophic damage to our reputation. While the Group remains exposed to the cyclicity of the markets in which it operates, it continues to have a strong balance sheet that provides capacity in which to operate. In addition, our ability to flex our cost base to reflect our existing markets, as demonstrated in recent years, protects our viability in the face of adverse economic conditions and/or additional risks highlighted.

While this review does not consider all of the risks that the Group may face, the directors consider that this stress testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

## Corporate Governance continued

# Relations with Shareholders and Stakeholders

### Holder Breakdown



Domestic Institutions	<b>47.56%</b>
Foreign Institutions	<b>43.86%</b>
Private Stakeholders/Investors	<b>7.06%</b>
Others	<b>1.52%</b>

The ongoing success of the Group depends on developing and nurturing strong relationships with our stakeholders. Being part of a wider community, Weir benefits from actively engaging with other community members to understand their priorities and seek mutually beneficial outcomes.

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's Shareholders. The Company's investor relations programme includes formal presentations of full year and interim results and meetings with individual investors. Through this programme, the Company has directly engaged with 301 investors in 2018 either face-to-face or via telephone or video-conferencing. The Company also engages with its Shareholders through its attendance at investor conferences held by the financial community and roadshows and investor relations events held by the Company, of which there were 20 during the year, held in Canada, Finland, France, Germany, the UK and the USA.

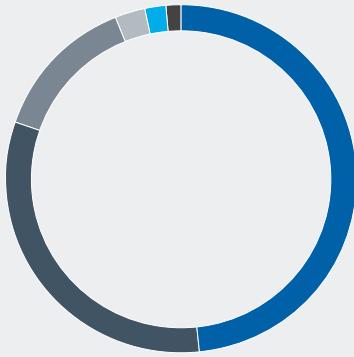
During the period under review, the Chairman, Chief Executive Officer, Chief Financial Officer, Senior Independent Director and Remuneration Committee Chairman have met or had contact with analysts and institutional Shareholders to keep them informed of significant developments and report to the Board accordingly on the views of these stakeholders. Each of the other Non-Executive Directors is also offered the opportunity to attend meetings with major Shareholders and would do so if requested by any major Shareholder.

The primary means of communicating with the Company's Shareholders are the Company's Annual Report and Financial Statements and the Interim Report. Both are available on the Company's website and the Annual Report is sent to all Shareholders who elect to receive it in hard copy. Copies are available upon request to the Company Secretary and can be downloaded from the website.

The Board also recognises the importance of the internet as a means of communicating widely, quickly and cost-effectively with all of our stakeholders. As well as the Interim and Annual Reports, the website contains information on the business of the Company and Corporate Governance, all Group press releases and Company news, key dates in the financial calendar and other important Shareholder information.

The Board is committed to the constructive use of the Annual General Meeting as a forum to meet with Shareholders and to hear their views and answer their questions about the Group and its business. The 2019 AGM will be held on 30 April 2019. Together with the rest of the Board, the Senior Independent Director and Chairmen of the Remuneration, Nomination and Audit Committees will be available to answer questions relevant to the work of the Board and the Committees.

### Holders by Geography



UK	<b>48.50%</b>
North America	<b>32.04%</b>
Europe (ex UK)	<b>13.46%</b>
Rest of World	<b>2.73%</b>
Europe (ex UK)	<b>2.10%</b>
Rest of World	<b>1.17%</b>

**AGM voting results 2018**

The Annual General Meeting of The Weir Group PLC was held on Thursday 26 April 2018 at 2.30 pm. All resolutions were passed on a poll. Resolutions 19 to 23 were passed as special resolutions.

<b>Resolution</b>	<b>Votes for</b>	<b>%</b>	<b>Votes against</b>	<b>%</b>	<b>Votes total</b>	<b>% of isc voted</b>	<b>Votes withheld</b>
1 To receive and adopt the report and financial statements.	185,051,117	99.94	112,821	0.06	185,163,938	76.77%	1,764,026
2 To declare a final dividend.	186,927,118	100.00	0	0.00	186,927,118	77.51%	846
3 To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy).	182,144,580	97.82	4,067,742	2.18	186,212,322	77.21%	715,642
4 To approve the Directors' Remuneration Policy.	172,580,892	92.35	14,286,238	7.65	186,867,130	77.48%	60,833
5 To approve the Company's Share Reward Plan.	174,083,050	93.77	11,573,953	6.23	185,657,003	76.98%	1,269,482
6 To approve the Company's All-Employee Share Ownership Plan.	186,422,988	99.74	493,689	0.26	186,916,677	77.50%	11,287
7 To elect Clare Chapman as a Director of the Company.	184,263,644	98.58	2,645,253	1.42	186,908,897	77.50%	19,066
8 To elect Barbara Jeremiah as a Director of the Company.	185,838,396	99.43	1,070,585	0.57	186,908,981	77.50%	18,983
9 To elect Stephen Young as a Director of the Company.	186,620,942	99.85	284,800	0.15	186,905,742	77.50%	22,222
10 To re-elect Charles Berry as a Director of the Company.	185,467,602	99.29	1,331,123	0.71	186,798,725	77.45%	129,238
11 To re-elect Jon Stanton as a Director of the Company.	186,609,961	99.84	299,765	0.16	186,909,726	77.50%	18,238
12 To re-elect John Heasley as a Director of the Company.	185,463,643	99.23	1,446,083	0.77	186,909,726	77.50%	18,238
13 To re-elect Mary Jo Jacobi as a Director of the Company.	186,506,199	99.78	406,831	0.22	186,913,030	77.50%	14,934
14 To re-elect Sir Jim McDonald as a Director of the Company.	184,282,572	98.60	2,609,251	1.40	186,891,823	77.49%	36,140
15 To re-elect Richard Menell as a Director of the Company.	176,149,847	94.24	10,760,378	5.76	186,910,225	77.50%	17,738
16 To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company.	186,702,278	99.90	194,872	0.10	186,897,150	77.49%	30,814
17 That the Company's Audit Committee be authorised to determine the remuneration of the Auditors.	186,866,877	99.97	51,763	0.03	186,918,640	77.50%	5,052
18 To renew the Directors' general power to allot shares.	169,262,431	90.56	17,649,662	9.44	186,912,093	77.50%	15,871
19 To partially disapply the statutory pre-emption provisions.	186,820,058	99.96	65,896	0.04	186,885,954	77.49%	42,010
20 To partially disapply the statutory pre-emption provisions in connection with an acquisition or specified capital investment.	166,021,503	88.83	20,870,941	11.17	186,892,444	77.49%	35,519
21 To renew the Company's authority to purchase its own shares.	184,390,064	98.65	2,525,879	1.35	186,915,943	77.50%	12,020
22 To reduce the notice period for general meetings.	177,070,745	95.11	9,112,454	4.89	186,183,199	77.20%	744,765
23 To adopt the New Articles of Association of the Company.	186,884,445	99.99	17,837	0.01	186,902,282	77.50%	25,682

a) Any proxy appointments which give discretion to the Chairman have been included in the "for" total.

b) At close of business on 25 April 2018 there were 241,179,469 relevant shares in issue (excluding treasury shares).

**Corporate Governance continued**

# Nomination Committee Report



**Charles Berry**  
**Chairman**

**Dear Shareholders**

I am pleased to introduce our Nomination Committee report for 2018 which explains the Committee's focus and activities during the year, and also highlights the Committee's key priorities for 2019. I continue to ensure that all relevant provisions of the UK Corporate Governance Code are met.

**Role of the Nomination Committee**

The Nomination Committee has responsibility for considering the size, structure and composition of the Board; for reviewing Director and Senior Management succession plans, retirements and appointments of additional or replacement Directors and for making appropriate recommendations of candidates to the Board so as to maintain an appropriate balance of skills, experience and diversity on the Board.

**Membership and attendance**

The Nomination Committee is entirely made up of independent Non-Executive Directors and myself as Chairman.

The members of the Committee are set out in the table to the left. Senior members of management and advisors are invited to attend meetings as appropriate. The Company Secretary acts as Secretary to the Committee. There were six Committee meetings held during the year of which three were unscheduled. Details of the attendance of the members of the Committee for the year ended 31 December 2018 are contained in the table below. I do not Chair Committee meetings when the matters under consideration relate to me or my position.

Similarly, should a matter under discussion relate to any of the other Committee members, they would excuse themselves from the meeting.

**Main activities during 2018**

- Ensured Board and Senior Management succession planning aligned with our strategy and culture.
- Undertook Board skills assessment and gap analysis.
- Reviewed Director election and re-election at the forthcoming AGM;
- Recommended Board and Committee changes; appointment of Non-Executive Directors Cal Collins and Engelbert Haan, appointment of Mary Jo Jacobi as Employee Engagement Non-Executive Director, appointment of Sir Jim McDonald as a member of the Nomination Committee, Rick Menell as member of the Audit Committee, Stephen Young as a member of the Remuneration Committee and as Chairman of the Audit Committee and Graham Vanhegan as Chief Legal Officer and Company Secretary.

**Areas of focus for 2019**

- Further developing our approach to Inclusion and Diversity across the wider Group at all levels.
- Enhancing the leadership and talent framework and pipeline.
- Refining the remit of the Nomination Committee in light of the new UK Corporate Governance Code.
- Continuing to focus on monitoring and assessing our culture.

**Committee membership in 2018**

Charles Berry (Chairman)
Mary Jo Jacobi
Rick Menell
Sir Jim McDonald
John Mogford
Graham Vanhegan (Secretary)

**Other attendees by invitation**

Jon Stanton, Chief Executive Officer

## Nomination Committee meeting attendance

Name	Member since	Committee meetings 2018						Percentage of meetings attended
		23 Jan	26 Feb	26 Apr*	19 Jun*	22 Oct*	17 Dec	
Charles Berry (Chair)	1 January 2014	✓	✓	✓	✓	✓	✓	100%
Mary Jo Jacobi	1 August 2017	✓	✓	✓	✓	✓	✓	100%
Rick Menell	14 June 2012	✓	✓	✓	✓	✓	✓	100%
Sir Jim McDonald <sup>1</sup>	26 April 2018	—	—	—	✓	✓	✓	100%
John Mogford <sup>2</sup>	21 January 2014	✓	✓	—	—	—	—	100%

\*. Unscheduled meeting.

1. Sir Jim McDonald joined the Nomination Committee on 26 April 2018.

2. John Mogford stepped down on 26 April 2018.

**Read more**

Terms of Reference are available on the Company's website at [www.corporategovernance.weir](http://www.corporategovernance.weir)

## Board Appointment and Tenure

Director	Length of tenure at 31 December 2018										Date of appointment	Date of next election or re-election
	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years		
Charles Berry						5					1 March 2013	30 April 2019
Jon Stanton <sup>1</sup>										8	19 April 2010	30 April 2019
John Heasley											3 October 2016	30 April 2019
Rick Menell										9	1 April 2009	30 April 2019
Clare Chapman											1 August 2017	30 April 2019
Cal Collins <sup>2</sup>											12 July 2018	30 April 2019
Mary Jo Jacobi						5					1 January 2014	30 April 2019
Barbara Jeremiah											1 August 2017	30 April 2019
Sir Jim McDonald						4					1 January 2015	30 April 2019
Stephen Young											1 January 2018	30 April 2019
John Mogford <sup>3</sup>										10	1 June 2008	—
Alan Ferguson <sup>4</sup>											13 December 2011	—

## Notes

1. Jon Stanton was appointed to the Board as Group Finance Director on 19 April 2010. His tenure as Group Finance Director was 6 years, 5 months.
2. Cal Collins was appointed to the Board on 12 July 2018.
3. John Mogford stepped down on 26 April 2018.
4. Alan Ferguson stepped down on 26 April 2018.

## Board Skills and Attributes

Director	Independence	Banking and finance	Engineering	Governance	International	Leadership	Mining	Oil and gas	Power
Charles Berry			✓	✓	✓	✓			✓
Jon Stanton		✓		✓	✓	✓	✓	✓	✓
John Heasley		✓		✓	✓	✓	✓	✓	✓
Rick Menell	✓	✓		✓	✓	✓	✓		
Clare Chapman	✓			✓	✓	✓			
Cal Collins <sup>1</sup>				✓	✓	✓	✓		
Mary Jo Jacobi	✓			✓	✓	✓		✓	
Barbara Jeremiah	✓			✓	✓	✓	✓		✓
Sir Jim McDonald	✓		✓	✓	✓	✓			✓
Stephen Young <sup>2</sup>	✓	✓		✓	✓	✓			
Engelbert Haan <sup>3</sup>	✓		✓		✓	✓			

1. Cal Collins was appointed to the Board on 12 July 2018.
2. Stephen Young was appointed to the Board on 1 January 2018.
3. Engelbert Haan was appointed to the Board on 18 February 2019.

## Corporate Governance continued

### Nomination Committee Report continued

#### **Succession Planning**

The Nomination Committee continues to give full consideration to succession planning for the Board and Senior Management, with a pro-active approach taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board. The Board believes that effective succession planning improves performance for all stakeholders.

#### **Board composition and skills**

The Nomination Committee considers that the Board consists of individuals with the right balance of skills, diversity, experience and knowledge to provide strong and effective leadership of the Group. During the year the Board consisted of the Chairman, up to nine Non-Executive Directors and two Executive Directors, who together bring a diverse and complementary range of backgrounds, personal attributes and experience.

The Board skills and experience matrix, based primarily on professional background and executive roles held, is detailed on page 85. Committee membership is periodically refreshed and the Nomination Committee recommended some changes to the composition of the Board Committees, as outlined above and in the respective Committee reports.

The Board appointed Mary Jo Jacobi, Non-Executive Director, as Employee Engagement Director on 26 April 2018, to strengthen our existing employee engagement mechanisms. You can read more about our approach to employee engagement on pages 9 and 79.

#### **Board appointments**

The Committee was responsible for leading the process in recruiting a new Non-Executive Director in 2018. Appointments to the Board are subject to a formal, rigorous and transparent procedure. Details of the recruitment process are noted below.

The considerations to be taken into account in each appointment to the Board are stipulated in the Terms of Reference of the Nomination Committee. Specifically, the Nomination Committee must consider candidates on merit against objective criteria, and with due regard for the benefits of diversity on the Board, including gender, in identifying and recommending candidates. The Nomination Committee recommends appointments to the Board based on the existing balance of skills, knowledge and experience on the Board, on the merits and capabilities of the candidate and on the time they are able to devote to the role in order to promote the success of the Company.

#### **Appointment of Non-Executive Director**

##### **Engelbert Haan**

External search advisers JCA Group<sup>1</sup> were engaged in the recruitment process and assisted the Nomination Committee in its search for suitable candidates. The Committee was informed of possible candidates, put forward by JCA Group. Selected candidates met with myself, the Chief Executive Officer and a Non-Executive Director. Feedback was provided to the Committee and it was agreed that the preferred candidates should proceed to the next stage. The preferred candidates then met with the remaining Directors. Following the satisfactory conclusion of the process, the Nomination Committee recommended to the Board that Engelbert Haan be appointed to the Board on 18 February 2019.

1. JCA Group have no other connection with the Company and have signed up to the voluntary code of conduct on matters such as diversity for executive search firms. During 2018, JCA Group provided no other services to the Company.

##### **Appointment of Cal Collins**

Cal Collins, former Chairman and CEO of ESCO Corporation, joined the Board in July 2018 following the completion of the ESCO acquisition. In recommending this appointment to the Board, the Nomination Committee recognised that Cal could provide an important contribution through his experience of the mining sector and knowledge of ESCO.

#### **Tenure**

The Committee reviews the tenure of individual Non-Executive Directors on a regular basis in the context of length of service, experience, independence, contribution and skills. This is not only from a current strategy perspective but also takes into account potential future strategic needs. As part of the annual tenure review, the Nomination Committee specifically reviewed the tenure of Rick Menell, Senior Independent Director, in light of his service, and subsequently recommended that it should be extended for a further year. The Committee were satisfied that Rick's tenure had not compromised his independence in any way and he is and remains independent in character and judgement notwithstanding the fact that he has served on the Board for more than nine years. Rick's continued service is in the best interests of the Company because his experience is of particular importance at this time of recent change to the composition of the Board.

#### **Independence and re-election to the Board**

During 2018, the Nomination Committee reviewed and considered the independence of each Non-Executive Director in line with the UK Corporate Governance Code and Guidance

on Board Effectiveness. With the exception of Cal Collins, the Nomination Committee considers that all of the Non-Executive Directors are independent.

The review enabled the Committee to confirm its support for the election of Cal Collins and Engelbert Haan and for the re-election of all others members of the Board at the Company's forthcoming 2019 AGM. The Directors' biographies can be found on pages 68 and 69 and in the Notice of Meeting.

Processes are in place to identify any business relationships held by Non-Executive Directors or additional directorships or significant links with other companies or bodies which may be of relevance in determining their independence.

#### **Inclusion and Diversity**

The Board acknowledges the benefits that a diverse pool of talent can bring to a boardroom. Among other things, a diverse board encompasses diversity of experience, social background, education and training, life skills, personal attributes, as well as differences in age, nationality, race and gender.

The Committee takes an active role in meeting inclusion and diversity objectives. We are committed to ensuring that a third of the Board, Group Executive members, and their direct reports are female by 2020. We continue to work towards achieving this and the current levels are 30%, 29% and 19% (2018: 27%, 29% and 20%). I continue to be a member of the steering group of the Hampton-Alexander Review.

Further information regarding Inclusion and Diversity can be found on pages 9 and 59.

#### **Committee effectiveness**

The Committee's effectiveness was reviewed during the year through an internal Board Effectiveness Review, facilitated by The Effective Board LLP. Their report was presented to the Board in December 2018. I am pleased to confirm it concluded that the areas of responsibility of the Nomination Committee continued to be performed well. You will find more information on the Board Effectiveness Review cycle, process and findings on page 77.

**Charles Berry**

Chairman of the Nomination Committee  
27 February 2019

# Audit Committee Report



**Stephen Young  
Chairman**

## I am pleased to present our report to shareholders for the year ended 31 December 2018.

This is my first year as Chairman of the Audit Committee and as a Chartered Management Accountant and previous Chief Executive and Finance Director of Meggitt PLC, I can confirm that I bring recent and relevant financial experience to the Committee.

This report will outline how the Committee has fulfilled its key objective of providing effective governance over the appropriateness of the Group's financial reporting.

### Areas of focus

Our key objective is achieved by focusing on, amongst other things:

- the adequacy of accounting policies and disclosures, as well as the areas requiring significant estimates or judgements;
- the performance of both the internal audit function and the external auditor; and
- oversight of the Group's systems of internal control, and the framework for identification and management of business risks and related assurance activities.

### Membership

The members of the Committee, other than myself, are Sir Jim McDonald, Barbara Jeremiah and Rick Menell, all of whom are independent Non-Executive Directors. Sir Jim McDonald, Barbara Jeremiah and I have been members of the Committee for the full year. Rick Menell has been a member of the Board since 2009 and joined the Committee in April 2018. After six years as Audit Committee Chairman, Alan Ferguson stepped down from the Board and this Committee in April 2018, as did John Mogford.

The Committee members have, through their other business activities, significant experience in financial matters. They have been selected with the aim of providing the wide range of financial and commercial expertise necessary to fulfil our responsibilities. Summary biographies have been presented on pages 68 and 69.

### Meetings

We met four times during the year and have met twice since the year end. Each Committee meeting normally takes place prior to a Board meeting, during which I provide a report on our activities.

There is at least one meeting each year when we meet with each of the Head of Internal Audit and the external auditors separately, without any Executive management present. This provides us with the opportunity for any issues of concern to be raised by, or with, the auditors.

### Committee membership in 2018

Stephen Young (Committee Chairman)

Barbara Jeremiah

Sir Jim McDonald

Rick Menell (re-appointed)

### Other regular attendees (by invitation)

Charles Berry, Chairman

Jon Stanton, Chief Executive Officer

John Heasley, Chief Financial Officer

Kirsten McCargo, Group Financial Controller

David Kyles, Head of Internal Audit

Lindsay Gardiner (PricewaterhouseCoopers LLP, Group Audit Partner)

Graham Vanhegan, Secretary

## Audit Committee meeting attendance

Name	Member since	Committee meetings 2018				% of meetings attended
		22 Jan	26 Feb	26-Jul	22-Oct	
Stephen Young (Chair) <sup>1</sup>	1 January 2018	✓	✓	✓	✓	100%
Rick Menell <sup>2</sup>	26 April 2018	—	—	✓	✓	100%
Barbara Jeremiah	1 August 2017	✓	✓	✓	✓	100%
Sir Jim McDonald	1 January 2015	✓	✓	✓	✓	100%
John Mogford <sup>3</sup>	1 August 2008	✓	✓	—	—	100%
Alan Ferguson <sup>4</sup>	13 December 2011	✓	✓	—	—	100%

1. Stephen Young became Chairman on 26 April 2018.

2. Rick Menell re-joined on 26 April 2018.

3. John Mogford stepped down on 26 April 2018.

4. Alan Ferguson stepped down on 26 April 2018.

### Read more

Terms of Reference are available on the Company's website at [www.corporategovernance.weir](http://www.corporategovernance.weir)

## Corporate Governance continued

### Audit Committee Report continued

We have the ability to call on Group employees to assist in our work and to obtain any information required from Executive Directors in order to carry out our roles and duties. We are also able to obtain outside legal or independent professional advice if required.

The table above details the Board members and members of senior management who were invited to attend meetings as appropriate during the calendar year. In addition, PricewaterhouseCoopers LLP (PwC) attended the meetings by invitation as auditors to the Group.

#### Main activities

Over the course of the year since the last Annual Report, our work was focused in the following areas:

- (i) financial reporting;
- (ii) internal control and risk management;
- (iii) internal audit; and
- (iv) external audit.

The following sections provide more detail on our specific items of focus under each of these headings, explaining the work we, as a Committee, have undertaken and the results of that work.

#### (i) Financial reporting

Our principal responsibility in this area is the review and challenge of the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:

- critical accounting policies and practices, and any changes therein;
- decisions requiring significant judgements, areas of significant estimate, or where there has been discussion with the external auditor;
- the existence of any errors, adjusted or unadjusted, resulting from the audit;
- the clarity of the disclosures and compliance with accounting standards and relevant financial and governance reporting requirements, including an assessment of adoption of the going concern basis of accounting and a review of the process and financial modelling underpinning the Group's Viability Statement; and
- the processes surrounding the compilation of the Annual Report and Financial Statements with regard to presenting a fair, balanced and understandable assessment of the Group's position and prospects.

We received formal reports from the Chief Financial Officer and the external auditor, summarising the main discussion points for both the Interim Report in our July 2018 meeting and Annual Report during our January and February 2019 meetings.

In addition, we received regular updates in respect of new accounting standards during the year.

The financial reporting matters discussed in the current year and recurring agenda items are summarised in the table on pages 91 to 94.

#### (ii) Internal control and risk management

Overall responsibility for the Group's risk management and internal control frameworks rests with the Board. Further details on accountability for Risk Management are provided in the Corporate Governance Report on page 80.

Our role with regard to risk management has been delegated by the Board and is to review the effectiveness of the Group's risk and internal control frameworks.

Our work in this area was supported by reporting from the Head of Internal Audit on the results of the programme of internal audits completed; the overall assessment of the internal control environment; and in addition, reporting, either verbal or written, from senior management covering any investigations into known or suspected fraudulent activities. We also noted the additional work undertaken for the Board on a review of the sources of assurance which were mapped against the principal risks (see (iii) Internal audit below).

The Committee also receives regular reporting on the Group's compliance-related activities from the Chief Legal Officer and Company Secretary and Head of Internal Audit. This includes reviewing compliance with the Group's Ethics Helpline programme which provides a mechanism for employees with concerns about the conduct of the Group or its employees to report their concerns. The Committee ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. The Committee takes a particular interest in any reports of possible improprieties in financial reporting.

During 2018, there have been presentations from three Divisional Finance Directors (DFDs) including one from the newly acquired ESCO DFD. For the existing Divisions, these presentations included a review of the divisional risk dashboards, significant findings from the internal audit visits and the Compliance Scorecard

process over the last 12 months, as well as an overview of their divisional finance teams.

Focus is given to:

1. the strength and depth of the finance team's capability;
2. the quality and efficiency of responses to findings of internal audit visits, including whether learning has been shared more widely across the Group to mitigate the risk of recurrence and share good practice to; and
3. the quality of the discussion around divisional risk dashboards.

The ESCO presentation provided the Committee with an excellent opportunity soon after acquisition to meet the DFD, gain an understanding of the Division's finance team and obtain an understanding of the legacy internal audit procedures accompanied by a preliminary assessment of internal controls under the Weir framework.

The Compliance Scorecard is a control mechanism whereby each operating company undertakes self-assessments, every six months, of their compliance with Group policies and procedures, including key internal controls across a range of categories including finance, anti-bribery and corruption, tax, treasury, trade and customs, HR, IT and legal. As far as the elements relating to finance are concerned, these cover (but are not limited to) management accounts and financial reporting, balance sheet controls, employee costs and other financial policies. Each operating company is expected to prepare and execute action plans to address any weaknesses identified as part of the self-assessment process.

Operating companies are required to retain evidence of their testing in support of their self-assessment responses. Internal audit has responsibility for confirming the self-assessment during planned visits. Any significant variances are reported to local, divisional and Group management. Any companies reporting low levels of compliance are required to prepare improvement plans to demonstrate how they will improve over a reasonable period of time. The overall compliance scores (as a percentage) are tracked over time and reported to the Audit Committee twice a year, with the Committee paying particular attention to the variances between self-assessed and internal audit

assessed scores as well as trends and the performance of newly acquired companies.

#### **(iii) Internal audit**

The Head of Internal Audit reports to the Committee on audit activities, progress against the internal audit plan and the results of audit visits, with particular focus on high priority findings and the action plans, including management responses, to address these areas.

Private discussions between myself and the Head of Internal Audit are held during the year and once a year with the full Committee. I also receive copies of all internal audit reports issued during the year.

This gives us broad coverage of the activities of the function and a good sense of the control environment. This also allows us to ensure the function is effective (which includes assessing the independence of the function), adequately resourced and has appropriate standing within the Company.

One of the main duties of the Committee is to review the annual internal audit plan and to ensure that internal audit remains focused on providing effective assurance. We have continued to build on the exercise started in 2017 to map the key sources of assurance against the Group's core processes to ensure internal audit planning considers wider internal assurance risk indicators. This has been helped by the implementation of a risk modelling tool. The resulting 2019 plan continues to focus the majority of resource on financial assurance whilst incorporating wider risk assurance coverage, both financial and non-financial, as described below.

The factors considered when deciding which businesses to audit and the scope of each audit, including consideration of the number of visits to each operating company in the Group on a cyclical basis are, amongst other things, the volatility of end markets, critical system or senior management changes in the year, financial results, the timing of the most recent internal audit visit, assessments from other assurance reviews undertaken and whether the business is a recent acquisition. With specific regard to the latter, the 2019 plan incorporates a number of visits to the newly acquired ESCO.

In addition, the emergence of any common themes or trends in the findings of recent internal audits or compliance scorecard submissions (see previous section) is taken into consideration.

For 2019, the IT risk assurance programme continues to be based on the information

technology risk profiling exercise undertaken in 2017. This risk profiling will continue to be built on over the course of the year including the further development and utilisation of data analytics techniques.

Also, as part of the Annual Plan, reviews are to be undertaken to assess compliance with Weir's Code of Conduct procedures, including anti-bribery and corruption. This includes areas such as policy and procedures, employee training, relationships with agents, accounting for employee expenses and corporate hospitality and gifts. Finally, an element of the Annual Plan is reserved for assurance coverage of any emerging risk areas.

The Committee considered and approved the 2019 Internal Audit Annual Plan including the resource model, which remains at similar level to 2018.

#### **(iv) External audit**

##### **Auditor effectiveness**

The effectiveness of the external audit process is highly dependent on appropriate audit risk identification at the start of the audit cycle and the quality of planning. PwC present their detailed audit plan to the Committee each year identifying their assessment of the key risks, amongst other matters.

Our assessment of the effectiveness and quality of the audit process covers a number of other matters, including a review of the reporting from the auditors to the Committee, a review of the latest FRC Audit Quality Inspection report on PwC and also by seeking feedback from management on the effectiveness of the audit process. Overall, management were satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be satisfactory.

The Committee holds private meetings with the external auditor each year to provide additional opportunity for open dialogue and feedback from the Committee and the auditor without management being present. Matters typically discussed include the auditor's assessment of business risks and management activity thereon, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management and how they have exercised professional scepticism. I also meet with the lead audit partner outside the formal committee process as necessary throughout the year.

These interactions are also important in our assessment of audit quality.

Based on the work carried out, we are of the view that the quality of the audit process is satisfactory and that our expectations set, when awarding the audit to PwC in 2016, continue to be met.

#### **Independence policy and non-audit services**

The Audit Committee is responsible for the appointment and role of the auditor. This includes keeping under review the auditor's independence by issuing guidelines on any non-audit services that are to be provided by them. A formal policy exists (see [www.global.weir](http://www.global.weir)) which ensures that the nature of the advice to be provided cannot impair the objectivity of the auditor's opinion on the Group's Financial Statements. The policy makes it clear that only certain types of service are permitted to be carried out by the auditors. All permitted non-audit services require the approval of the Chief Financial Officer and, where the expected cost of the service is in excess of £75,000, the approval of myself, the Audit Committee Chairman. If non-audit fees approach £0.5m during a calendar year, the Committee will consider imposing additional restrictions on non-audit services. The auditor confirms their independence at least annually.

Fees payable to PwC in respect of audit and assurance services for 2018 of £3.8m (2017: £2.6m) were approved by the Committee after a review of the level and nature of work to be performed and after being satisfied by PwC that the fees were appropriate for the scope of the work required. The increase in level of fees for 2018 is due to the addition of ESCO and includes an element of fees for specific work in relation to the opening balance sheet.

Non-audit fee work conducted by PwC in the year of £0.4m (2017: £0.3m) represented 10% (2017: 10%) of the audit fee and primarily related to audit work on non-statutory financial statements. We are of the view that the level and nature of non-audit work does not compromise the independence of the external auditor.

Having considered the relationship with PwC, their qualifications, expertise, resources and effectiveness, the Committee concluded that they remained independent and effective for the purposes of the 2018 year end. As a result,

## Corporate Governance continued

### Audit Committee Report continued

the Committee recommended to the Board that PwC should be reappointed as auditor at the next AGM.

#### Committee evaluation

The Committee's effectiveness was reviewed during the year through an internal Board Effectiveness Review, facilitated by The Effective Board LLP. Their report was presented to the Board in December 2018.

The evaluation concluded that the Committee was performing well and no significant areas of concern were noted. Several recommendations were made which have since been addressed by introducing specific items into existing reports to the Committee or additional recurring agenda items.

#### Our focus for 2018

In last year's report we said that, in addition to our routine business, we would increase focus on the following two areas:

1. Manage the significant change in the members of the Committee; and,
2. Review how the broadened internal audit approach has bedded down within the business.

With regard to the first of these, I joined the Board and Audit Committee in January 2018 and had the benefit of attending two Audit Committee meetings before assuming the role of Audit Committee Chairman. Since taking on the role of Chairman, I attended formal induction meetings with the Group's senior finance management including the Chief Financial Officer, Head of Internal Audit, Group Financial Controller, Group Treasurer and Head of Tax and met with PwC. I have also enjoyed visits to several of the businesses throughout the year. Rick Menell, having been a long serving non-Executive Director of the Group as well as holding the position of Senior Independent Director on the Board, required less formal induction to the Committee.

We have made good progress on the second focus area as discussed in the internal audit section above and this will continue to develop over 2019.

#### Our focus for 2019

In addition to our routine business, in 2019 our focus will be on:

1. Assurance and controls in the newly acquired ESCO division as integration progresses; and
2. Responding to changes in the UK Corporate Governance Code.



**Stephen Young**

Chairman of the  
Audit Committee  
27 February 2019

### Current year matters

Area of focus	Issue	Role of the Committee	Conclusion	
<b>Exceptional items</b>  (see notes 5 and 21 of the financial statements)	Management exercises judgement on the classification of certain items as exceptional.	We have received detailed reporting from the Chief Financial Officer covering the following aspects of the exceptional charges:  (i) charge/credit by Division, including the nature of the items;  (ii) explanation of the acquisition accounting treatment which has given rise to the unwind of the ESCO inventory fair value uplift recognised on acquisition (see next section);  (iii) analysis of the ESCO acquisition and integration costs;  (iv) accounting treatment adopted in relation to the legacy product warranty issue including related provisions;  (v) analysis of restructuring charges and related provisions;  (vi) accounting treatment adopted when providing for Guaranteed Minimum Pension (GMP) equalisation;  (vii) analysis and explanation of the accounting treatment adopted with respect to the discontinued operations exceptional items; and  (viii) disclosure of the amounts and related narrative reporting.  Our work has focused on ensuring that these items were exceptional due to their size, nature and/or frequency. We noted the items reflected the way in which we, as members of the Board, reviewed the underlying performance of the Group and were disclosed appropriately. We also received confirmation from PwC that management's treatment was acceptable.  Consideration was also given to the current balance sheet position of all related exceptional provisions, including both new restructuring provisions and those remaining from previous multi-year programmes, with management providing details of the remaining liabilities and expected utilisation.		The Committee agrees with the accounting treatment and disclosure of these items in the Annual Report.
<b>Acquisition accounting for ESCO</b>  (see note 13 of the financial statements)	Management exercises judgement on the type of intangible assets acquired and estimates are made of the fair value of all assets and liabilities.	We received a summary report from management which outlined:  (i) the purchase price allocation exercise which identified and valued separately identifiable intangible assets;  (ii) the assessment of acquisition fair values, with a particular focus on the inventory uplift and provisions; and  (iii) the related disclosures in the financial statements displayed in note 13.  We reviewed the resulting valuations, understood the reasons behind the fair value adjustments made and compared results to recent Weir acquisitions as well as industry-wide comparisons. We took assurance from the fact that external advisors were engaged by the Company to assist with the purchase price allocation and we received confirmation from PwC that management's assumptions and calculation methodology were appropriate.	The Committee agrees with the acquisition accounting treatment and disclosure of the ESCO acquisition in the Annual Report.	

## Corporate Governance continued

### Audit Committee Report continued

#### Current year matters

Area of focus	Issue	Role of the Committee	Conclusion
<b>Discontinued operations</b>  (see note 8 of the financial statements)	Following the announcement of the Group's intention to sell Flow Control, management have disclosed Flow Control as a discontinued operation and record the assets and liabilities as Held for Sale.	We have received detailed reporting from the Chief Financial Officer covering:  (i) accounting treatment of Flow Control as a discontinued operation; (ii) prior period restatements; (iii) the carrying value of Flow control; and (iv) related presentation and disclosures in the Annual Report.  We considered the accounting treatment and reviewed the prior year restatements. We specifically considered the carrying value of Flow Control (see Impairment Section below) and reviewed the exceptional charge taken to reflect fair value less costs to sell. PwC confirmed the treatment and related disclosures were appropriate.	The Committee agrees with the discontinued operations accounting treatment, prior year restatement and the related disclosures in the Annual Report.
<b>New accounting standards</b>  (see note 2 of the financial statements)	The introduction of new accounting standards has required changes in accounting policy, treatment and disclosures.	We have received detailed reporting from the Chief Financial Officer covering:  (i) the prior year restatement related to the adoption of IFRS 15 Revenue from contracts with customers, and related changes to policy and disclosures in the Annual Report; (ii) the impact of adopting IFRS 9 Financial Instruments, and related changes to policy and disclosures in the Annual Report; and, (iii) the anticipated impact of adopting IFRS 16 Leases and related changes to policy and disclosures in the Annual Report.  We considered the impacts and reviewed related disclosures in the Annual Report. We have received confirmation from PwC that they are in agreement with the disclosures.	The Committee agrees with the prior year restatement and related disclosures in the Annual Report.

#### Recurring agenda items

Area of focus	Issue	Role of the Committee	Conclusion
<b>Impairment</b>  (see note 14 of the financial statements)	Management undertakes an annual detailed, formal impairment review of goodwill and other intangible assets, with judgements made on the relevant Cash Generating Units and estimates of available headroom.	The most significant estimates are in setting the assumptions underpinning the calculation of the value in use of the Cash Generating Units (CGUs). In respect of continuing operations, we specifically reviewed:  (i) the achievability of the long-term business plan numbers and macroeconomic assumptions underlying the valuation process; (ii) long-term growth rates and discount rates used in the cash flow models for all of the CGUs; and (iii) the rationale for ESCO to be treated as a new CGU.  Business plans and budgets were Board-approved and underpin the cash flow forecasts.  We have considered the sensitivity analysis supplied by management.  For discontinued operations, we considered the basis of valuation and deem it appropriate for Flow Control to be measured at fair value less costs to sell with the resulting write down to Flow Control's carrying value being recognised in exceptional items.  We have reviewed the relevant disclosures in the financial statements and the related narrative and also received confirmation from PwC that they are in agreement with management's conclusions.	We are satisfied that the impairment analysis supports the carrying value of the underlying assets in each continuing CGU and that the carrying value of Flow Control reflects its fair value less costs to sell.

## Recurring agenda items

Area of focus	Issue	Role of the Committee	Conclusion
<b>Provisions</b>  (see note 21 of the financial statements)	Significant balance sheet provisions are underpinned by management's key judgements on obligating events and timeframes over which a reliable estimate for provision values can be made.	<p>The focus of the Audit Committee was on the exceptional provisions including the linkage to the charges recorded in the Income Statement, the employee-related provisions, specifically the element in respect of US asbestos-related claims, and provisions relating to ESCO.</p> <p>The Committee's work in relation to exceptional items is discussed in the current year matters section.</p> <p>With regard to the US asbestos-related provision, following the triennial actuarial review in 2017, the Committee focus was centred on gaining an understanding of:</p> <ul style="list-style-type: none"> <li>(i) the actual claims and settlement data and their relation to the assumptions that underpin the discounted cash flow model;</li> <li>(ii) the period over which the liability can be reasonably estimated,</li> <li>(iii) the position with regard to availability of insurance cover; and</li> <li>(iv) the adequacy and transparency of the disclosures in note 21.</li> </ul> <p>PwC provided confirmation that management's assumptions were reasonable.</p> <p>With regard to other provisions (other than inventory – see below), we examined the key movements between the opening and closing provision balances and challenged management on the commercial drivers which caused them.</p> <p>We reviewed the provisions acquired as part of the ESCO acquisition and received accompanying explanations of the accounting treatment adopted.</p>	We are satisfied that the current provisioning levels and approach are appropriate, as is the recognition of a matching insurance asset in relation to the US asbestos provision.
<b>Pensions</b>  (see note 23 of the financial statements)	The valuation of pension liabilities can be materially affected by the assumptions utilised by management on areas such as discount and inflation rates.	We challenged management on the key assumptions underpinning the valuation, taking assurance from the fact that external advice had been taken by the Company, incorporating the ESCO pension liabilities into the process, and that PwC had benchmarked these assumptions to their own internal ranges and consider them appropriate.	The Committee was satisfied with the assumptions and related pension disclosures.
<b>Tax charge and provisioning</b>  (see notes 7 and 22 of the financial statements)	The tax position is complex, with a number of international jurisdictions requiring management's judgement with regards to effective tax rates, tax compliance and tax provisioning.	<p>The Audit Committee receives a detailed report from the Chief Financial Officer every six months, which covers the following key areas:</p> <ul style="list-style-type: none"> <li>(i) status of ongoing enquiries and tax audits with local tax authorities;</li> <li>(ii) the Group's effective tax rate for the current year; and</li> <li>(iii) the level of provisioning for known and potential liabilities, including significant movements on the prior period.</li> </ul> <p>In addition, the Committee takes comfort from the annual presentation to the main Board on tax strategy and risk, given by the Group Head of Tax, and the work done by, and conclusions of, PwC in this area.</p>	Based on the work we have undertaken, we are satisfied that the position presented in these financial statements, including the disclosures, is appropriate.
<b>Inventory valuation</b>  (see note 16 of the financial statements)	Management applies estimates on inventory valuation and provisioning.	<p>Given the significant investment in inventory, and being cognisant of the impact of commodity cycles, this remains a judgement for specific consideration. Reporting has been received from management on the business drivers behind movements in both gross inventory and the related slow-moving and obsolete provision. Specific consideration was given to a review of the accuracy of inventory provisioning.</p> <p>Finally, specific consideration was given to the provision recognised in respect of the exceptional legacy product warranty issue. Reporting has been received from management on the basis of provision.</p>	Based on the information provided, the Committee concluded that management action had been effective and that the level of provisioning appeared adequate.

## Corporate Governance continued

### Audit Committee Report continued

#### Recurring agenda items

Area of focus	Issue	Role of the Committee	Conclusion
<b>Fair, balanced and understandable</b>	<p>The Board is required to state that the Group's external reporting is fair, balanced and understandable.</p> <p>The Audit Committee is requested by the Board to provide advice to support the assertion.</p>	<p>The Committee received a report from management summarising the detailed approach that had been taken to ensure that the Group's external reporting is fair, balanced and understandable. This covered, but was not limited to, the following:</p> <ul style="list-style-type: none"> <li>(i) involvement of a cross section of management across the organisation during the preparation of the external reporting, including the Group Executive, Divisional Finance Directors, Group Communications, Group Finance (including Group Tax and Group Treasury) and Company Secretariat;</li> <li>(ii) input and advice from appropriate external advisers, including the Company's brokers and public relations agency;</li> <li>(iii) use of available disclosure checklists for both corporate governance and financial statement reporting;</li> <li>(iv) regular research to identify emerging practice and guidance from relevant regulatory bodies;</li> <li>(v) regular weekly meetings (from December to February inclusive) involving the key contributors to the document, during which specific consideration was given to the fair, balanced and understandable assertion; and</li> <li>(vi) use of three 'cold' readers; two employees independent of the preparation process (one a member of the senior management group) and an external, independent proof reader.</li> </ul>	The successful completion of this work has been reported to the Board.
<b>Viability Statement</b>	<p>The Committee's role, as delegated by the Board, is to review the underlying processes and key assumptions underpinning the Viability Statement and report to the Board accordingly.</p>	<p>We fulfilled our responsibilities in this area through the review and discussion of reporting received from management, which covered the following areas:</p> <ul style="list-style-type: none"> <li>(i) overview of the construct of the financial model and base case data underpinning the sensitivity and stress-test scenarios;</li> <li>(ii) results of financial modelling which reflected the crystallisation of those principal risks identified by the Board as having the greatest potential impact on the Group's viability, both individually and when taken together in a severe but plausible stress-test scenario;</li> <li>(iii) extent of mitigating actions included in the financial modelling, relative to the population of such actions that had been identified as within the control of management and the Board; and</li> <li>(iv) banking covenant calculations and assessment of facility headroom in each of the downside and stress-test scenarios.</li> </ul>	The successful completion of this work has been reported to the Board. The Group's viability statement is reported on page 81.

# Directors' Remuneration Report



**Clare Chapman  
Committee Chair**

**Our Weir strategic framework, with its focus on delivering positive outcomes for all our stakeholders, is at the heart of our approach to reward. Our remuneration policy is aimed at providing a simple, transparent and effective way to appropriately incentivise shared success and build a business for the long term.**

## Key contents

<b>Summary of Policy and 2019 implementation</b>	<b>97</b>
<b>Directors' Remuneration Policy</b>	<b>99</b>
<b>Annual Report on Remuneration</b>	<b>107</b>
<b>Single figure table</b>	<b>107</b>
<b>The Remuneration Committee</b>	<b>113</b>

Dear shareholders,

I am pleased to introduce our Directors' Remuneration Report for the year ended 31 December 2018.

I would like to start by thanking our shareholders for supporting our new Remuneration Policy, which received a 92% vote 'for' at the 2018 AGM. Shareholders and their representatives engaged extensively with us during the development of these proposals and provided valuable insight to the Remuneration Committee. This was important given our ambition to reform the design of remuneration rather than just tweak it in the margins.

Incentives are now aligned to the business in a way that exposes executives to upside and downside risk. We believe the design of the Policy, in particular the introduction of restricted shares as the only long-term incentive plan, best recognises the cyclical nature of the sectors in which we operate. Given the exposure of our businesses to the commodity markets, it makes it extremely challenging to set robust and stretching financial targets and a traditional LTIP can suffer from 'all or nothing' characteristics with windfall gains and losses more linked to the position in the cycle rather than business performance.

Best evidence also gives us confidence that this simpler pay package, with less reliance on short-term performance conditions and requiring large shareholdings, can have a positive impact on innovation and long-term decision making, which is so critical to the value we create for our customers. The remuneration framework approved by shareholders last year significantly reduced award sizes, extended time horizons and will make executives meaningful long-term shareholders. The Committee are also able to reduce payouts if necessary to avoid paying for failure. The key parameters of the

restricted share awards continue to be in line with investor guidance:

- **Significantly lower award sizes** – annual restricted share awards of 125% (CEO) and 100% (CFO) – these represent a 50% discount on the LTIP award levels that were last granted in 2017.
- **Extended time horizons** – for each award, 50% is released to participants after five years, 25% after six years and the final 25% after seven years from grant. This represents one of the longest holding periods for any long-term incentive plans in the UK and is in excess of the five years recommended in the UK Corporate Governance Code.
- **Underpin-safeguarding against payment for failure** – an underpin applies to the awards which includes a set of key metrics with pre-disclosed performance thresholds.
- **Enhanced shareholding guidelines**, including extending into post-employment – the shareholding guidelines for the CEO and CFO are 400% and 300% of salary, respectively. These have also been extended into a post-employment period (at 50% of the normal level, tapering to 0% after two years).

### 2018 bonus and LTIP outcomes

In 2018 we also changed our bonus framework to better align with the reward principles and delivery of our strategy. We also simplified the framework from four to three measures.

After consultation with shareholders, 70% of the annual bonus was based on performance against financial measures: Group PBTA and working capital as a percentage of sales.

The performance targets were set using September 2017 closing exchange rates. In line with the bonus policy, the Committee also increased the targets to reflect the acquisition of ESCO.

## Rewarding long-term value creation

**One of the strengths of 'We are Weir' is that it takes our strategic framework and identifies how we will create value from it for all our stakeholders.**

### People

Caring for our colleagues, our neighbours and the environment and inspiring them to flourish.

### Technology

Driving the development of new technologies and capabilities that lead the market.

### Customers

Working in partnership to provide distinctive solutions that deliver compelling value for money.

### Performance

Delivering excellence for all our stakeholders through strong leadership, accountability and a lean mindset.

## Directors' Remuneration Report continued

Profit for 2018 was between threshold and target impacted by performance within our Oil & Gas Division. Upstream oil and gas markets had a mixed year with strong demand in North America in the first half followed by much more challenging conditions in the second half of the year.

Working capital as a percentage of sales for 2018 was between threshold and target with the Minerals Division impacted by higher inventory levels in support of future growth.

The performance achieved against both measures was 49% of maximum, which resulted in a total contribution to payout of 34% of maximum for the financial measures.

The remaining 30% was based on strategic objectives developed around the We are Weir strategic framework. A balanced scorecard provides clear line of sight on how our remuneration policy supports successful execution of our strategy and the unlocking of long-term value. Further information can be found on "Measuring our Progress" on page 28.

Performance achieved against the strategic measures was 92% of maximum. We have disclosed the full balanced scorecard used on page 108. Shareholders can see that the scorecard was objective, measurable and focussed on the key strategic areas of focus for Weir during 2018. We set rigorous and stretching targets and reviewed the achievement at the year end.

Based on financial and strategic measures, a bonus of 62% of maximum was awarded to the Executive Directors. This resulted in a total payout of 93% and 77% of salary for the CEO and CFO respectively.

The Committee recognises that the strategic measures have paid out at a higher level than our financial measures. However, the Committee is satisfied that on this occasion the result is justifiable and correct. As stated above, the financials were impacted by a slowdown in one division. The successful completion of most of our strategic initiatives continued despite this and has set Weir up to be more successful in the future. Therefore, we determined that we would not adjust the outcome in the balanced scorecard.

We also took a step back to determine if the result felt "fair" given the performance of the group overall and the shareholder experience. It was the view of the Committee that if anything the financial outcome was less than fair but when combined with all the other factors, including the share price decline during the year, no positive or negative discretion would be applied to the overall outcome.

Whilst the new remuneration framework does not include a traditional LTIP, there are still a number of in-flight LTIP awards that were

made under the previous remuneration policy. The vesting period for the awards granted in 2016 ended on 31 December 2018, and 75% of the original award will vest in April 2019. Full details are provided on page 109.

### Sharing in success

In 2018 shareholders gave approval for our global all employee shareplan, with the ambition of making all Weir colleagues shareholders, and to reinforce the We are Weir culture and increase employee engagement. Since approval, the Group has been finalising the design of the Free Share award to ensure that in all our locations we will be granting shares where legally permitted and giving employees a voice as shareholders as soon as practicable. The first award of Free Shares will be granted in May 2019.

The Group has also begun to implement an innovative approach to continuous listening, specifically focused on hearing from employees. The outputs from the global employee surveys will be an important consideration of the assessment of the People element of the balanced scorecard.

Given the importance of fairness in workforce practices, we wish to move forward with the early voluntary disclosure of the CEO to workforce pay ratio. The disclosure of this ratio appears on page 111.

The outcomes from our second year of gender pay reporting is also set out on page 59. This shows that our mean pay gap reduced from 8% to 6%. Full details of the data as well as the actions being taken to make Weir a more inclusive and diverse place to work can be found in the Gender Pay report on our website [www.genderpay.weir](http://www.genderpay.weir).

### 2019 decisions

With effect from April 2019, the salaries for Executive Directors will increase by 2.8% in line with the average increase for UK employees. No other changes are being made at this time to the pay arrangements for Executive Directors. The Committee assessed the restricted share award levels in the context of the successful action taken to transform the portfolio and a share price impacted by a market slowdown in the North American oil and gas markets. The Committee considered whether any adjustments should be made to the award levels in the context of our share price performance, in light of recent investor guidance. On the basis that at the time of our decision, the share price has recovered c.25% since the end of the financial year, we determined that a 2019 award of 125% of salary for the CEO and 100% of salary for the CFO remains appropriate.

The Committee also reviewed the Chairman's fee during 2018 and, with effect from April 2019, is proposing to increase the fee by 2.8%, again in line with the average salary increase for UK employees.

### Looking ahead

We welcome the FRC's publication of the new UK Corporate Governance Code and the Committee has undertaken an initial review of our remuneration framework to ensure it is appropriate in light of the new Code, as well as the views of our investors and best market practice.

As part of the Remuneration Policy, approved by shareholders last year, a number of features were introduced which were ahead of market practice. For example, we have already introduced a post-employment shareholding requirement for the executives and have long-term time horizons that extend to seven years under the restricted share plan. Given the changes made to the Remuneration Policy last year, we are not proposing to make any amendments to the remuneration framework for 2019.

I would like to thank our shareholders again for their continued feedback on our remuneration framework and I look forward to receiving their support at the AGM. As ever, we remain committed to an open and ongoing dialogue and I would be very happy to hear the views of investors on the current remuneration arrangements.

**Clare Chapman**

Chair of the Remuneration Committee  
27 February 2019

## Reward principles – Appropriately rewarding the delivery of sustainable value over time in a cyclical business

### Employees as shareholders

Encouraging and enabling substantial long-term share ownership for all employees.

### Rewarding long-term value creation

Bringing focus to sustainable improvement in the underlying business via our strategic framework.

### Supporting our culture

Focusing incentives on team performance to create collective accountability and becoming an employer of choice by offering a motivating and fair package.

### Simplifying and increasing effectiveness

Simple and transparent reward linked to business success and delivered in a way that reduces the impact of cyclical volatility on reward outcomes and enables retention.

## Summary of policy and 2019 implementation

The table below summarises the key components of our remuneration framework and indicates how we intend to operate the policy in 2019.

		Operation	2019 implementation
<b>Fixed</b>	<b>Salary</b>	<p>Fixed remuneration which reflects role, skills, and responsibilities.</p> <p>For 2018:</p> <ul style="list-style-type: none"> <li>• CEO – £668,200</li> <li>• CFO – £411,200</li> </ul>	<p>Increases for 2019 aligned to the average increase for UK employees of 2.8%:</p> <ul style="list-style-type: none"> <li>• CEO – £687,000</li> <li>• CFO – £423,000</li> </ul>
	<b>Pension</b>	Executive Directors receive pension contributions of 12% per annum in line with other senior UK employees.	No change.
	<b>Benefits</b>	Car allowance, health care and life assurance.	No change.
<b>Variable</b>	<b>Annual bonus</b>	<p>Maximum opportunity:</p> <ul style="list-style-type: none"> <li>• CEO – 150% of base salary</li> <li>• CFO – 125% of base salary</li> </ul> <p>30% deferred into shares for three years.</p> <p>Measures and weightings in 2018:</p> <ul style="list-style-type: none"> <li>• 50% Group PBTA (see definition on page 107)</li> <li>• 20% Working capital as a percentage of sales</li> <li>• 30% Strategic measures</li> </ul> <p>Full retrospective target disclosure (see pages 107-109 in respect of 2018).</p>	<p>Measures and weightings in 2019 – no change.</p> <p>Set out below are the underlying headline metrics to be achieved over the next three to five years, as well as the target priorities for 2019. Underlying targets will be fully disclosed in next year's report.</p> <p><b>People</b> Improved sustainable engagement and organisation effectiveness</p> <ul style="list-style-type: none"> <li>• High standards of leadership driving a best in class behavioural culture</li> <li>• Improve organisational effectiveness</li> <li>• Continue and extend the Weir culture and develop the voice of the employee</li> </ul> <p><b>Customer</b> Increase market share</p> <ul style="list-style-type: none"> <li>• Expand service network and enhance global capability</li> <li>• Increase customer technology partnerships and field trial</li> <li>• Enhance Voice of the Customer (VOC) and its use</li> </ul> <p><b>Technology</b> Improved percentage revenue from new solutions/services/products</p> <ul style="list-style-type: none"> <li>• Protect our core through technology and material advancement</li> <li>• Extend beyond the core – transform/disrupt from product to solutions</li> <li>• Grow Advanced Manufacturing and Innovation capability</li> </ul> <p><b>Performance</b> Sustainably higher margins through cycle</p> <ul style="list-style-type: none"> <li>• Improve operational performance</li> <li>• Realise benefits of Group portfolio</li> <li>• Build sustainability roadmap to deliver tangible value across the Group</li> </ul>

## Directors' Remuneration Report continued

**The table below summarises the key components of our remuneration framework and indicates how we intend to operate the policy in 2019.**

	Operation	2019 implementation
<b>Variable (continued)</b>	<p><b>Restricted share awards</b></p> <p>Maximum award size:</p> <ul style="list-style-type: none"> <li>• CEO – 125% of base salary</li> <li>• CFO – 100% of base salary</li> </ul> <p>Vesting phased over a five-year period, with vested shares released between five and seven years from grant. Vesting subject to the underpin. Prior to vesting, if any of the thresholds have not been met, it would trigger the Committee to consider whether a discretionary adjustment was required.</p> <p>Restricted share awards will also be subject to malus and clawback provisions.</p>	<p>No change.</p> <p><b>Underpin:</b> <b>Balance sheet health</b></p> <ul style="list-style-type: none"> <li>• Dividend <ul style="list-style-type: none"> <li>– Maintain average absolute dividend per share over the vesting period at least in line with the 2018 declared dividend per share.</li> </ul> </li> <li>• Breaching covenants <ul style="list-style-type: none"> <li>– No breach of debt covenant or renegotiation of covenant terms outside or a normal refinancing cycle.</li> </ul> </li> </ul> <p><b>Investor returns</b></p> <ul style="list-style-type: none"> <li>• Return of Capital Employed (ROCE) <ul style="list-style-type: none"> <li>– Maintain average ROCE over the vesting period above the average Weighted Average Cost of Capital for that period.</li> </ul> </li> </ul> <p><b>Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Major governance failure <ul style="list-style-type: none"> <li>– No material failure in governance or an illegal act resulting in significant reputational damage and/or material financial loss to the Group.</li> </ul> </li> </ul>
<b>Other</b>	<p><b>Shareholding guidelines</b></p> <p>• CEO – 400% of base salary</p> <p>• CFO – 300% of base salary</p> <p>In addition, shareholding requirements will continue post-employment.</p>	No change.
<b>NED fees</b>	Fees reflect responsibilities and time commitments for the role.	<p>Chairman and NED fees will increase broadly in line with the wider employee average, effective 1 April 2019:</p> <ul style="list-style-type: none"> <li>• Chairman's fee – £315,000</li> <li>• NED base fee – £62,900</li> <li>• Chairman of Committee fee – £16,400</li> <li>• Senior Independent Director fee – £13,200</li> </ul>

## Directors' Remuneration Policy

The remuneration policy was approved by shareholders in 2018, and is intended to apply for three years.

### Policy table

#### Base salary

**Purpose**

To provide a salary which takes into account an individual's role, skills and responsibilities and enables the Group to attract and retain talented leaders.

**Operation**

Reviewed annually, with increases normally taking effect from 1 April. Salaries are set by reference to market practice for similar roles in companies of similar size and complexity. The Committee also takes into account personal performance, the wider employee context, and economic and labour market conditions.

**Maximum value**

While there is no stipulated maximum salary increase, increases will not normally be greater than the average salary increase for UK employees (or the relevant jurisdiction if an Executive Director is based outside the UK).

Different increases may be awarded at the Committee's discretion in instances such as where:

- there has been a significant increase in the size, complexity or value of the Group;
- there has been a change in role or responsibility;
- the individual is relatively new in the role and the salary level has been set to reflect this; and
- the individual is positioned below relevant market levels.

#### Pension

**Purpose**

To encourage long-term saving and planning for retirement.

**Operation**

A contribution into the Company's defined contribution pension plan or an equivalent cash allowance, or any other arrangement the Committee considers has the same economic benefit.

**Maximum value**

12% of base salary per annum in line with other senior UK employees.

#### Benefits

**Purpose**

To provide cost-effective benefits valued by individuals.

**Operation**

Benefits include, but are not limited to, health care, car allowance, liability insurance and death in service insurance.

Other benefits may be provided from time to time if considered reasonable and appropriate, such as relocation benefits or long-term disability insurance.

**Maximum value**

- Car allowance – no greater than £20,000 per annum
- Life assurance – 5 x base salary

The cost of providing insurance and health care benefits varies according to premium rates, so there is no formal maximum monetary value.

## Directors' Remuneration Report continued

### Annual bonus

#### Purpose

To incentivise the delivery of our strategic plan and to reward the achievement of stretching performance on an annual basis.

To focus incentives on team performance to create collective accountability.

#### Operation

Measures, targets and weightings are reviewed and determined annually at the start of each financial year to ensure they are appropriate and support the Company's strategy.

30% of any bonus will be deferred into an award of Weir Group shares which will normally be released after three years.

Malus and clawback provisions may be applied in the event of a material misstatement in the financial statements of the Group or a subsidiary/division, the discovery that information used to determine an award was materially incorrect, mistaken or misrepresented, gross misconduct (leading to termination for cause), or reputational damage causing significant damage to the Company and clearly attributable to the individual.

#### Maximum value

- CEO 150% of base salary
- CFO 125% of base salary

#### Performance assessment

Annual bonuses will be subject to such targets as the Committee considers appropriate each year.

Financial measures will normally be used to calculate at least 50% of the bonus, with the remainder being based on strategic and/or personal objectives.

The performance targets for financial measures are set in the context of the internal budget taking into account other relevant factors such as external forecasts.

All financial measures are calibrated with payment on a straight line basis between threshold (up to 20% of maximum bonus payable) and stretch.

Payment of any strategic component will be subject to a discretionary underpin (including individual performance).

In exceptional circumstances, the Committee has discretion to alter the measures and/or targets during the performance period if it believes the original measures and/or targets are no longer appropriate.

The Committee has discretion in exceptional circumstances to amend the payout level if it believes this will better reflect the Company's underlying performance.

### Share Reward Plan (SRP)

#### Purpose

To encourage and enable substantial long-term share ownership.

To reward the delivery of sustainable value over time in a cyclical business.

#### Operation

The Committee may grant awards under the SRP on an annual basis.

#### Vesting

Vesting of awards will be phased in four equal tranches over a five-year period. This will normally be split into four equal tranches of 25% (of the total award) which vest after two, three, four and five years following grant. For any Executive Director appointed after the effective date of this Policy and from 2021 onwards for incumbent executives, 50% will vest after three years, 25% after four years and 25% after five years.

Vesting will be subject to continued employment and assessment of the underpin.

Following vesting, an additional two-year holding period will also apply to each tranche, such that 50% of vested shares in an award are released five years from grant, 25% are released after six years and the final 25% is released after seven years.

Awards will normally be made in the form of conditional share awards, but may be awarded in other forms if appropriate (e.g. as nil cost options).

Malus and clawback (applicable for three years from vesting) provisions may be applied in the event of:

- A discovery of a material misstatement in the audited consolidated accounts of the Group or audited accounts of any Group company;
- Action or conduct which can be considered as gross misconduct;
- Events or behaviour which have a significant detrimental impact on the reputation of any Group company and which can be attributed to the individual award holder;
- The information used to determine the number of shares over which an award is granted or vests is found to be materially incorrect, mistaken or misrepresented to the advantage of the award holder.

#### Maximum value

The Committee will determine the grant level each year.

The maximum value of an award which may be granted in respect of a financial year is:

- CEO 125% of base salary
- CFO 100% of base salary

#### Performance assessment

No performance measures are associated with the awards.

The underpin will consist of a 'basket' of pre-determined key metrics which will best reflect overall business health over the vesting period. For each metric, a clearly defined and, where relevant, quantifiable 'threshold' will be set at the time of grant. Thresholds will be disclosed on a prospective basis.

Prior to vesting, if any of the thresholds have not been met, it would trigger the Committee to consider whether a discretionary downward adjustment was required.

In addition, the Committee will have general discretion to reduce vesting levels if it believes this will better reflect the underlying performance of the Company over the period.

## Shareholding requirements

### Purpose

To ensure Executive Directors build and hold a significant shareholding long term.

To align Executive Directors' interests with shareholders.

### Operation

Executive Directors are required to build up a shareholding in the Company over a five-year period.

All beneficially owned shares, deferred shares and unvested Restricted Share awards count towards an individual's shareholding (on a net of tax basis, where relevant).

Until the shareholding requirement is met, an Executive Director must retain 50% of net Restricted Share awards, Performance Share awards and deferred bonus awards.

Shareholding requirements continue post-employment:

- The requirement will fall to half the normal level on leaving.
- The requirement would taper down to zero after two years.

### Maximum value

#### shareholding guidelines

- CEO 400% of base salary
- CFO 300% of base salary

## All-employee share plans

### Purpose

To enable long-term share ownership for all employees, and to increase alignment with shareholders.

To provide one common benefit to all employees.

### Operation

Employees will be awarded Free Shares in 2019 and 2020 to the value of £300. From 2021 onwards, only new employees will be eligible to receive free shares. For all other employees, awards of shares will be contingent on the employee purchasing shares with their own funds. Shares purchased using employees' own funds will be matched by the Company.

Shares will vest no later than three years after grant.

Executive Directors will be excluded from receiving any free shares in 2019 and 2020, but they will be eligible to purchase and receive matching shares from 2021 on the same terms as other employees.

In 2016, shareholders approved a Save As You Earn scheme for all employees but this plan is not currently operated.

### Maximum value

The maximum amount of shares that can be purchased will be £200 per month. The maximum share match basis will be one share for every three shares purchased.

## Legacy arrangements

### Purpose

To honour payments and other remuneration related items due to Executive Directors.

### Operation

The Committee reserves the right to make any remuneration payments and/or payments for loss of office, this includes exercising any discretions available to it in connection with such payments (notwithstanding that they are not in line with this policy) where the terms of payment:

- Came into effect before this policy was approved and implemented (including where such payments are in line with a previously approved policy);
- Were agreed at a time when the individual was not a Director of the Company and, in the opinion of the Committee, the payment is not in consideration for the individual becoming a Director.

This will include the vesting of any awards granted under the LTIP.

### Maximum value

In line with existing commitments and arrangements.

## Directors' Remuneration Report continued

### Chairman and Non-Executive Directors' fees

#### Purpose

To attract and retain experienced and skilled Non-Executive Directors and to reflect the responsibilities and time commitment involved.

Fees are reviewed annually by reference to companies of similar size and complexity, economic and labour market conditions.

Additional fees may be made available to Non-Executive Directors where appropriate to reflect any additional time commitment or duties.

The Company may reimburse Non-Executive Directors for any business related costs (such as travel and accommodation costs incurred in connection with their duties) and any associated tax on these costs.

#### Maximum value

Fees as prescribed in the Articles of Association.

Planned increases in fees will take into account general increases across the Group, along with market practice.

### Notes to the policy table

#### Dividends

Executive Directors are entitled to receive the value of dividends payable on any deferred bonus awards under the Annual Bonus or awards under the SRP and LTIP up to the point of vesting. This value may be calculated assuming that the dividends were notionally reinvested in the Company's shares.

#### Common award terms

Awards granted under the share plans may be adjusted in the event of any variation of the Company's share capital or any demerger, special dividend or other event that may affect the current or future value of the awards.

## Recruitment policy

The Committee's approach when considering the overall remuneration arrangements in the recruitment of an Executive Director is to take account of all relevant factors, such as the individual's remuneration package in their prior role and the positioning of the package against the local market. We will not pay more than necessary to facilitate the recruitment.

Component	Policy and operation
<b>Remuneration</b>	The salary level, benefits, pension, annual bonus and annual SRP participation will be in line with the policy table.
<b>Buy-out Awards</b>	<p>The Committee will consider whether any buy-out awards are reasonably necessary to facilitate the recruitment of an Executive Director, and if there are any other compensation arrangements that would be forfeited on leaving the previous employer.</p> <p>The Committee will seek to structure any buy-out award taking into account relevant factors including any performance conditions, the form in which it is to be paid and the timeframe of the award.</p> <p>Buy-out awards will generally be made on a like-for-like basis and will be no more generous in quantum and timeframe than the awards being forfeited.</p>
<b>Other</b>	<p>The Committee may agree to meet certain mobility or relocation costs including, but not limited to, temporary living and transportation expenses. The Committee may also agree to meet the costs of relevant professional fees.</p> <p>Reasonable expenses and associated tax incurred as part of their recruitment will be reimbursed to the Executive Director.</p>
<b>Internal promotion to Executive Director</b>	The Committee will honour existing remuneration arrangements made prior to and not in contemplation of promotion. The arrangements will continue to pay out in accordance with the respective rules and guidelines.

### Service contracts and policy on payment for loss of office

It is the Committee's policy that there should be no element of reward for failure. The Committee's approach when considering payments in the event of termination is to take account of the individual circumstances including the reason for termination, contractual obligations of both parties as well as incentive plan and pension scheme rules.

In the event that an Executive Director's service contract is terminated other than in accordance with its terms, the Committee will give full consideration to the obligation and ability of the individual to mitigate any loss they may suffer as a result of the termination of their contract.

Service contracts and letters of appointment are available for inspection at the Company's registered office.

Provision	Policy
<b>Unexpired term</b>	The unexpired term of Executive Directors' contracts is 12 months. Executive Directors have rolling contracts.
<b>Change of control</b>	No provisions in service contracts relate to a change of control. Refer to the relevant sections below for annual bonus and share plans provisions.
<b>Notice period</b>	Current Executive Directors have 12 months' notice by either the Company or the individual. This would be the normal policy for new appointments.
<b>Contractual payments</b>	<p>Termination with contractual notice or termination by way of payment in lieu of notice (PILON) at the Company's discretion.</p> <p>Neither notice nor PILON will be given in the event of gross misconduct.</p> <p>The calculation of PILON will be at 1.2 x gross salary to reflect the value of salary and contractual benefits.</p> <p>PILON will be made where circumstances dictate that Executive Directors' services are not required for their full notice period. Contracts also allow for phased payments on termination which provides for mitigation, including remuneration from alternative employment.</p> <p>The Committee may authorise:</p> <ul style="list-style-type: none"> <li>• payments for statutory entitlements in the event of termination;</li> <li>• reasonable settlement of potential legal claims;</li> <li>• payment of reasonable reimbursement of professional fees in connection with such agreements.</li> </ul>

## Directors' Remuneration Report continued

Provision	Policy
<b>Annual bonus and deferred bonus awards</b>	<p>At the discretion of the Committee, a pro-rated payment (payable in such proportions of cash and shares as the Committee may determine) may be earned if employment ceases during the year. Any payment will be subject to the assessment of bonus targets.</p> <p>Dismissal for gross misconduct – all entitlements will be forfeited, including any unvested deferred bonus awards.</p> <p>All other departure events – existing rights are normally retained in respect of any deferred bonus awards. Vesting will take place at the normal vesting date unless the Committee determines otherwise.</p> <p>Malus and clawback provisions will continue to apply.</p> <p>Change in control – any bonus will normally be determined by the Committee up to the expected date of change in control taking into account both performance and the period of the financial year which has elapsed. Deferred bonus awards will vest on change in control.</p>
<b>Outstanding share plan awards</b>	<p>The treatment of share awards will be governed by the rules of the relevant plan.</p> <p>Where an individual leaves as a Good Leaver (which includes for reasons of death, retirement, ill-health, injury or disability, redundancy, the sale of employing company or business, or other circumstances that the Committee determines) unvested awards will normally continue and vest on the normal vesting date, taking into account the assessment of any applicable underpins and pro-rated to reflect the proportion of the vesting period of each tranche which has elapsed. For LTIP awards, vesting would also take into account any applicable performance conditions over the normal performance period.</p> <p>The Committee may exercise its discretion to apply a different pro-rata methodology or to disapply time pro-rating completely.</p> <p>Awards subject to a holding period will continue to be subject to that holding period as if employment had not ceased, except in the case of death, or in such other circumstances as the Committee may determine, when the holding period will end at that time.</p> <p>The rules provide flexibility that in the case of the participant's death (or such other exceptional circumstances as the Committee considers appropriate), tranches will vest (and awards in the holding period will be released) at the time of death/leaving.</p> <p>If an individual leaves for any reason other than as a Good Leaver, any unvested awards will lapse on termination.</p> <p>Leavers have a period of three months to exercise any options unless this period is extended by the Committee. In the event of death, an option can be exercised for a period of 12 months by the deceased's estate.</p> <p>Awards will remain subject to the operation of malus and clawback provisions.</p> <p>Change in control – the extent to which unvested awards vest will be determined by the Committee, taking into account the performance conditions and/or underpins as applicable and the proportion of the vesting period that has elapsed. Alternatively, awards may be exchanged for new equivalent awards in the acquiring company. The holding period applicable to any awards will end at the time of change in control.</p>
<b>All-employee plans</b>	The rules of any all-employee share plans will apply in the event of termination of employment or change in control.
<b>Relocation</b>	The Committee may determine that share plan awards or deferred bonus awards should vest early if an Executive Director is relocated to a country where they would suffer a tax or regulatory disadvantage by holding the award.
<b>Chairman and Non-Executive Directors</b>	<p>Non-Executive Directors have letters of appointment. The letters do not contain any contractual entitlement to a termination payment and the Non-Executive Directors can be removed in accordance with the Company's Articles of Association.</p> <p>With the exception of the Chairman and Non-Executive Directors appointed prior to 2011, notice periods are six months from the Company and no notice from the individual.</p> <p>There are no change in control provisions in the letters of appointment.</p>

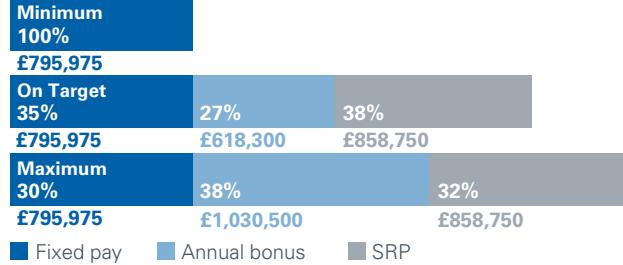
The following table sets out the dates of each of the Executive Directors' service agreements, the dates of the Non-Executive Directors' letters of appointment and the date on which the Non-Executive Director is subject to reappointment or re-election. Directors are required to retire at each Annual General Meeting and seek re-election by shareholders.

Executive Director	Contract commencement date	Unexpired term (months)
Jon Stanton	28 July 2016	12
John Heasley	3 October 2016	12
<hr/>		
Non-Executive Director	Date of appointment	Date when next subject to appointment or re-election
Charles Berry	1 January 2014	30 April 2019
Clare Chapman	1 August 2017	30 April 2019
Cal Collins	12 July 2018	30 April 2019
Barbara Jeremiah	1 August 2017	30 April 2019
Mary Jo Jacobi	1 January 2014	30 April 2019
Sir Jim McDonald	1 January 2016	30 April 2019
Richard Menell	1 April 2009	30 April 2019
Stephen Young	1 January 2018	30 April 2019

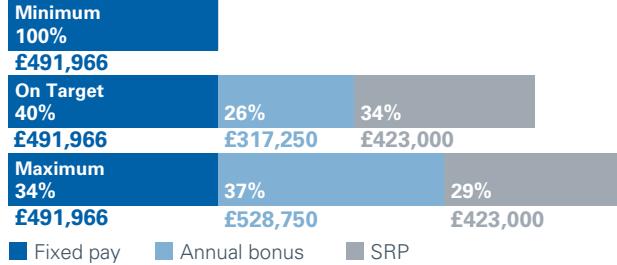
### Application of Remuneration Policy

The charts below illustrate the potential total future remuneration for the Executive Directors under the new policy. The illustrations do not assume any share price growth or dividend equivalent payments on share awards.

#### Jon Stanton Illustration of Package



#### John Heasley Illustration of Package



### Notes to Application of Remuneration Policy charts

Element of package	Assumptions used
<b>Fixed pay</b>	Base salary: effective 1 April 2019 Benefits: as disclosed in single total figure of remuneration Pension: 12% cash allowance
<b>Annual bonus</b>	Minimum: no bonus is earned On target: 60% of maximum bonus is earned Maximum: 100% of maximum bonus is earned
<b>SRP</b>	Minimum: no vesting On target: 100% vesting Maximum: 100% vesting

## Directors' Remuneration Report continued

### **Consideration of conditions elsewhere in the Group**

As per our terms of reference, the Committee monitors the level of remuneration of employees below the Group Executive and is regularly updated on pay and conditions across the Group. When determining remuneration for the Executive Directors, the average salary increases and performance ranges applicable to all employees are taken into account as well as economic trends. The wider employee group was not consulted when setting the remuneration policy.

### **Consideration of employee engagement**

Meaningful engagement with customers and employees play a crucial role in both innovation and the continuous improvement of the Weir business.

The Board recognises the importance of culture and effective employee relations to the creation of good work and good workplaces. The role of the Board therefore is to ensure that mechanisms are in place, and monitored, for effective employee engagement and that there is governance of the process for management standards and training to continue to assure ourselves of the leadership skills required to do engagement well. Given the multi-national nature of our business, the management team also recognise that their approaches to insight-gathering and dialogue need to reflect country practices so that engagement can be led well locally and be mindful of circumstances and culture.

As a Board, we recognise the importance of a Group-wide framework for employee dialogue which is why our focus is to ensure that we broaden our Group-wide practices for gathering workforce views and engaging in meaningful dialogue and for measuring and further strengthening employee engagement. Monitoring of progress will take place at the Board.

### **Consideration of shareholder engagement**

Shareholders and their representative bodies played a very active role in the development of our current remuneration policy, which was put to vote at the AGM in 2018. The Committee remains committed to ongoing dialogue, and will seek input from shareholders when considering any future changes.

## Annual Report on Remuneration

This section sets out how the Remuneration Policy was applied for the financial year ending 31 December 2018.

### Single total figure of remuneration for Executive Directors (audited)

	Base Salary		Pension		Benefits		Annual Bonus		LTIP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Jon Stanton	<b>663,650</b>	650,000	<b>79,638</b>	78,000	<b>26,535</b>	26,890	<b>618,993</b>	686,037	<b>881,678</b>	–	<b>2,270,494</b>	1,440,927
John Heasley	<b>408,400</b>	400,000	<b>49,008</b>	48,000	<b>18,206</b>	17,830	<b>317,432</b>	351,814	<b>540,626</b>	–	<b>1,333,672</b>	817,644

### Notes to the total figure of remuneration for the Executive Directors (audited)

**Base salary** – corresponds to the amount received during the year ended 31 December 2018.

**Pension** – corresponds to the cash allowance provided to the Executive Directors during the year ended 31 December 2018. This equates to 12% of salary.

**Benefits** – corresponds to the value of benefits in respect of the year ended 31 December 2018, as follows:

	Jon Stanton 2018 £	John Heasley 2018 £
Car allowance	17,000	13,970
Group healthcare	1,574	1,574
Life assurance	7,961	2,662
<b>Total</b>	26,535	18,206

**Annual bonus** – corresponds to the amount earned in respect of the year ended 31 December 2018. 30% of the value shown will be delivered in Weir shares which will be released after three years. Details of how the bonus outcome was calculated are set out below.

**LTIP** – corresponds to the level of award resulting from targets achieved over the relevant performance period ending in respect of the financial year shown. As the award does not vest until 29 April 2019, in accordance with the UK regulations, the vesting price is the average market price for the fourth quarter of 2018, being £15.05. Further details are set out below.

### Annual bonus plan (audited)

Details of remuneration to be awarded to the Executive Directors as part of the 2018 annual bonus plan are set out below. The annual bonus plan is currently based on the achievement of financial metrics and strategic measures. This plan provides a maximum bonus opportunity for Jon Stanton of 150% of salary and a maximum of 125% of salary for John Heasley. 30% of any bonus earned must be deferred into shares for three years.

The annual bonus measures and weightings were PBTA<sup>1</sup> (50%), working capital as a percentage of sales (20%) and strategic measures (30%).

### Bonus Outcomes (audited)

The following table illustrates the performance achieved against the targets. As a result of this performance, a bonus of 62% of maximum was payable to the Executive Directors. Jon Stanton was awarded 93% of salary and John Heasley was awarded 77% of salary.

	Weighting	Entry	Target	Maximum	Achievement	Payout % of maximum
Payout % of maximum		20%	60%	100%		
Group profit before tax and amortisation	50%	£302m	£350m	£399m	£337m	24%
Working capital as a percentage of sales	20%	25.5%	23.2%	20.9%	24%	10%
Strategic measures	30%			Further details set out below		28%
		100%				62%

Notes  
1. Group PBTA is defined as profit before tax, amortisation and exceptional items from both continuing and discontinued operations, and excludes certain one-off transaction costs.  
The performance targets and achievements are calculated using September 2017 closing exchange rates. In line with the bonus policy targets are increased or decreased to reflect the impact of any acquisitions or disposals made in the year that are of a size requiring Board approval. For acquisitions, targets are increased by the expected performance from the acquired business. For disposals, the target is reduced by the expected performance from the business which was disposed. To reflect the acquisition of ESCO and other integration activities, the targets were increased during the year.

## Directors' Remuneration Report continued

### Financial measures

Our performance against our financial measures was as follows:

**Profit** before tax and amortisation at £337m was £13m below target, impacted by performance within the Oil and Gas Division. Upstream oil and gas markets had a mixed year with strong demand in North America in the first half followed by much more challenging conditions in the second half of the year. The change was due to capacity constraints in the Permian basin, the early exhaustion of some exploration and production budgets leading to overcapacity in North American frack fleets and extended seasonal breaks in the fourth quarter. All other divisions met targeted EBITA performance.

**Working capital as a percentage of sales** at 24% was below the target of 23%. Minerals working capital position was below target, impacted by higher inventory levels in support of future growth.

### Strategic measures

The strategic measures were introduced for the first time in 2018 to better align with our reward principles and delivery of our strategy. The strategic measures are aligned to the strategic framework (People, Customers, Technology and Performance). Each area has an underlying metric to be achieved over three-five years as well as target priorities which were set for 2018. Target components are awarded a score of between 0% and 2.5%. The results and aggregate scores for each area are set out below.

#### People

Improved sustainable engagement and organisation effectiveness

Priority for 2018	Target	Result	Score out of 7.5%
High standards of leadership driving a best in class behavioural safety programme and culture.	<ul style="list-style-type: none"> <li>TIR maintained at least at 0.53 and a 15% reduction in sites rated above 0.8 in 2017.</li> <li>SHE assessment results maintained.</li> <li>Zero Harm 3 rolled out per plan as evidenced by 5% increase in Zero Harm observations in Shield.</li> </ul>	<ul style="list-style-type: none"> <li>2018 TIR: 0.45, and 8 out of 9 sites over 0.8 in 2017 down more than 15% in 2018.</li> <li>Significant improvement in 2018 SHE assessment results (average 7%).</li> <li>Full year target exceeded.</li> </ul>	<b>7%</b>
Identify and build capabilities required to deliver the customer proposition.	<ul style="list-style-type: none"> <li>Implement group wide succession planning for Group Executives.</li> <li>Implement strategic people and talent planning process.</li> <li>50% gender split external hires to leadership group, and 37% gender split on graduate programme.</li> </ul>	<ul style="list-style-type: none"> <li>Group Executive succession planning approved by Board.</li> <li>Pilots concluded and commencement of 2019 implementation planning.</li> <li>Leadership group external hires M 67%/F 33%</li> <li>Graduate group M 52%/F48%.</li> </ul>	
Continue to extend the Weir culture and develop the voice of the employee.	<ul style="list-style-type: none"> <li>Embed We are Weir cultural change programme.</li> <li>Establish baseline measures for employee engagement.</li> <li>Scope HRMS requirements and implement phase one.</li> </ul>	<ul style="list-style-type: none"> <li>We are Weir fully embedded in strategic planning, balanced scorecard and subsequent dissemination. Culture change progressing in line with broader employee transformation.</li> <li>Employee engagement survey completed with 84% response rate.</li> <li>Phase one completed and selected vendor appointed.</li> </ul>	

#### Customer

Increased market share

Priority for 2018	Target	Result	Score
Increase revenues from service centre networks.	<ul style="list-style-type: none"> <li>Minerals integrated solutions input growth to increase by at least 4%.</li> <li>Construction of Oil &amp; Gas Midland Service Centre for Q1 2019 entry.</li> <li>Increased Flow Control aftermarket input growth 1%.</li> </ul>	<ul style="list-style-type: none"> <li>Target exceeded by over 35%.</li> <li>Occupancy permit date of March 2019.</li> <li>Input growth more than 5%.</li> </ul>	<b>7.5%</b>
Increase number of customer partnerships on technology development and trials.	<ul style="list-style-type: none"> <li>New Minerals Mill Circuit trials in progress with total potential value per trial &gt;\$500K.</li> <li>At least one PP technology alliance signed in 2018.</li> </ul>	<ul style="list-style-type: none"> <li>Target exceeded (commercially sensitive information).</li> <li>More than one joint development agreement signed.</li> </ul>	
Voice of Customer development.	<ul style="list-style-type: none"> <li>Oil &amp; Gas systems implemented in line with plan, and Minerals to determine optimal platform for implementation in 2019.</li> </ul>	<ul style="list-style-type: none"> <li>Roll-out and implementation on track for both divisions as per plans.</li> </ul>	

**Technology**

Improved percentage revenue from new solutions, services, products

Priority for 2018	Target	Result	Score
Progress commercialisation of Weir Digital.	<ul style="list-style-type: none"> <li>Introduction of Phase 1 of asset tracking solution to track new equipment location.</li> <li>Multiple Synertrex installations within Minerals.</li> <li>Big data platform prototyped and trialled.</li> </ul>	<ul style="list-style-type: none"> <li>Phase 1 completed and Phase 2 progressing.</li> <li>Target exceeded (commercially sensitive information).</li> <li>Prototype completed, and products trialled.</li> </ul>	<b>6.5%</b>
Further develop advanced manufacturing capability.	<ul style="list-style-type: none"> <li>Create additive task force and prototype manufacturing cell.</li> <li>Multiple additive manufacturing initiatives implemented.</li> </ul>	<ul style="list-style-type: none"> <li>Taskforce and manufacturing cell in place with products ready for production.</li> <li>Target achieved (commercially sensitive information).</li> </ul>	
<b>Priority for 2018</b> Develop Weir innovation framework.	<ul style="list-style-type: none"> <li>Creation of global innovation team, platform implemented and at least one project moved from idea to implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Team in place, and graduate positions filled.</li> <li>Software platform launched, and evidence of business improvements from six projects.</li> </ul>	

**Performance**

Sustainably higher margins through cycle

Priority for 2018	Target	Result	Score
Improved VCE score.	<ul style="list-style-type: none"> <li>Group Average VCE scores to be at least 10% higher than 2017 scores</li> </ul>	<ul style="list-style-type: none"> <li>Average scores 19% higher than 2017.</li> </ul>	<b>6.5%</b>
Progression on IT infrastructure and systems development.	<ul style="list-style-type: none"> <li>12 agreed projects delivered.</li> <li>Minerals SAP rollout on plan and internal control improvement delivered.</li> </ul>	<ul style="list-style-type: none"> <li>8 out of 12 projects fully delivered.</li> <li>2018 plan delivered on schedule.</li> <li>Preparation for 2019 rollouts commenced.</li> </ul>	
Begin sustainability journey.	<ul style="list-style-type: none"> <li>Sustainability business case agreed, and process/software implemented.</li> </ul>	<ul style="list-style-type: none"> <li>All sites enrolled on new system with training completed.</li> <li>Pilots initiated with quick wins identified.</li> <li>Global waste innovation challenge designed and launched.</li> </ul>	

**Total Achievement****27.5% out of 30%****Long-term incentives vesting in 2019 – actual performance (audited)**

The 2016 performance share awards are due to vest on 29 April 2019. The table below sets out a summary of the performance conditions and performance against these conditions.

	Weighting	Threshold (25% vesting)	Maximum (100% vesting)	Actual performance	Percentage vesting
Relative TSR	33%	Median	Upper quintile	Median	25%
EPS growth p.a. (Base EPS 78.4p)	33%	2% (83.2p)	7.5% (97.4p)	10.2% (101.4p)	100%
Improvement in average ROCE p.a. (Base ROCE 9.5%)	33%	1% (Actual ROCE 10.5%)	3% (Actual ROCE 12.5%)	ROCE 12.7%	100%
Straight line vesting in between these points				Total vesting:	75%

The relative TSR performance was measured against the following companies: AMEC Foster Wheeler, Atlas Copco AB, Boart Longyear (replacing Joy Global which was acquired by Komatsu), Caterpillar, Dover Corporation, Fenner Plc, FLSmidth & Co A/S, Flowserv Corporation, FMC Corporation, Forum Energy Technologies Inc, Hunting, IMI Plc, ITT Corporation, John Wood Group Plc, Joy Global Inc, Komatsu, Metso Corporation, National Oilwell Varco, Outotec Oyj, Petrofac, Rotork Plc, Sandvik AB, Smiths Group Plc, SPX Corporation, Sulzer Ltd, TechnipFMC.

During the performance period, AMEC Foster Wheeler was acquired by John Wood Group which was already in the comparator group and the combined entity was used as a comparator. During 2018 Fenner was acquired by Michelin, and Atlas Copco underwent a restructure. The Committee considered the three options that were legally permissible (i) exclusion of an affected company, (ii) replacing an acquired company with the acquiring company, and (iii) including a substitute for the company. For Fenner, the Committee agreed to exclusion on that basis that Michelin was not a suitable comparator, and neither were any potential substitutes. For Atlas Copco, it was agreed to replace Atlas Copco with Epiroc AB as at the date of the demerger. At the time of making these changes the forecasted outcomes showed that the impact of the chosen treatment was small and that the performance condition was no less challenging to meet.

## Notes

- TSR is the increase in the net return index (the index that reflects movements in share price over a period and dividend reinvested net of any associated tax credit in shares on the ex-dividend date) for a company as calculated by Datastream (or such other financial information provider as selected by the Committee) over the performance period.
- EPS is adjusted earnings per fully paid ordinary share in the capital of the Company calculated on such basis as the Committee may specify. In addition, the EPS figure used to calculate the award may be adjusted for changes in accounting standards to ensure a consistent measurement basis across the performance period.
- ROCE is defined as earnings before interest and tax divided by capital employed. Earnings before interest and tax is taken as Group continuing operations after intangibles amortisation but before exceptional items for the relevant financial year. Capital employed is taken as the average of opening and closing Group net assets excluding net debt/cash and pension deficit (net of deferred tax asset) for the relevant financial year. To eliminate the impact of movements in foreign exchange rates over the period of the plan, the average foreign exchange rates for the base year are held constant throughout the plan period. With regard to acquisitions, those acquisitions made in the base year are included, based on a full year's ownership for the purposes of target setting. Where acquisitions are made in subsequent years of the plan period, these are excluded from the assessment of performance relative to the target. Where there are disposals during the plan period, the base and target ROCE calculations will be restated to eliminate the contribution from the disposed business in the period of ownership.

## Directors' Remuneration Report continued

### Scheme interests awarded during 2018 (audited)

The following table sets out awards granted to the Executive Directors in the year ending 31 December 2018. The closing market price of the Company's ordinary shares at 31 December 2018 was £12.98, and the range during the year was £23.25 to £12.40.

	Share Award <sup>1</sup>	Award Basis	Grant Date	Face Value of Award at maximum vesting <sup>2</sup>	No of Shares granted
Jon Stanton	Restricted Share (Conditional)	125% salary	30 Apr 18	£835,249	38,473
	Bonus (Deferred)	30% bonus	30 Apr 18	£108,263	5,074
John Heasley	Restricted (Conditional)	100% salary	30 Apr 18	£411,187	18,940
	Bonus (Deferred)	30% bonus	30 Apr 18	£55,518	2,602

Notes

1. There are no performance periods associated with the Restricted Share Awards or the Bonus Share Awards. Vesting of the Restricted Share Awards will be phased in four equal tranches over a five-year period: 25% after two, three, four and five years following grant. An additional holding period will also apply to each tranche such that 50% of vested shares in an award are released five years from grant, 25% are released after six years and the final 25% is released after seven years.

2. The face-value of the Restricted Share Award is based on the average of the closing price for the three days prior to the date of grant, being £21.71. The value of the Bonus Share Award is calculated as the share price at the date of grant, being £21.33.

### Restricted Share Award Underpin

Vesting of the Restricted Share Award is subject to continued employment and assessment of the underpin. Prior to vesting, if any of the thresholds set out below have not been met, it would trigger the Committee to consider whether a discretionary adjustment was required.

<b>Balance sheet health</b>	<b>Dividend</b> Maintain average absolute dividend per share over the vesting period at least in line with 2017 declared dividend per share. <b>Breaching covenants</b> No breach of debt covenant or renegotiation of covenant terms outside a normal refinancing cycle.
<b>Investor returns</b>	<b>ROCE</b> Maintain average ROCE over the vesting period above the average Weighted Average Cost of Capital for that period
<b>Corporate governance</b>	<b>Major governance failure</b> No material failure in governance or an illegal act resulting in significant reputational damage and/or material financial loss to the Group.

### Single total figure of remuneration for Chairman and Non-Executive Directors (audited)

	Basic Fee (£)		SID/Committee Chair (£)		Taxable Benefits (£)		Total Fees (£)	
	2018	2017	2018	2017	2018	2017	2018	2017
Charles Berry	<b>304,375</b>	296,000	—	—	<b>2,209</b>	1,416	<b>306,584</b>	297,416
Clare Chapman	<b>60,775</b>	24,792	<b>15,800</b>	6,458	—	—	<b>76,575</b>	31,250
Cal Collins	<b>28,795</b>	—	—	—	—	—	<b>28,795</b>	—
Alan Ferguson	<b>19,223</b>	59,125	<b>5,008</b>	15,375	—	—	<b>24,231</b>	74,500
Mary Jo Jacobi	<b>60,775</b>	59,125	—	—	<b>1,330</b>	—	<b>62,105</b>	59,125
Barbara Jeremiah	<b>60,775</b>	24,792	—	—	—	—	<b>60,775</b>	24,792
Sir Jim McDonald	<b>60,775</b>	59,125	—	15,375	—	—	<b>60,775</b>	74,500
Richard Menell	<b>60,775</b>	59,125	<b>12,725</b>	12,375	—	610	<b>73,500</b>	72,110
John Mogford	<b>19,223</b>	59,125	—	—	—	577	<b>19,223</b>	59,702
Stephen Young	<b>60,775</b>	—	<b>10,630</b>	—	—	—	<b>71,405</b>	—

Notes

1. Alan Ferguson and John Mogford stepped down from the Board on 26 April 2018. There were no other payments made above a de minimis threshold of £750.

2. Cal Collins joined the Board on 12 July 2018.

3. Stephen Young joined the Board on 1 January 2018.

4. Taxable benefits include travel to attend Board meetings in the UK (excluding international travel from America or South Africa).

### Payments to past Directors (audited)

As disclosed previously, Keith Cochrane's and Dean Jenkins' existing LTIP awards granted in April 2016 continued until their normal vesting date following their departure from the Group in 2016. The vesting was based on existing performance conditions, subject to time-pro-rating to 31 December 2016 (i.e. the date employment ceased). Although the performance period ended on 31 December 2018, the award does not vest until 29 April 2019. In accordance with the UK regulations, the vesting price for the purposes of this disclosure is the average market price for the fourth quarter of 2018, being £15.05. The value of the award is £409,781 for Keith Cochrane, and £198,871 for Dean Jenkins. Following vesting, the two-year post vesting holding period will apply. No other payments have been made to past directors.

### Statement of Directors' shareholdings and share interest (audited)

The shareholdings of all Directors, including the shareholdings of their connected persons as at 31 December 2018, are set out below. There have been no changes in the Directors' interests from 31 December 2018 to the date of this report.

As at 31 December 2018

	Shares owned outright	Scheme Interests				Shareholding Requirement (% of salary)
		With performance conditions	Without performance conditions	Vested and exercised in 2018 <sup>1</sup>	Current shareholding (% of salary) <sup>2</sup>	
Jon Stanton	47,810	165,149	38,473	3,072	92.87%	400%
John Heasley	10,496	90,745	38,940	1,201	33.13%	300%
Charles Berry	2,145	–	–	–	–	–
Clare Chapman	456	–	–	–	–	–
Cal Collins	348,015	–	–	–	–	–
Mary Jo Jacobi <sup>3</sup>	2,000	–	–	–	–	–
Barbara Jeremiah	250	–	–	–	–	–
Sir Jim McDonald	500	–	–	–	–	–
Richard Menell	1,024	–	–	–	–	–
Stephen Young	3,939	–	–	–	–	–

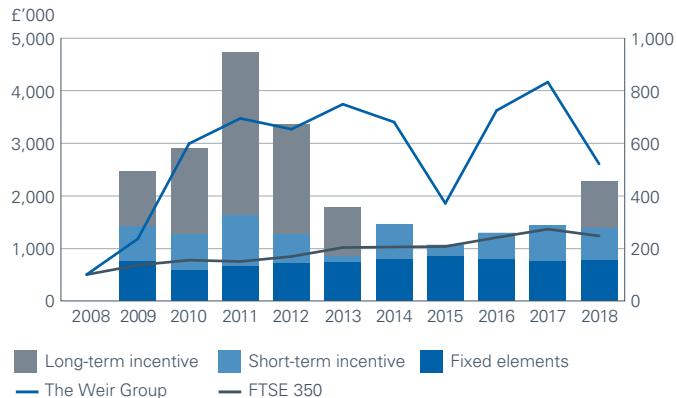
Notes

1. Vested and exercised in 2018 reflects the activity in the year.

2. Current shareholding percentage is calculated using share price of £12.98 as at 31 December 2018.

3. Mary Jo Jacobi's interest in 2,000 shares shown above is through her holding of 4,000 American Depository Receipts (ADRs). One ADR being equivalent to 0.5 ordinary shares.

### Historical performance and remuneration



The graph shows Weir's TSR performance against the performance of the FTSE350 over the nine-year period to 31 December 2018 as well as the total and vested received remuneration for the CEO over the same period.

### CEO Pay Ratio

We are including information on our CEO pay ratio ahead of the reporting requirements formally applying next year. The table below shows our CEO pay ratio at 25th, median and 75th percentile of our UK employees. The ratios have been calculated based on the single total figure of remuneration for Jon Stanton and the total pay for the employees based on our gender pay gap data under Option B of the regulations.

Financial year	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2018	75:1	66:1	53:1

	Jon Stanton	P25	P50	P75
Total Pay	£2,270,494	£30,303	£34,387	£42,477
Base Salary	£663,650	£20,142	£32,154	£27,491

Notes:

1. Total pay for the percentile employees includes the following pay elements: base salary, holiday pay, annual leave adjustment, shift premium and allowance, sick pay, overtime pay, first aid allowance, living allowance, advance Christmas pay, back pay and employer pension contributions. No annual bonus or long-term incentive award was payable to the employees at the above percentiles.

2. For weekly paid employees whose pay is based on actual hours worked, we have pro-rated pay accordingly to calculate full time equivalent total pay.

3. Where we had employees with the same hourly rate falling on a quartile, we have calculated the total pay for these employees and used the median value to determine the percentile employee.

## Directors' Remuneration Report continued

The table below shows the CEO's total remuneration over the same period, as well as outcomes under the annual bonus plans and long-term incentive plans.

Year	Total Single Figure £000	Short-Term Incentive (% of maximum)	Long-Term Incentive (% of maximum)
<b>Jon Stanton</b>			
2018	2,270	62%	75%
2017	1,441	70%	0%
2016 <sup>1</sup>	281	38%	0%
<b>Keith Cochrane</b>			
2016 <sup>2</sup>	1,012	40%	0%
2015	1,065	20%	0%
2014	1,456	61%	0%
2013	1,787	10%	43%
2012	3,363	54%	100%
2011	4,728	100%	100%
2010	2,913	100%	100%
2009 <sup>3</sup>	218	83.7%	100%

### Notes

1. Total Single Figure relates to the period Jon Stanton was CEO from 1 October 2016
2. Total Single Figure relates to the period Keith Cochrane was on the Board to 30 September 2016.
3. Total Single Figure relates to the period Keith Cochrane was CEO from November 2009.

### External appointments

It is the Board's policy to allow the Executive Directors to accept directorships of other companies. Any such directorships must be formally approved by the Chairman.

During the year John Heasley was a Non-Executive Director of Royal Scottish National Orchestra Society Ltd. He received no fees.

### Percentage change in CEO remuneration

The table below shows the percentage change in elements of remuneration for the CEO and UK employees between 2017 and 2018. The UK employee population has been chosen as it reflects a broad sample of employees which includes Head Office and other individuals located in the same country as the CEO.

	CEO % Change	UK employees % Change
Salary and fees	2.1%	7.5%
Taxable Benefits	-1.3%	9.6%
Bonus	-9.8%	3.7%

### Relative importance on spend of pay

The table below shows the change in total staff pay between 2018 and 2017, and dividends paid out in respect of 2018 and 2017.

	2018 £m	2017 £m	Percentage Change
Overall spend on pay for employees	629.8	521.1	20.9%
Profit distributed by way of dividend	110.8	96.7	14.6%

Details of the dividends declared and paid are contained in note 10 to the Financial Statements on page 148. Details of the overall spend on pay for employees can be found in note 4 to the Financial Statements on page 141. The 2017 comparator for overall spend on pay for employees has been restated to exclude discontinued operations. Further details can be found in note 2 to the Financial Statements on page 128.

## **The Remuneration Committee**

### **The Remuneration Committee in 2018**

There were seven Committee meetings during 2018 and all Committee members attended the meetings they were eligible to attend. Calls were also held with members of the Committee in relation to shareholder consultation on the proposed Remuneration Policy.

Role	Name	Title
Chairman and members	Clare Chapman Alan Ferguson (to 26 April 2018) Mary Jo Jacobi Richard Menell Stephen Young	Independent Non-Executive Directors
Internal Attendees	Charles Berry Jon Stanton Rosemary McGinness Geraldine Pamphlett Graham Vanhegan	Chairman of the Board Chief Executive Officer Chief People Officer Group Head of Reward and Recognition Chief Legal Officer
Committee's External Adviser	Deloitte	Adviser to Committee

Internal attendees provided important information to the Committee and attended meetings. None of the individuals were involved in any decisions relating to their own remuneration.

Deloitte LLP provided services to the Committee for the year ended 31 December 2018. Fees paid to Deloitte LLP for work that materially assisted the Committee were £144,950. Deloitte LLP also provided other services to the Weir Group in the year including tax, global employee services, risk advisory and financial advisory services. Deloitte is a signatory to the Remuneration Consultants' Group Voluntary Code of Conduct and the Committee is satisfied that Deloitte's advice was objective and independent.

### **Main activities**

Over the course of the period since the last Annual Report, the Committee's work has been focused on

- Working with the executive team to develop the strategic measures for the annual bonus plan.
- Reviewing the remuneration of executives below the Board
- Assessing performance of the Executive Directors.

### **Committee performance**

The Committee's Terms of Reference are reviewed on an annual basis and were last updated in December 2018. A copy can be found on our website [www.corporategovernance.weir](http://www.corporategovernance.weir)

The Committee was evaluated as part of the 2018 Board Effectiveness Review, and it was concluded that the Committee was fulfilling its terms of reference effectively.

### **Shareholding voting**

The table below sets out the voting by shareholders on the resolution to approve the Directors' Remuneration Report and the Directors' Remuneration Policy at the AGM held in April 2018.

	For	Against	Total Votes Cast	Withheld
Remuneration Report	182,144,580 (97.82%)	4,067,742 (2.18%)	186,212,322	715,642
Remuneration Policy	172,580,892 (92.35%)	14,286,238	186,867,130	60,833

### **Annual General Meeting**

This report will be submitted to shareholders for approval at the Annual General Meeting to be held on 30 April 2019.



**Clare Chapman**

Chair of the Remuneration Committee

27 February 2019

# Directors' Report

## The Directors present their report for the year ending 31 December 2018.

The Directors' Report includes the Corporate Governance Report from page 67 to 113, together with the sections of the Annual Report incorporated by reference.

The Company has chosen to disclose the following information in the Strategic Report on pages 1 to 66:

- Particulars of any important events, if any, affecting the Company which have occurred since the end of the financial year.
- An indication of likely future developments in the business of the Company.
- An indication of the activities of the Company in the field of research and development.
- Details of employee policy and involvement (pages 114).
- Information on greenhouse gas emissions (pages 65 to 66).
- Principal risks and uncertainties (pages 51 to 55).

The Strategic Report and the Directors' Report constitute the management report as required under the Disclosure and Transparency Rule 4.1.5R.

Information to be disclosed under the Listing Rule 9.8.4 is set out in the table below.

Subject matter	Page reference
Allotment of shares for cash (LR 9.8.4(7))	167
Waiver of dividends (LR 9.8.4(12))	114
Paragraphs (1), (2), (4), (5), (6), (8), (9), (10), (11), (13) and (14) of Listing Rule 9.8.4 are not applicable.	

This Annual Report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its Directors, employees, agents and advisers, do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed. This Annual Report may contain statements which are not based on current or historical fact and/or which are forward looking in nature. Please refer to the cautionary statement on page 212.

### Company number

The Weir Group PLC is registered in Scotland under company number SC002934.

### 2019 Annual General Meeting

The Annual General Meeting will be held on Tuesday 30 April 2019 at 2.30 pm.

The Notice of Meeting, along with an explanation of the proposed resolutions, are set out in a separate circular to shareholders which accompanies this Annual Report and can be downloaded from the Company's website. The Company conducts the vote at the AGM by poll and the result of the votes, including proxies, is published on the Company's website after the meeting.

### Dividend

The Directors have recommended a final dividend of 30.45p per share for the period ended 31 December 2018. Payment of this dividend is subject to shareholder approval at the 2019 AGM.

### Substantial shareholders

The Company has been notified in accordance with the Financial Conduct Authority's Disclosure Rules and Transparency Rules (DTR 5) that the following held, or were beneficially interested in, 3% or more of the voting rights of the Company's issued share capital as at 31 December 2018:

Shareholder	Number of voting rights	Percentage of voting rights %
BlackRock, Inc.	27,511,610	10.60%
FMR LLC	11,630,611	5.18%

Between 31 December 2018 and 26 February 2019, the Company was notified of the following changes to the table above.

TR-1 received from BlackRock Inc. on 7 January 2019. Number of voting rights 27,308,442. Percentage of voting rights 10.52%.

TR-1 received from BlackRock Inc. on 9 January 2019. Number of voting rights 25,539,350. Percentage of voting rights 9.84%.

### Employment policy and involvement

The average number of employees in the Group during the period is given in note 4 to the Group financial statements on page 141.

Group companies operate within a framework of HR policies, practices and regulations appropriate to their market sector and country of operation. Policies and procedures for recruitment, training and career development promote equality of opportunity regardless of gender, sexual orientation, age, marital status, disability, race, religion or other beliefs and ethnic or national origin. At Weir, we strive to build an inclusive culture in which all employees have the opportunity to succeed and to be able to do the best work of their lives. The Group remains committed to the fair treatment of people with disabilities regarding recruitment, training, promotion and career development. Meaningful dialogue with our employees is actively encouraged. Further details are included in the People section on pages 8 to 9.

### Financial instruments

The information required in respect of financial instruments as required by Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is

given in note 29 to the Group financial statements on pages 173 to 181.

### Share capital and rights attaching to the Company's shares

Details of the issued share capital of the Company, which comprises a single class of ordinary shares of 12.5p each are set out in note 24 to the Group financial statements on page 167. The rights attaching to the shares are set out in the Company's Articles of Association. There are no special control rights in relation to the Company's shares and the Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

During the period, a total of 34,922,489 ordinary shares with an aggregate nominal value of £4,365,311.13 were issued and allotted.

The Group has an employee benefit trust with the trustees Estera Trust (Jersey) Limited (the 'Estera EBT').

During the period, the Long Term Incentive Plan (the 'LTIP') vested and the trustees of the Estera EBT transferred 379,422 ordinary shares to employees to satisfy the LTIP awards.

During the period, the ESCO Stock Incentive Plan 2010 (the 'ESCO Plan') vested and the trustees of the Estera EBT transferred 10,707 ordinary shares to employees to satisfy the ESCO awards.

The Group also had an employee benefit trust with the trustees SG Kleinwort Hambros Trust Company (CI) Ltd (the 'Kleinwort EBT'). The Kleinwort EBT was closed on 15 January 2019. During the period, the trustees of the Kleinwort EBT transferred 3,803 ordinary shares to the Estera EBT.

Both EBTs agreed to waive any right to all dividend payments on shares held by them, with the exception of shares held in respect of awards which have a dividend entitlement.

Details of the shares held by the Estera and Kleinwort EBTs are set out in note 24 to the Group financial statements on page 167.

The 94,163 shares held in the Estera EBT for the LTIP and SRP bonus share awards and the ESCO Plan restricted share awards are the shares in respect of which dividends have not been waived.

The Estera EBT holds, through nominee account CGWL Nominees Ltd, 0.04% of the issued share capital of the Company as at 31 December 2018.

0.02% of this is held in trust for the benefit of certain senior executives of the Group, and 0.02% is held in trust on behalf of the Company for satisfaction of any future vesting of the awards granted under the LTIP, the SRP and the ESCO Plan.

With the exception of the shares held for the benefit of certain senior executives, the voting rights in relation to these shares are exercised by

the trustees. The Estera EBT may vote or abstain from voting with the shares or accept or reject any offer relating to shares, in any way they see fit, without incurring any liability and without being required to give reasons for their decision.

#### **Repurchase of shares**

At the 2018 Annual General Meeting, shareholders renewed the Company's authority to make market purchases of up to 22.4m ordinary shares (representing approximately 10% of the issued share capital excluding treasury shares). No shares were purchased under this authority during the year ended 31 December 2018 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 at the same level.

#### **Voting rights**

The Company's Articles of Association provide that on a show of hands at a general meeting of the Company, every holder of ordinary shares present in person and by proxy and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The Notice of the AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The Company conducts the vote at the AGM by poll and the result of the poll will be released to the London Stock Exchange and posted on the Company's website as soon as practicable after the meeting.

The Articles of Association may only be amended by a special resolution passed at a general meeting of shareholders.

#### **Transfer of shares**

There are no restrictions on the transfer of ordinary shares in the Company, other than as contained in the Articles of Association:

- The Directors may refuse to register any transfer of any certificated share which is not fully paid up, provided that this power will not be exercised so as to disturb the market in the Company's shares.
- The Directors may also refuse to register the transfer of a certificated share unless it is delivered to the Registrar's office, or such other place as the Directors have specified, accompanied by a certificate for the shares to be transferred and such other evidence as the Directors may reasonably require to prove title of the intending transferor.

Certain restrictions may from time to time be imposed by laws and regulations, for example, insider trading laws, in relation to the transfer of shares.

#### **Appointment and replacement of directors**

The provisions about the appointment and re-election of Directors of the Company are contained in the Articles of Association.

#### **Powers of Directors**

The business of the Company is managed by the Directors who may exercise all the powers of the Company, subject to the provisions of the Company's Articles of Association, any special resolution of the Company and any relevant legislation.

#### **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 Act 2006 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' and Officers' liability insurance.

#### **Pension scheme indemnities**

The Group operates two closed defined benefit pension schemes in the UK which provide retirement and death benefits for employees and former employees of the Group. The corporate trustees of the pension schemes are The Weir Group Pension Trust Limited, a subsidiary of The Weir Group PLC, and The Weir Group Senior Executives Pension Trust Limited. Qualifying pension scheme indemnity provisions, as defined in section 235 of the Companies Act 2006, were in force for the financial year ended 31 December 2018 and remain in force for the benefit of each of the directors of the corporate trustees of the pension schemes. These indemnity provisions cover, to the extent permitted by law, certain losses or liabilities incurred as a director or officer of the corporate trustees of the pension schemes.

#### **Change of control – significant agreements**

The following significant agreements contain provisions entitling the counterparties to require prior approval, exercise termination, alteration or similar rights in the event of a change of control of the Company.

The Group has in place a US\$950m multi-currency revolving credit facility (the "Facility") with a syndicate of 12 banks due to mature in September 2021 and a GBP 300m Term Loan from four banks due to mature in December 2020.

Under the terms of these Facilities, if there is a change of control of the Company, the Company has 30 days from the date of the change of control to agree terms for continuing the Facility. If at the end of the 30 days no agreement is reached, between the Company and the banks, then any lender may request, by not less than 30 days' notice to the Company, that its commitment be cancelled and all outstanding amounts

be repaid to that lender at the expiry of such notice period.

The Company has in issue fixed rate private placement notes with a range of maturities: US\$210m at an interest rate of 3.69% due on 18 February 2019, US\$590m at an interest rate of 4.27% due on 16 February 2022 and US\$200m at an interest rate of 4.34% due on 16 February 2023. Under the terms of the applicable note purchase agreements, if there is a change of control of the Company, the notes must be offered for prepayment by the Company within seven days of the change of control.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

#### **Confirmations**

So far as each of the Directors is aware, there is no relevant audit information (as defined by section 481 of the Companies Act 2006) of which the Company's auditors are unaware.

Each of the Directors has taken all of the steps that he or she ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Going concern**

The Directors have a reasonable expectation that the Group has adequate resources to continue to operate 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 in note 29 to the Group financial statements on pages 173 to 181. Each of these items has been considered in relation to the Group's banking facilities described in note 19 on pages 158 and 159.

The Directors' Report has been approved by the Board of Directors in accordance with the Companies Act 2006.

On behalf of the Board of Directors



**Graham Vanhegan**

Chief Legal Officer and Company Secretary  
27 February 2019

## Statement of Directors' 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 (IFRS) 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 IFRS as adopted by the European Union, subject to any material departures being disclosed and explained.
- 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 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 2006 Act 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.

The Directors are responsible for the maintenance and integrity of the Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

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

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, as at the date of this report, confirms to the best of their knowledge that:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The Strategic Report and the Directors' Report include 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.

On behalf of the Board of Directors



**Charles Berry**  
Chairman  
27 February 2019



**Jon Stanton**  
Chief Executive Officer  
27 February 2019

# Independent auditors' report to the members of The Weir Group PLC

## Report on the audit of the financial statements

### Opinion

In our opinion:

- The Weir Group PLC's Group financial statements and Parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2018 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and Parent company balance sheets as at 31 December 2018, the consolidated income statement and statement of comprehensive income, the consolidated cash flow statement, and the consolidated and Parent company statements of changes in equity for the year then ended, and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the Group or the Parent company in the period from 1 January 2018 to 31 December 2018.

### Our audit approach

#### Context

The Group is organised into four operating divisions: Minerals, Oil & Gas, Flow Control and ESCO, with the latter being acquired on 12 July

2018. During the year, the Group declared its intention to sell the Flow Control division and it is therefore disclosed as a discontinued operation. On 25 February 2019 the Group announced an agreement had been reached to sell the division.

Each division has businesses in a number of locations around the world. Many of the businesses are of similar size, so we scoped our audit to ensure we had appropriate coverage of the Group covering all four divisions. We included components which accounted for the largest share of the Group's results or where we considered there to be areas of significant risk. We also considered the markets in which the Group operates when we performed our assessment of scope and areas of significant risk.

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group, we identified that the principal risks of non-compliance with laws and regulations to relate to the wide variety of jurisdictions in which the Group operates and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such

## Overview



- Overall group materiality: £15.5m (2017: £12.4m), based on 5% of profit before exceptional items, amortisation and tax.
- Overall Parent company materiality: £1.5m (2017: £1.5m), which is equal to 0.1% of net assets.
- The Group acquired ESCO Corporation on 12 July 2018 and we included this component in our audit. In total we conducted audit work in 19 components in 11 countries. We conducted full scope audits on 9 of these components and the audit of specified balances and classes of transactions for the remaining components.
- The Group audit engagement team visited the United States, Chile, China and Italy, covering seven components. In addition, members of the Group engagement team performed the audit of four components based in the UK.
- The 19 components where we performed audit work accounted for 77% of Group revenue and 84% of profit before exceptional items, intangibles amortisation and tax from continuing operations.
- Accounting for the acquisition of ESCO Corporation.
- Accounting for asbestos related claims.
- Accounting for exceptional items.
- Accounting for the disposal of Flow Control
- Valuation of uncertain tax provisions.

## Independent auditors' report to the members of The Weir Group PLC continued

as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or profit. The Group engagement team shared this risk assessment with the component auditors referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and or component auditors included:

- Discussions with management, internal audit and Group General Counsel, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud or matters reported on the Group's whistleblowing helpline;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Review of Board minutes;

- Challenging assumptions and judgements made by management in its significant accounting estimates, in particular in relation to the classification of costs as exceptional;
- Identifying and testing journal entries, in particular any journal entries posted by senior management, postings to exceptional items, unusual account combinations and round sum accruals or provisions.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. In addition, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our

audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

### Key audit matter

#### **Accounting for the acquisition of ESCO Corporation**

Refer to page 87 (Audit Committee Report), page 128 Accounting Policies and page 152 (note 13).

The Group completed the acquisition of ESCO Corporation on 12 July 2018 for a consideration of £791.7m. Intangible assets acquired were valued at £337.0m and goodwill of £390.5m was recognised. The Group was required to complete an acquisition accounting exercise in accordance with IFRS 3. This comprised determining the fair value of the consideration payable and allocation of the consideration across the various identifiable assets and liabilities acquired, intangible assets and any resultant goodwill. Management used third party experts to assist them in this exercise in the areas of property, plant and equipment valuation, inventory valuation, investments in joint ventures, valuation of intangibles and robustness of cost synergy estimates.

Following the acquisition, ESCO was considered by management to be a separate CGU.

This was an area of focus due to the material values associated with the acquisition and the nature of the judgements and assumptions that management was required to make in determining the associated fair value of the assets acquired.

Group

### How our audit addressed the key audit matter

With support from our internal valuation experts, we obtained an understanding of the methodology applied in allocating the purchase price across tangible assets, intangible assets, investments in joint ventures and inventory. This included discussions with management's third party experts, and understanding and assessing the scope of the expert's work and their independence and competence. We considered whether management had identified all potential intangible assets. In conjunction with our internal valuation experts, we benchmarked the key assumptions in the valuation models, including the discount rate, against our own internal data and recent public announcements from other comparable companies.

We compared the forecasts used within the intangible asset valuation model to the approved budgets at the time of the acquisition. We understood the basis for the fair value adjustments attributed to the assets and liabilities acquired, and tested these adjustments to supporting documentation.

We instructed our component audit team in Portland, USA to perform audit procedures over certain material balances in the balance sheet at the date of acquisition. The remainder of the testing was performed by the Group engagement team. The Group engagement team worked closely with the component team, visiting them three times during this process. In addition, we reviewed the component team's working papers.

We recalculated the resulting goodwill arising following the purchase price allocation exercise.

We tested the disclosures in the financial statements and checked for compliance with IFRS 3 'Business Combinations'.

Based on our work performed, we consider the fair value adjustments on the assets and liabilities, and the valuation of intangible assets and goodwill acquired, to be appropriate. We also performed detailed testing of management's impairment assessment of the carrying value of the CGU as at 31 December 2018. Management performed a Value in Use assessment in line with IAS 36. With the support of our internal valuations experts, our procedures included:

- Assessing the integrity and mathematical accuracy of the model; and
- Assessing the key assumptions of cash flows, cost synergies, long term growth rate and discount rate.

From the procedures performed, we did not identify any material misstatement in the carrying value of the CGU as at 31 December 2018.

**Key audit matter****Accounting for asbestos related claims**

Refer to page 87 (Audit Committee Report), page 128 Accounting Policies and page 160 (note 21).

Provision has been made for future asbestos related claims as at 31 December 2018 of £52.3m (2017: £58.0m). This consists of a provision of £48.1m (2017: £53.3m) for the Group's liabilities arising from asbestos related damages claims in the US and £4.2m in the UK (2017: £4.7m).

The valuation of the liability involves significant estimation. In arriving at the estimate of the liability, management is required to make assumptions including the number and value of claims and the time period over which the liability can be reliably measured.

As a result there is a high degree of uncertainty in this estimate.

The Group has insurance cover in place to offset the US provision (£48.1m included in other receivables between non-current and current assets – note 17, page 156). This was also considered in our work.

Group

**How our audit addressed the key audit matter**

We have performed procedures on both the UK and US asbestos liabilities. The US provision is the more significant and has a greater level of estimation uncertainty.

During 2017 management obtained an updated actuarial estimate of the asbestos liability from an independent expert and we involved our PwC actuarial experts to assess the reasonableness of the methodology used. We confirmed that the same methodology was appropriately applied in 2018. Management assessed the claims submitted and settled in the year and compared with the actuarial estimate in order to calculate the provision required at 31 December 2018.

We evaluated management's underlying assumptions used in its calculation. This included testing of:

- the mathematical accuracy of the underlying calculations in management's model;
- the input data to management's model, such as the average cost per claim and the number of settled claims to source data, which we verified directly with the Group's external lawyers; and
- the reasonableness of forecast settlement numbers and amounts to data provided by the Group's external actuarial experts. We evaluated the appropriateness of management's assessment of the timescale over which a liability can be reliably measured, which remains at 10 years.

We also examined the insurance cover held by the Group and modelled the likelihood of the cover in place being sufficient to cover the period and amount of the estimated liabilities.

Finally, we tested the disclosures in the financial statements and checked for compliance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IAS 1 'Presentation of Financial Statements' and considered them to be appropriate.

We considered the assumptions used by management to be appropriate in arriving at a reliable estimate of the provision. We also assessed the recognition of an offsetting insurance asset in the financial statements and considered it to be appropriate.

**Accounting for exceptional items**

Refer to page 87 (Audit Committee Report), page 128 Accounting Policies and page 142 (note 5).

The Group incurred £157.7m (2017: £3.5m) of exceptional charges in the period for continuing operations and £51.6m for discontinued operations (2017: £9.9m).

The accurate presentation of costs and income as exceptional items was considered an area of focus for all reporting units. This was to assess the consistency and accuracy of the Group's operating profit as reported to shareholders.

The ESCO acquisition and announced Flow Control disposal resulted in non-recurring, material items which were significant in nature and therefore required a higher level of focus.

Group and Parent Company

We obtained a listing of the exceptional costs and income incurred by both component and category and tested a sample to supporting documentation.

We checked the nature of the costs and income to assess whether they were treated appropriately and consistently as exceptional items within the income statement. We assessed the disclosures in the Annual Report relating to exceptional items.

We considered whether there were other significant costs or income which should have been included in exceptional items using our knowledge of the business.

We also verified that provisions made in the prior year were appropriately utilised during the year.

We assessed the appropriateness of the classification of items as exceptional for compliance with both the Group's accounting policy and IAS 1. We checked the disclosure in note 5 for consistency with our understanding and for compliance with IAS 1.

From the audit work performed, we did not identify any material misstatements.

**Disposal of Flow Control**

Refer to page 87 (Audit Committee Report), page 128

Accounting Policies and page 146 (note 8).

During 2018, the Group announced its intention to dispose of the Flow Control division. IFRS 5 requires entities to measure discontinued operations at the lower of the carrying amount and fair value less costs to sell. Since the sale has not been completed, there is therefore some estimation involved in reaching this valuation. Based on management's estimate, an impairment of £45.0m has been recognised in respect of the goodwill in the Flow Control division.

Group

We confirmed the allocation of the Flow Control assets and liabilities and results to discontinued operations.

We have reviewed management's estimate of the fair value less costs to sell by:

- agreeing to the selling price agreed with the confirmed buyer; and
- assessing the appropriateness of management's estimate of costs to complete the sale in line with IAS 36.

This estimate was then compared to the carrying amount of the Flow Control division in the financial statements and the impairment charge was recalculated.

We have assessed the disclosures in the financial statements for compliance with IFRS 5.

## Independent auditors' report to the members of The Weir Group PLC continued

Key audit matter	How our audit addressed the key audit matter
<b>Valuation of uncertain tax provisions</b> Refer to page 87 (Audit Committee Report), page 128 Accounting Policies and page 144 (note 7). The Group operates in multiple tax jurisdictions and has a number of ongoing discussions and investigations with tax authorities where uncertain tax provisions and treatments may be challenged. There is judgement in assessing the level of provisions required to cover the risk of successful challenge over certain of the Group's tax provisions. Group	We read the Group's documentation of uncertain tax provisions and tested the more significant provisions for appropriateness by: <ul style="list-style-type: none"> <li>confirming the basis of provision;</li> <li>understanding the movements on the provision during the year; and</li> <li>reading correspondence with relevant tax authorities in the assessment of management's calculation.</li> </ul> In addition, we assessed the adequacy and appropriateness of the disclosure of tax provisions for compliance with IAS 12 'Income Taxes'.           This is an area which requires significant management judgement and has a range of possible outcomes. However, the evidence we obtained, including our testing of assumptions, was materially consistent with the overall level of provisioning in respect of tax.

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, the industries in which the Group operates and the areas of audit risk.

The Group is organised into four operating divisions: Minerals, Oil & Gas, Flow Control and ESCO; the latter was acquired on 12 July 2018. The Flow Control division is in the process of being sold and is therefore disclosed as a discontinued operation. Each division conducts its business in a number of locations around the world. Many of the businesses are of similar size, so we scoped our audit to ensure we had appropriate coverage of the Group covering all four divisions. We included components which accounted for the largest share of the Group's results or where we considered there to be areas of significant risk. We also considered the markets in which the Group operates when we performed our assessment of scope and areas of significant risk.

The Group's components vary significantly in size and we identified nine components that, in our view, required an audit of their complete financial information due to their relative size or risk characteristics. Of these full scope component audits, four were based in the UK and were performed by members of the Group engagement team. These covered trading components, central functions and Head Office managed balances including treasury, uncertain tax provisions, post-retirement benefits, goodwill and intangibles.

The remaining five full scope component audits were performed by other PwC network firms. Other PwC network firms also performed specific scope audits over a further 10 components which covered all line items on the income statement and specified line items on the balance sheet.

The scope of work at each component was determined by its contribution to the Group's overall financial performance or balance sheet and its risk profile. Where component audits were performed by teams from other PwC network firms, members of the Group engagement team were involved in their work throughout the audit. We maintained regular communication and conducted formal interim and year-end conference calls with all full and specific scope component teams. The year end discussions also included divisional management.

Of the 19 components in scope, we deemed two to be financially significant to the Group. We visited one of these locations in the prior year and one in the current year and have a rotational cycle of visits. The Group engagement leader visited a significant component in the United States, three other components in the United States including the newly acquired ESCO component, and a component in Chile. Senior members of the Group engagement team also visited components in China and Italy.

Together these full and specific scope component audits gave appropriate coverage of all material balances at a Group level. On a consolidated basis, these provided coverage of 77% of revenue and 84% of profit before exceptional items, intangibles amortisation and tax.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Overall materiality</b>	£15.5m (2017: £12.4m).	£1.5m (2017: £1.5m).
<b>How we determined it</b>	5% of profit before exceptional items, amortisation and tax from continuing operations.	5% of an allocation of Group materiality.
<b>Rationale for benchmark applied</b>	It is clear from the Annual Report that this profit measure is used by shareholders in evaluating the underlying business performance. We applied a lower materiality to the audit of exceptional items and intangibles amortisation.	Considering the nature of the business and activities (holding activities) we used the Company Net Assets value as a basis for the calculation of the overall materiality level.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.7m and £9.0m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.75m (Group audit) (2017: £0.6m) and £0.75m (Parent company audit) (2017: £0.6m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### **Going concern**

In accordance with ISAs (UK) we report as follows:

<b>Reporting obligation</b>	<b>Outcome</b>
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Parent company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent company's ability to continue as a going concern. For example as is the case for all UK companies, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear and it is difficult to evaluate all of the potential implications on the Group's and Parent company's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### **The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group**

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 51 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 115 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent company and their environment obtained in the course of the audit. (Listing Rules)

### **Other Code Provisions**

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 116, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent company obtained in the course of performing our audit.

## Independent auditors' report to the members of The Weir Group PLC continued

- The section of the Annual Report on page 87 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

### Responsibilities for the financial statements and the audit

#### Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 116, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/](http://www.frc.org.uk/) auditorsresponsibilities. This description forms part of our auditors' report.

#### Use of this report

This report, including the opinions, has been prepared for and only for the Parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### Other required reporting

##### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 28 April 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2016 to 31 December 2018.



##### Lindsay Gardiner (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Glasgow

27 February 2019

# Consolidated Income Statement

## for the year ended 31 December 2018

	Notes	Year ended 31 December 2018			Restated (note 2) Year ended 31 December 2017	
		Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation (note 5) £m	Total £m	Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation (note 5) £m
<b>Continuing operations</b>						
Revenue	3	<b>2,449.9</b>	–	<b>2,449.9</b>	1,985.6	–
<b>Continuing operations</b>						
Operating profit before share of results of joint ventures		<b>345.7</b>	(224.0)	<b>121.7</b>	285.4	(55.5)
Share of results of joint ventures	15	<b>2.4</b>	–	<b>2.4</b>	10.9	–
<b>Operating profit</b>		<b>348.1</b>	(224.0)	<b>124.1</b>	296.3	(55.5)
Finance costs	6	(40.7)	–	(40.7)	(42.9)	(0.8)
Finance income	6	<b>2.7</b>	–	<b>2.7</b>	1.5	–
<b>Profit before tax from continuing operations</b>		<b>310.1</b>	(224.0)	<b>86.1</b>	254.9	(56.3)
Tax (expense) credit	7	(78.6)	<b>45.9</b>	(32.7)	(53.2)	39.0
<b>Profit for the year from continuing operations</b>		<b>231.5</b>	(178.1)	<b>53.4</b>	201.7	(17.3)
Profit (loss) for the year from discontinued operations	8	<b>16.3</b>	(51.3)	(35.0)	(13.1)	(11.6)
<b>Profit for the year</b>		<b>247.8</b>	(229.4)	<b>18.4</b>	188.6	(28.9)
Attributable to:						
Equity holders of the Company		<b>247.4</b>	(229.4)	<b>18.0</b>	188.8	(28.9)
Non-controlling interests		<b>0.4</b>	–	<b>0.4</b>	(0.2)	–
<b>Earnings per share</b>	9					
Basic – total operations				<b>7.4p</b>		72.7p
Basic – continuing operations		<b>94.7p</b>		<b>21.7p</b>	91.7p	83.8p
Diluted – total operations				<b>7.3p</b>		72.3p
Diluted – continuing operations		<b>94.0p</b>		<b>21.6p</b>	91.1p	83.3p

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £m	Restated (note 2) Year ended 31 December 2017 £m
<b>Profit for the year</b>		<b>18.4</b>	159.7
<b>Other comprehensive income (expense)</b>			
Gains taken to equity on cash flow hedges		<b>0.8</b>	0.4
Exchange gains (losses) on translation of foreign operations		<b>76.1</b>	(147.7)
Exchange (losses) gains on net investment hedges		<b>(72.8)</b>	54.0
Reclassification adjustments on cash flow hedges		<b>(2.6)</b>	(0.3)
Tax relating to other comprehensive income (expense) to be reclassified in subsequent periods	7	<b>3.0</b>	0.8
<b>Items that are or may be reclassified to profit or loss in subsequent periods</b>		<b>4.5</b>	(92.8)
Remeasurements on defined benefit plans	23	<b>53.7</b>	(5.4)
Remeasurements on other benefit plans		<b>0.3</b>	(0.8)
Tax relating to other comprehensive income (expense) not to be reclassified in subsequent periods	7	<b>(8.9)</b>	1.5
<b>Items that will not be reclassified to profit or loss in subsequent periods</b>		<b>45.1</b>	(4.7)
<b>Net other comprehensive income (expense)</b>		<b>49.6</b>	(97.5)
<b>Total net comprehensive income for the year</b>		<b>68.0</b>	62.2
Attributable to:			
Equity holders of the Company		<b>67.5</b>	62.4
Non-controlling interests		<b>0.5</b>	(0.2)
		<b>68.0</b>	62.2
Total net comprehensive income (expense) for the year attributable to equity holders of the Company			
Continuing operations		<b>153.3</b>	103.6
Discontinued operations		<b>(85.8)</b>	(41.2)
		<b>67.5</b>	62.4

# Consolidated Balance Sheet

## at 31 December 2018

	Notes	31 December 2018 £m	Restated (note 2) 31 December 2017 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant & equipment	11	<b>427.1</b>	393.3
Intangible assets	12	<b>2,166.6</b>	1,550.7
Investments in joint ventures	15	<b>36.6</b>	19.2
Deferred tax assets	22	<b>36.0</b>	45.6
Other receivables	17	<b>78.5</b>	43.0
Derivative financial instruments	29	<b>1.4</b>	0.3
<b>Total non-current assets</b>		<b>2,746.2</b>	2,052.1
<b>Current assets</b>			
Inventories	16	<b>692.7</b>	589.1
Trade & other receivables	17	<b>597.7</b>	629.2
Derivative financial instruments	29	<b>18.3</b>	16.7
Income tax receivable		<b>32.5</b>	18.1
Cash & short-term deposits	18	<b>263.0</b>	284.6
Assets held for sale	8	<b>394.4</b>	—
<b>Total current assets</b>		<b>1,998.6</b>	1,537.7
<b>Total assets</b>		<b>4,744.8</b>	3,589.8
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Interest-bearing loans & borrowings	19	<b>662.5</b>	388.4
Trade & other payables	20	<b>629.9</b>	614.3
Derivative financial instruments	29	<b>40.8</b>	25.8
Income tax payable		<b>25.3</b>	31.2
Provisions	21	<b>50.5</b>	53.0
Liabilities held for sale	8	<b>134.0</b>	—
<b>Total current liabilities</b>		<b>1,543.0</b>	1,112.7
<b>Non-current liabilities</b>			
Interest-bearing loans & borrowings	19	<b>740.9</b>	739.4
Other payables	20	<b>0.8</b>	0.5
Derivative financial instruments	29	<b>0.2</b>	0.7
Provisions	21	<b>69.7</b>	71.9
Deferred tax liabilities	22	<b>92.2</b>	58.2
Retirement benefit plan deficits	23	<b>149.1</b>	137.7
<b>Total non-current liabilities</b>		<b>1,052.9</b>	1,008.4
<b>Total liabilities</b>		<b>2,595.9</b>	2,121.1
<b>NET ASSETS</b>		<b>2,148.9</b>	1,468.7
<b>CAPITAL &amp; RESERVES</b>			
Share capital	24	<b>32.5</b>	28.1
Share premium		<b>582.3</b>	197.9
Merger reserve		<b>332.6</b>	9.4
Treasury shares		<b>(2.1)</b>	(5.9)
Capital redemption reserve		<b>0.5</b>	0.5
Foreign currency translation reserve		<b>101.3</b>	98.1
Hedge accounting reserve		<b>1.5</b>	0.3
Retained earnings		<b>1,095.0</b>	1,139.0
<b>Shareholders' equity</b>		<b>2,143.6</b>	1,467.4
Non-controlling interests		<b>5.3</b>	1.3
<b>TOTAL EQUITY</b>		<b>2,148.9</b>	1,468.7

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2019. The financial statements also comprise the notes on pages 128 to 182.

Jon Stanton  
Director

John Heasley  
Director

## Consolidated Cash Flow Statement for the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
<b>Total operations</b>			
<b>Cash flows from operating activities</b>	25		
Cash generated from operations before exceptional cash items		<b>410.8</b>	220.5
Additional pension contributions paid		(5.6)	(3.0)
Exceptional cash items		(114.0)	(28.6)
Income tax paid		(73.3)	(60.5)
Net cash generated from operating activities		<b>217.9</b>	128.4
<b>Cash flows from investing activities</b>			
Acquisitions of subsidiaries, net of cash acquired	25	<b>(429.6)</b>	(90.1)
Investment in joint ventures	15	–	(1.4)
Purchases of property, plant & equipment		(77.7)	(67.8)
Purchases of intangible assets		(11.4)	(17.6)
Other proceeds from sale of property, plant & equipment and intangible assets		<b>3.9</b>	4.6
Disposals of discontinued operations	25	<b>0.3</b>	3.5
Disposals of joint ventures	15	–	31.8
Interest received		<b>3.0</b>	1.5
Dividends received from joint ventures	15	<b>1.6</b>	8.0
Net cash used in investing activities		<b>(509.9)</b>	(127.5)
<b>Cash flows from financing activities</b>			
Purchase of non-controlling interest		–	(37.2)
Proceeds from borrowings		<b>1,438.4</b>	964.4
Repayments of borrowings		(1,335.5)	(854.7)
Settlement of derivative financial instruments		(22.1)	6.6
Exceptional cash items – settlement of derivative financial instruments		(27.8)	–
Interest paid		(39.6)	(42.3)
Dividends paid to equity holders of the Company	10	<b>(79.6)</b>	(74.2)
Issue of shares, net of transaction costs	24	<b>355.5</b>	90.0
Purchase of shares for employee share plans		(0.8)	–
Net cash generated from financing activities		<b>288.5</b>	52.6
<b>Net (decrease) increase in cash &amp; cash equivalents</b>		<b>(3.5)</b>	53.5
Cash & cash equivalents at the beginning of the year		<b>284.5</b>	257.0
Foreign currency translation differences		(3.8)	(26.0)
<b>Cash &amp; cash equivalents at the end of the year</b>	18	<b>277.2</b>	284.5

The cash flows from discontinued operations included above are disclosed separately in note 8.

# Consolidated Statement of Changes in Equity

## for the year ended 31 December 2018

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Redemption reserve £m	Capital Foreign currency translation reserve £m	Hedge accounting reserve £m	Retained earnings £m	Attributable to equity holders of the Company £m	Non-controlling interests £m	Total equity £m
At 31 December 2016	27.3	86.2	9.4	(5.9)	0.5	191.8	(0.6)	1,066.4	1,375.1	8.5	1,383.6
IFRS 15 restatement (note 2)	–	–	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Restated at 31 December 2016	27.3	86.2	9.4	(5.9)	0.5	191.8	(0.6)	1,065.8	1,374.5	8.5	1,383.0
Profit (loss) for the year (restated note 2)	–	–	–	–	–	–	–	159.9	159.9	(0.2)	159.7
Gains taken to equity on cash flow hedges	–	–	–	–	–	–	0.4	–	0.4	–	0.4
Exchange losses on translation of foreign operations	–	–	–	–	–	(147.7)	–	–	(147.7)	–	(147.7)
Exchange gains on net investment hedges	–	–	–	–	–	54.0	–	–	54.0	–	54.0
Reclassification adjustments on cash flow hedges	–	–	–	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Remeasurements on defined benefit plans	–	–	–	–	–	–	–	(5.4)	(5.4)	–	(5.4)
Remeasurements on other benefit plans	–	–	–	–	–	–	–	(0.8)	(0.8)	–	(0.8)
Tax relating to other comprehensive income (expense)	–	–	–	–	–	–	0.8	1.5	2.3	–	2.3
Total net comprehensive (expense) income for the year	–	–	–	–	–	(93.7)	0.9	155.2	62.4	(0.2)	62.2
Acquisition of non-controlling interest	–	–	–	–	–	–	–	7.0	7.0	(7.0)	–
Issue of shares	0.8	111.7	–	–	–	–	–	–	112.5	–	112.5
Cost of share-based payments inclusive of tax credit	–	–	–	–	–	–	–	7.7	7.7	–	7.7
Dividends	–	–	–	–	–	–	–	(96.7)	(96.7)	–	(96.7)
At 31 December 2017 (note 2)	<b>28.1</b>	<b>197.9</b>	<b>9.4</b>	<b>(5.9)</b>	<b>0.5</b>	<b>98.1</b>	<b>0.3</b>	<b>1,139.0</b>	<b>1,467.4</b>	<b>1.3</b>	<b>1,468.7</b>
Profit for the year	–	–	–	–	–	–	–	18.0	18.0	0.4	18.4
Gains taken to equity on cash flow hedges	–	–	–	–	–	–	0.8	–	0.8	–	0.8
Exchange gains on translation of foreign operations	–	–	–	–	–	76.0	–	–	76.0	0.1	76.1
Exchange losses on net investment hedges	–	–	–	–	–	(72.8)	–	–	(72.8)	–	(72.8)
Reclassification adjustments on cash flow hedges	–	–	–	–	–	–	(2.6)	–	(2.6)	–	(2.6)
Remeasurements on defined benefit plans	–	–	–	–	–	–	–	53.7	53.7	–	53.7
Remeasurements on other benefit plans	–	–	–	–	–	–	–	0.3	0.3	–	0.3
Tax relating to other comprehensive income (expense)	–	–	–	–	–	–	3.0	(8.9)	(5.9)	–	(5.9)
<b>Total net comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3.2</b>	<b>1.2</b>	<b>63.1</b>	<b>67.5</b>	<b>0.5</b>	<b>68.0</b>
Acquisition of non-controlling interest through business combination	–	–	–	–	–	–	–	–	–	3.5	3.5
Issue of shares, net of transaction costs	<b>4.4</b>	<b>384.4</b>	<b>323.2</b>	–	–	–	–	–	712.0	–	712.0
Cost of share-based payments inclusive of tax charge	–	–	–	–	–	–	–	8.3	8.3	–	8.3
Dividends	–	–	–	–	–	–	–	(110.8)	(110.8)	–	(110.8)
Purchase of shares	–	–	–	(0.8)	–	–	–	–	(0.8)	–	(0.8)
Exercise of share-based payments	–	–	–	–	4.6	–	–	(4.6)	–	–	–
<b>At 31 December 2018</b>	<b>32.5</b>	<b>582.3</b>	<b>332.6</b>	<b>(2.1)</b>	<b>0.5</b>	<b>101.3</b>	<b>1.5</b>	<b>1,095.0</b>	<b>2,143.6</b>	<b>5.3</b>	<b>2,148.9</b>

# Notes to the Group Financial Statements

## 1. Authorisation of financial statements and statement of compliance

The Consolidated Financial Statements of The Weir Group PLC (the 'Company') and its subsidiaries (together, the 'Group') for the year ended 31 December 2018 ('2018') were approved and authorised for issue in accordance with a resolution of the Directors on 27 February 2019. The comparative information is presented for the year ended 31 December 2017 ('2017').

The Consolidated Financial Statements of The Weir Group PLC have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006.

The Weir Group PLC is a public limited company incorporated in Scotland and is listed on the London Stock Exchange. The principal activities of the Group are described in note 3.

## 2. Accounting policies

### Basis of preparation

These financial statements are presented in Sterling. All values are rounded to the nearest 0.1 million pounds (£m) except where otherwise indicated.

The accounting policies which follow are consistent with those of the previous period with the exception of the following new standards which apply for the first time in 2018:

### IFRS 9: Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

In accordance with the transitional provisions in IFRS 9 (7.2.15), IFRS 9 was adopted without restating comparative information. The impact of adopting IFRS 9 on the Group's retained earnings and individual financial statement line items as at 1 January 2018 was determined to be immaterial and as such no adjustments to the opening balance sheet have been recorded.

The considerations relevant to this assessment are outlined below.

#### i) Classification and measurement

No changes were necessary to the classification or remeasurement of the Group's financial instruments, as disclosed in note 29, with derivative instruments remaining as measured at fair value through the profit and loss (FVTPL), or subject to the accounting provisions for hedge relationships under IFRS 9 where designated in effective hedge accounting relationships, and all other financial instruments remaining classified as measured at amortised cost under IFRS 9.

#### ii) Derivatives and hedging activities

Certain of the Group's forward foreign currency contracts, cross currency swaps and foreign currency debt in place as at 31 December 2017 qualified as cash flow hedges or net investment hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships continue to be treated as hedges.

#### iii) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model, namely:

- trade receivables for sales of products and services; and
- contract assets relating to construction contracts.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This did not result in a material change to the loss allowance on 1 January 2018 for either trade receivables or for contract assets, and as such no adjustment has been recorded and comparative figures have not been restated. Note 17 provides details about the calculation of the allowance. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

As at 31 December 2018 there were no assets held by the Group that required assessment for impairment under the IFRS 9 general impairment model.

The Group's policies and approach to implementation of the general model as applied within its subsidiaries and The Weir Group PLC Company's financial statements are set out within note 5 of the Company's financial statements.

### IFRS 15: Revenue from contracts with customers (including associated amendments)

The Group has adopted IFRS 15, applying the full retrospective method. The new standard has had an immaterial impact on the results of the Group, with the restatement of revenue totalling less than 1% of reported revenue of continuing operations for the year ended 31 December 2017, as reflected in the restatement tables below. The main changes relate to the timing of revenue recognition in a small number of entities, for over time or point in time, dependent on certain criteria for 'Engineer to order' contracts as well as revenue adjustments for variable consideration. The accounting policy in note 2 has been updated.

There are no other new standards or interpretations effective for the year ended 31 December 2018, in addition to the above, which are considered to have a material impact on the Consolidated Financial Statements of the Group.

### Basis of consolidation

The Consolidated Financial Statements include the results, cash flows and assets and liabilities of The Weir Group PLC and its subsidiaries, and the Group's share of results of its joint ventures. For consolidation purposes, subsidiaries and joint ventures prepare financial information for the same reporting period as the Company using consistent accounting policies.

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The results of a subsidiary acquired during the period are included in the Group's results from the effective date on which control is transferred to the Group. The results of a subsidiary sold during the period are included in the Group's results up to the effective date on which control is transferred out of the Group. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented within equity in the Consolidated Balance Sheet, separately from the Company shareholders' equity.

A full list of the Company's related undertakings can be found on pages 198 to 208.

#### **Prior period restatements**

On 19 April 2018, the Group announced its intention to sell the Flow Control division and, in line with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, the Group has classified the division as held for sale. Previously disclosed as an individual segment, the division is now reported as a discontinued operation. This has resulted in a restatement of the Consolidated Income Statement for the year ended 31 December 2017.

During the period ended 30 June 2018, the provisional fair values attributed to the 2017 KOP Surface Products (KOP) acquisition were finalised.

In accordance with IFRS 3: Business Combinations, the net impact of the adjustments to the provisional fair values has been recognised by means of an increase to goodwill and the adjustments to the provisional amounts have been recognised as if the accounting for the business combination had been completed at the relevant acquisition date. As such, all affected balances and amounts have been restated in the financial statements.

The Consolidated Income Statement for the year ended 31 December 2017 and the Consolidated Balance Sheet at 31 December 2017 have been restated, as shown below, to reflect the above and IFRS 15 restatements. The Consolidated Balance Sheet at 31 December 2016 has also been restated for IFRS 15 but is not presented below on the grounds of materiality, the impact being reflected in the Consolidated Statement of Changes in Equity.

#### **Restated Consolidated Income Statement for year ended 31 December 2017**

	Total operations: as previously reported £m	Transfer to discontinued operations: – (profit) loss £m	Continuing operations: IFRS 15 restatement – profit (loss) £m	Continuing operations: as restated £m	Discontinued operations: IFRS 15 restatement £m
<b>Revenue</b>	2,355.9	(362.8)	(7.5)	1,985.6	(3.3)
Operating profit before share of results of joint ventures	212.2	20.4	(2.7)	229.9	–
Share of results of joint ventures	10.9	–	–	10.9	–
<b>Operating profit</b>	223.1	20.4	(2.7)	240.8	–
Finance costs	(44.1)	0.4	–	(43.7)	–
Finance income	1.6	(0.1)	–	1.5	–
<b>Profit before tax from continuing operations</b>	180.6	20.7	(2.7)	198.6	–
Tax expense	(19.1)	4.0	0.9	(14.2)	–
<b>Profit for the year</b>	161.5	24.7	(1.8)	184.4	–
Loss for the year from discontinued operations	–	(24.7)	–	(24.7)	–
<b>Profit for the year</b>	161.5	–	(1.8)	159.7	–

## Notes to the Group Financial Statements continued

### 2. Accounting policies continued

#### Restated Consolidated Balance Sheet (extract) at 31 December 2017

	Notes	As previously reported £m	IFRS 15 £m	KOP adjustments to fair values £m	Restated 31 December 2017 £m
<b>Non-current assets</b>					
Property, plant & equipment	11	392.3	–	1.0	393.3
Intangible assets	12	1,549.9	–	0.8	1,550.7
Deferred tax assets	22	45.3	0.3	–	45.6
<b>Current assets</b>					
Inventories	16	586.8	2.3	–	589.1
Trade & other receivables	17	636.9	(6.2)	(1.5)	629.2
Income tax receivable		18.5	0.5	(0.9)	18.1
<b>Current liabilities</b>					
Trade & other payables	20	615.8	(0.9)	(0.6)	614.3
Income tax payable		31.1	0.1	–	31.2
Provisions	21	52.6	0.4	–	53.0
<b>Non-current liabilities</b>					
Provisions	21	72.0	(0.1)	–	71.9
Deferred tax liabilities	22	58.4	(0.2)	–	58.2
<b>CAPITAL &amp; RESERVES</b>					
31 December 2016 restatement		–	(0.6)	–	(0.6)
31 December 2017 restatement		–	(1.8)	–	(1.8)
Retained earnings		1,141.4	(2.4)	–	1,139.0

#### Exceptional items & intangibles amortisation

In order to provide the users of the Consolidated Financial Statements with a more relevant presentation of the Group's underlying performance, on a like-for-like basis, profit for each year has been analysed between:

- i) profit before exceptional items & intangibles amortisation; and
- ii) the effect of exceptional items & intangibles amortisation.

Exceptional items are items of income and expense which, because of the nature, size and/or infrequency of the events giving rise to them, merit separate presentation. These specific items are presented on the face of the Consolidated Income Statement to provide greater clarity and a better understanding of the impact of these items on the Group's financial performance. In doing so, it also facilitates greater comparison of the Group's underlying results with prior years and assessment of trends in financial performance. This split is consistent with how underlying business performance is measured internally.

Exceptional items may include but are not restricted to: profits or losses arising on disposal or closure of businesses; the cost of significant business restructuring; significant impairments of intangible or tangible assets; adjustments to the fair value of acquisition-related items such as contingent consideration and inventory; other items deemed exceptional due to their significance, size or nature; and the related exceptional taxation.

Intangibles amortisation has been shown separately to provide visibility over the ongoing impact on the Group's income statement of prior and current period investment activities.

Further analysis of the items included in the column 'Exceptional items & intangibles amortisation' is provided in note 5 to the financial statements.

#### Use of estimates and judgements

The Group's significant accounting policies are set out below. The preparation of the Consolidated Financial Statements, in conformity with IFRS, requires management to make judgements that affect the application of accounting policies and estimates that impact the reported amounts of assets, liabilities, income and expense.

Management bases these judgements on a combination of past experience, professional expert advice and other evidence that is relevant to each individual circumstance. Actual results may differ from these judgements and the resulting estimates which are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

Areas requiring significant judgement in the current year and on a recurring basis are presented to the Audit Committee, as summarised on page 87.

The areas where management considers critical judgements and estimates to be required are those in respect of the following:

##### i) Acquisition accounting (estimate and judgement)

On the acquisition of a business, management assesses: (i) the Purchase Price Allocation (PPA) in order to attribute fair values to separately identifiable intangible assets providing they meet the recognition criteria and (ii) the fair values of other assets and liabilities.

The fair values of these intangible assets are dependent on estimates of attributable future revenues, margins and cash flows, as well as appropriate discount rates. In addition, the allocation of useful lives to acquired intangible assets requires the application of judgement based on available information and

management expectations at the time of recognition. The valuation of other tangible assets and liabilities involves aligning accounting policies with those of the Group, reflecting appropriate external market valuations for property, plant & equipment, assessing recoverability of receivables and inventory, and exposures to unrecorded liabilities. In deriving appropriate fair values the process will inevitably involve the use of estimates. The disclosure in relation to business combinations is provided in note 13.

#### **ii) Discontinued operations (estimate)**

IFRS 5 requires entities to measure discontinued operations at the lower of the carrying amount and fair value less costs to sell. Prior to completion of the sale process this requires management to apply certain judgements about possible outcomes of the sale process and estimate both the fair value and costs of disposal. This exercise was completed as at the year end based on the latest developments in the sale process. This resulted in an impairment of £45.0m being recognised in relation to goodwill. When the sale is completed a gain or loss is likely to arise. At this time the foreign currency translation reserve will also be recycled to the income statement and reflected in the gain or loss on disposal. The disclosure in relation to discontinued operations is provided in note 8, with the impairment testing reflected in note 14.

#### **iii) Retirement benefits (estimate)**

The assumptions underlying the valuation of retirement benefit assets and liabilities include discount rates, inflation rates and mortality assumptions which are based on actuarial advice. Changes in these assumptions could have a material impact on the measurement of the Group's retirement benefit obligations. Sensitivities to changes in key assumptions are provided in note 23.

#### **iv) Provisions (estimate)**

Management judgement is used to determine when a provision is recognised taking into account the commercial drivers which gave rise to them, the Group's previous experience of similar obligations and the progress of any associated legal proceedings. The calculation of provisions typically involves management estimates of associated cash flows and discount rates. The key provision which currently requires a greater degree of management estimate is the US asbestos provision, details of which are included in note 21. It is considered appropriate to disclose this as an area of significant estimation due to the size and nature of the balance and that it could change as a result of future events but it is considered unlikely in the next 12 months.

#### **v) Taxation (estimate)**

The level of current and deferred tax recognised in the financial statements is dependent on subjective judgements as to the interpretation of complex international tax regulations and, in some cases, the outcome of decisions by tax authorities in various jurisdictions around the world, together with the ability of the Group to utilise tax attributes within the limits imposed by the relevant tax legislation.

The Group faces a variety of tax risks which result from operating in a complex global environment including the ongoing reform of both international and domestic tax rules in some of the Group's larger markets and the challenge to fulfil ongoing tax compliance filing and transfer pricing obligations given the scale and diversity of the Group's global operations.

The Group makes provision for open tax issues where it is probable that an exposure will arise including, in a number of jurisdictions, ongoing tax audits and uncertain tax positions which are by nature complex and can take a number of years to resolve. In all cases, provisions are based on management's interpretation of tax law in each country, as supported where appropriate by discussion and analysis undertaken by the Group's external advisers, and reflect the single best estimate of the likely outcome for each liability. Provisions for uncertain tax positions are included in current tax liabilities and total £26.9m at 31 December 2018. It is considered appropriate to disclose this as an area of significant estimation due to the size and nature of the balance and that it could change as a result of future events but it is considered unlikely in the next 12 months.

The Group believes it has made adequate provision for such matters although it is possible that amounts ultimately paid will be different from the amounts provided.

Detailed tax disclosures are provided in notes 7 and 22.

#### **Joint ventures**

The Group has a number of long-term contractual arrangements with other parties which represent joint ventures. The Group's interests in the results and assets and liabilities of its joint ventures are accounted for using the equity method.

These investments are carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of net assets less any impairment in value. The Consolidated Income Statement reflects the share of results of operations of these investments after tax. Where there has been a change recognised directly in the investee's equity, the Group recognises its share of any changes and discloses this when applicable in the Consolidated Statement of Comprehensive Income.

Any goodwill arising on the acquisition of a joint venture, representing the excess of the cost of the investment over the Group's share of the net fair value of the joint venture's identifiable assets, liabilities and contingent liabilities, is included in the carrying amount of the joint venture and is not amortised. To the extent that the net fair value of the joint venture's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the Group's share of the joint venture's profit or loss in the year in which the investment is acquired.

#### **Foreign currency translation**

The financial statements for each of the Group's subsidiaries and joint ventures are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates.

At entity level, transactions denominated in foreign currencies are translated into the entity's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised in the Consolidated Income Statement except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in profit or loss.

## Notes to the Group Financial Statements continued

### 2. Accounting policies continued

On consolidation, the results of foreign operations are translated into Sterling at the average exchange rate for the year and their assets and liabilities are translated into Sterling at the exchange rate ruling on the balance sheet date. Currency translation differences, including those on monetary items that form part of a net investment in a foreign operation, are recognised in the foreign currency translation reserve and in other comprehensive income.

In the event that a foreign operation is sold, the gain or loss on disposal recognised in the Consolidated Income Statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation. As permitted by IFRS 1, the Group elected to deem cumulative currency translation differences to be £nil as at 27 December 2003. Accordingly, the gain or loss on disposal of a foreign operation does not include currency translation differences arising before that date.

In the Consolidated Cash Flow Statement, the cash flows of foreign operations are translated into Sterling at the average exchange rate for the year.

#### Revenue recognition

Revenue is the consideration received or receivable which reflects the amount expected to be received from customers, mainly the transaction price adjusted for variable consideration. Revenue will only be recognised when the fulfilment of performance obligations is achieved. Revenue is shown net of sales taxes, discounts and after eliminating sales within the Group.

##### i) Sale of goods

Revenue from the sale of goods is recognised in the Consolidated Income Statement when the transfer of control has been demonstrated, usually on despatch of goods. No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, or the possible return of goods. Transfer of control can vary depending on the nature of the products sold and the individual terms of the contract of sale. Where the sale of product requires customer inspection, revenue is not recognised until the inspection has been completed and approved by the customer.

This policy is applicable to the sale of both original equipment and spare parts, whether sold individually, in bulk or as part of a cross-selling marketing strategy.

##### ii) Provision of services

Revenue from the rendering of services is generally recognised on completion if the service is short-term in nature. Where this is not the case, revenue from services is recognised in proportion to the stage of completion of the performance obligations at the balance sheet date. The stage of completion is assessed by reference to the transfer of control over time which usually corresponds to the contractual agreement with each separate customer and the costs incurred on the contract to date in comparison with the total forecast costs of the contract. Revenue recognition commences only when the performance obligations within each service contract are completed.

##### iii) Construction contracts

Construction contracts usually contain discrete elements separately transferring control to customers over the life of the contract. The stage of completion of a contract is determined either by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, or by reference to the completion of a physical proportion of the contract work. The basis used is dependent upon the nature of the underlying contract and takes into account the degree to which the physical proportion of the work is subject to formal customer acceptance procedures. Losses on contracts are recognised in the year when such losses become probable. Construction contracts are primarily entered into by the Group's 'Engineer to order' businesses.

#### Property, plant & equipment

Property, plant & equipment is stated at cost less accumulated depreciation and any recognised impairment losses. Freehold land and assets under construction are not depreciated. Depreciation of property, plant & equipment is provided on a straight-line basis so as to charge the cost less residual value, to the Consolidated Income Statement over the expected useful life of the asset concerned, and is in the following ranges:

Freehold buildings, long leasehold land & buildings	10 – 40 years
Short leasehold land & buildings	duration of lease
Plant & equipment	3 – 20 years

#### Goodwill

Goodwill arises on the acquisition of businesses and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets, liabilities and contingent liabilities determined at the date of acquisition. Acquisition costs are recognised in the Consolidated Income Statement in the year in which they are incurred. Goodwill in respect of an acquired business is recognised as an intangible asset. Goodwill is carried at cost less any recognised impairment losses and is tested at least annually or where there are indicators of impairment.

The carrying amount of goodwill allocated to a cash generating unit is taken into account when determining the gain or loss on disposal of the unit.

Any contingent consideration is recognised at the date of acquisition or disposal. For acquisitions, subsequent changes to the fair value of the contingent consideration are adjusted against the cost of acquisition where they qualify as measurement period adjustments. The measurement period is the period from the date of acquisition to the date that the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year. If the change does not qualify as a measurement period adjustment it is reflected in the Consolidated Income Statement. For disposals, any subsequent change in contingent consideration is adjusted against the disposal proceeds and the gain or loss on disposal.

#### Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and any recognised impairment losses.

Intangible assets acquired separately are measured at cost on initial recognition. An intangible resource acquired in a business combination is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be measured reliably.

An intangible asset with a finite life is amortised on a straight-line basis so as to charge its cost, which in respect of an acquired intangible asset represents its fair value at the acquisition date, to the income statement over its expected useful life. An intangible asset with an indefinite life is not amortised but is tested at least annually for impairment and carried at cost less any recognised impairment losses.

The expected useful lives of acquired intangible assets are as follows:

Brand names	indefinite life*
Customer & distributor relationships	5 – 30 years
Purchased software	4 – 8 years
Intellectual property & trademarks	6 – 15 years
Other	up to 6 years

\* Acquired brands which are considered to have a finite life are amortised accordingly.

### **Research & development costs**

All research expenditure is charged to the Consolidated Income Statement in the year in which it is incurred.

Development expenditure is charged to the Consolidated Income Statement in the year in which it is incurred unless it relates to the development of a new product or technology and it is incurred after the technical feasibility and commercial viability of the product has been proven, the development costs can be measured reliably, future economic benefits are probable and the Group intends, and has sufficient resources, to complete the development and to use or sell the asset. Any such capitalised development expenditure is amortised on a straight-line basis so that it is charged to the Consolidated Income Statement over the expected life of the resulting product or technology.

### **Impairment of non-current assets**

All non-current assets are tested for impairment whenever events or circumstances indicate that their carrying values might be impaired. Additionally, goodwill and intangible assets with an indefinite life are subject to an annual impairment test.

An impairment loss is recognised to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's fair value less costs to sell and its value in use. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is conducted for the cash generating unit to which it belongs. Similarly, the recoverable amount of goodwill is determined by reference to the discounted future cash flows of the cash generating units to which it is allocated.

Impairment losses are recognised in the Consolidated Income Statement. Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of an asset shall not be increased above the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. Impairment losses recognised in respect of goodwill are not reversed.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value, with due allowance for any obsolete or slow moving items. Cost represents the expenditure incurred in bringing inventories to their existing location and condition and comprises the cost of raw materials, direct labour costs, other direct costs and related production overheads. Raw material cost is generally determined on a first-in, first-out basis. Net realisable value is the estimated selling price less costs to complete and sell.

### **Financial assets & liabilities**

The Group's principal financial assets and liabilities, other than derivatives, comprise bank overdrafts, short-term borrowings, loans and fixed-rate notes, commercial paper, cash and short-term deposits. The Group also has other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations, and contingent consideration in relation to acquisitions.

A financial asset is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss. Under IFRS 9, where the modification is not substantial any difference in the modified cash flows is recognised in profit or loss. Previously under IAS 39, such a modification would have resulted in an adjustment to the effective interest rate of the liability, which would be recognised prospectively in profit or loss.

## Notes to the Group Financial Statements continued

### 2. Accounting policies continued

#### Trade receivables

Trade receivables, which are generally of a short-term nature, are recognised at original invoice amount where the consideration is unconditional. If they contain significant financing components, trade receivables are instead recognised at fair value. The Group holds trade receivables to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details of the Group's impairment policies and the calculation of the loss allowance are provided in note 17.

#### Cash & cash equivalents

Cash & cash equivalents comprise cash in hand, deposits available on demand and other short-term highly liquid investments with a maturity on acquisition of three months or less and bank overdrafts and short-term borrowings with a maturity on acquisition of three months or less. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

#### Trade payables

Trade payables are recognised and carried at original invoice amount.

#### Interest-bearing loans & borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to settle the liability at least 12 months after the balance sheet date.

#### Provisions

A provision is recognised in the Consolidated Balance Sheet when the Group has a legal or constructive obligation as a result of a past event, the obligation can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### Derivative financial instruments & hedge accounting

The Group uses derivative financial instruments, principally forward foreign currency contracts and cross currency swaps, to reduce its exposure to exchange rate movements. The Group also uses foreign currency borrowings as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries. Additionally, the Group uses interest rate swaps to manage its exposure to interest rate risk. The Group does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. The fair value of forward foreign currency contracts is calculated as the present value of the estimated future cash flows based on spot and forward foreign exchange rates and counterparty and the Group's own credit risk. The fair value of interest rate swaps and cross currency swaps is calculated as the present value of the estimated future cash flows based on interest rate curves, spot foreign exchange rates and counterparty and own credit risk. Changes in their fair values are recognised in the Consolidated Income Statement, except where hedge accounting is used, provided the conditions specified by IFRS 9 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IFRS 9 and practical to do so. When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges, as appropriate.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss will be recognised in the Consolidated Income Statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument.

Where the hedging relationship is classified as a cash flow or net investment hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in other comprehensive income. When the hedged asset or liability is recognised in the financial statements, the accumulated gains and losses recognised in other comprehensive income will be either recycled to the income statement or, if the hedged item results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised through other comprehensive income is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss that was reported in equity is immediately reclassified to the income statement in the period.

Derivatives embedded in non-derivative host contracts, which are not already measured at fair value through profit or loss, are recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the Consolidated Income Statement.

#### Share-based payments

Equity settled share-based incentives are provided to employees under the Group's Share Reward Plan (SRP), formerly the Long Term Incentive Plan (LTIP), and as a consequence of occasional one-off conditional awards made to employees.

The fair value of awards at the date of the grant is calculated using appropriate option pricing models and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service or performance conditions. The conditions of the SRP which took effect in 2018 are summarised in the Directors' Remuneration Policy, which can be found on the Company's website at [www.corporategovernance.weir](http://www.corporategovernance.weir).

### Treasury shares

The Weir Group PLC shares held by the Company are classified in shareholders' equity as treasury shares and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken directly to retained earnings. No gain or loss is recognised in total comprehensive income on the purchase, sale, issue or cancellation of equity shares.

### Post-employment benefits

Post-employment benefits comprise pension benefits provided to certain current and former employees in the UK, US and Canada and post-retirement healthcare benefits provided to certain employees in the US.

For defined benefit pension and post-retirement healthcare plans, the annual service cost is calculated using the projected unit credit method and is recognised over the future service lives of participating employees, in accordance with the advice of qualified actuaries. Current service cost and administration expenses are recognised in operating costs and net interest on the net pension liability is recognised in finance costs.

The finance cost recognised in the Consolidated Income Statement in the year reflects the net interest on the net pension liability. This represents the change in the net pension liability resulting from the passage of time, and is determined by applying the discount rate to the opening net liability, taking into account employer contributions paid into the plan, and hence reducing the net liability, during the year.

Past service costs resulting from enhanced benefits are recognised immediately in the Consolidated Income Statement. Actuarial gains and losses, which represent differences between interest on the plan assets, experience on the benefit obligation and the effect of changes in actuarial assumptions, are recognised in full in other comprehensive income in the year in which they occur.

The defined benefit liability or asset recognised in the Consolidated Balance Sheet comprises the net total for each plan of the present value of the benefit obligation, using a discount rate based on yields at the balance sheet date on appropriate high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and are denominated in the currency in which the benefits are expected to be paid, minus the fair value of the plan assets, if any, at the balance sheet date. The balance sheet asset recognised is limited to the present value of economic benefits which the Group expects to recover by way of refunds or a reduction in future contributions. In order to calculate the present value of economic benefits, consideration is also given to any minimum funding requirements.

For defined contribution plans, the cost represents the Group's contributions to the plans and these are charged to the Consolidated Income Statement in the year in which they fall due, along with any associated administration costs.

### Leases

Leases which transfer to the Group substantially all of the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are included within property, plant & equipment, initially measured at their fair value or, if lower, the present value of the minimum lease payments, and a corresponding liability is recognised within obligations under finance leases. Subsequently, the assets are depreciated over a period consistent with similar owned assets or the lease term if shorter. At the inception of the lease, the lease rentals are apportioned between an interest element and a capital element so as to produce a constant periodic rate of interest on the outstanding liability. Subsequently, the interest element is recognised as a charge to the Consolidated Income Statement while the capital element is applied to reduce the outstanding liability.

Operating lease rentals and any incentives receivable are recognised in the Consolidated Income Statement on a straight-line basis over the term of the lease.

### Taxation

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the year.

Deferred tax liabilities represent tax payable in future years in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future years in respect of deductible temporary differences, the carry forward of unutilised tax losses and the carry forward of unused tax credits.

Deferred tax is measured on an undiscounted basis using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax is recognised on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base with the following exceptions:

- i) Deferred tax arising from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination, that, at the time of the transaction, affects neither accounting nor taxable profit or loss, is not recognised;
- ii) Deferred tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- iii) A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current and deferred tax is recognised in the Consolidated Income Statement except if it relates to an item recognised directly in equity, in which case it is recognised directly in equity.

## Notes to the Group Financial Statements continued

### 2. Accounting policies continued

#### New standards & interpretations – issued but not yet effective

The International Accounting Standards Board and International Financial Reporting Interpretations Committee have issued the following standards, amendments and interpretations, which are considered relevant to the Group, with an effective date after the period covered by these financial statements.

International Accounting Standards (IAS/IFRS)	Effective date for periods commencing
IFRS 16: 'Leases'	1 January 2019
Amendment to IFRS 9: 'Financial instruments' on prepayment features with negative compensation	1 January 2019*
Amendments to IAS 28: 'Investments in associates' on long-term interests in associates and joint ventures	1 January 2019*
Amendment to IAS 19: 'Employee benefits plan amendment, curtailment or settlement'	1 January 2019*
Annual improvements 2015-2017	1 January 2019*
Amendment to IFRS 3: 'Business combinations'	1 January 2019*
Amendment to IAS 1 and IAS 8 regarding the definition of materiality	1 January 2019*

\*Not yet endorsed for use in the European Union.

The above standards and interpretations will be adopted in accordance with their effective dates and have not been adopted in these financial statements. Further details are provided below in relation to IFRS 16: Leases which will become effective from 1 January 2019. The amendments and improvements which have not yet been endorsed are not anticipated to have a significant financial impact.

#### IFRS 16: Leases

The Group will adopt IFRS 16 on 1 January 2019. The standard will result in many current operating leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed.

The Group will apply the modified retrospective transition method. Under this method, comparative information will not be restated, but the impact of IFRS 16 will be recognised within opening balances as at 1 January 2019. The Group will recognise right-of-use assets representing its right to use underlying assets, and corresponding lease liabilities representing its obligation to make lease payments. Right-of-use assets will be valued as equal to lease liabilities. The lease term is calculated as the non-cancellable period of the lease contract, except where the Group is reasonably certain that it will exercise contractual extension options. Operating lease expenses will be replaced by a depreciation expense on the right-of-use assets recognised and an interest expense. Where the interest rate implicit in the lease cannot be readily determined, the Group's incremental borrowing rate will be used.

The Group has elected to use the following practical expedients allowed by the standard:

- On initial application:
  - i) the use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease;
  - ii) the exclusion of initial direct costs from the measurement of the right-of-use asset; and
  - iii) IFRS 16 will only be applied to contracts that were previously classified as leases.
- Lease payments for contracts with a duration of 12 months or less and/or contracts for which the underlying asset is of a low value will continue to be expensed to the income statement on a straight-line basis over the lease term. At transition, where the lease term ends within 12 months of 1 January 2019, these leases will be treated as short-term.

On adoption of IFRS 16, the Group expects to recognise right-of-use assets and corresponding lease liabilities on the balance sheet of between £180m and £200m. The impact on the profit before tax in the Consolidated Income Statement is not expected to be material.

#### Non-GAAP measures

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which we believe distort period-on-period comparisons. These are considered non-GAAP financial measures. This information, along with comparable GAAP measurements, is useful to investors in providing a basis for measuring our operational performance. Our management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information in compliance with GAAP. Non-GAAP financial measures as reported by the Group may not be comparable with similarly titled amounts reported by other companies.

Below we set out our definitions of non-GAAP measures and provide reconciliations to relevant GAAP measures.

**Free cash flow**

Free cash flow (FCF) is defined as cash flow from operating activities adjusted for income taxes, net capital expenditures, net interest payments, dividends paid, settlement of derivatives, purchase of shares for LTIP and other awards and pension contributions. FCF reflects an additional way of viewing our liquidity that we believe is useful to investors as it represents cash flows that could be used for repayment of debt or to fund our strategic initiatives, including acquisitions, if any. The reconciliation of cash generated from operations to FCF is as follows.

	<b>2018</b> £m	2017 £m
Cash generated from operations before exceptional cash items (note 25)	<b>410.8</b>	220.5
Income tax paid	<b>(73.3)</b>	(60.5)
Net capital expenditure from purchase & disposal of property, plant & equipment and intangibles	<b>(85.2)</b>	(80.8)
Net interest paid	<b>(36.6)</b>	(40.8)
Dividends paid to equity holders of the Company	<b>(79.6)</b>	(74.2)
Dividends received from joint ventures	<b>1.6</b>	8.0
Settlement of derivative financial instruments	<b>(22.1)</b>	6.6
Purchase of shares for employee share plans	<b>(0.8)</b>	–
Additional pension contributions paid	<b>(5.6)</b>	(3.0)
Free cash flow	<b>109.2</b>	(24.2)

**EBITDA**

EBITDA is operating profit from continuing operations, before exceptional items, intangibles amortisation and depreciation. EBITDA is used in conjunction with other GAAP and non-GAAP financial measures to assess our operating performance. A reconciliation of EBITDA to the closest equivalent GAAP measure, operating profit, is provided.

	2018 £m	Restated (note 2) 2017 £m
<b>Continuing operations</b>		
Operating profit	<b>124.1</b>	240.8
Adjusted for:		
Exceptional items (note 5)	<b>157.7</b>	3.5
<b>Earnings before interest and tax (EBIT)</b>	<b>281.8</b>	244.3
Intangibles amortisation (note 5)	<b>66.3</b>	52.0
Depreciation of property, plant & equipment (note 11)	<b>61.8</b>	49.7
<b>EBITDA</b>	<b>409.9</b>	346.0

**Net debt**

A reconciliation of net debt to cash & short-term deposits, interest-bearing loans and borrowings is provided in note 25.

## Notes to the Group Financial Statements continued

### 3. Segment information

Following the announcement during the year of the Group's intention to sell the Flow Control division, the Group has classified the Flow Control division as a discontinued operation. On 25 February 2019, the Group announced an agreement had been entered into to sell the division, as disclosed in note 32. Continuing operations includes three operating divisions: Minerals, ESCO and Oil & Gas (previously Minerals, Oil & Gas and Flow Control). The acquisition of ESCO was completed on 12 July 2018 and ESCO has been reported as a separate segment alongside Minerals and Oil & Gas with effect from that date. These three divisions are organised and managed separately based on the key markets served and each is treated as an operating segment and a reportable segment under IFRS 8. The operating and reportable segments were determined based on the reports reviewed by the Chief Executive Officer which are used to make operational decisions.

The Minerals segment is the global leader in the provision of slurry handling equipment and associated aftermarket support for abrasive high-wear applications used in the mining and oil sands markets. The Oil & Gas segment provides products and service solutions to upstream, production, transportation and related industries. The ESCO segment is the world's leading provider of ground engaging tools for surface mining and infrastructure.

The Chief Executive Officer assesses the performance of the operating segments based on operating profit from continuing operations before exceptional items (including impairments) and intangibles amortisation ('segment result'). Finance income and expenditure and associated interest-bearing liabilities and derivative financial instruments are not allocated to segments as all treasury activity is managed centrally by the Group treasury function. The amounts provided to the Chief Executive Officer with respect to assets and liabilities are measured in a manner consistent with that of the financial statements. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment.

Transfer prices between business segments are set on an arm's length basis, in a manner similar to transactions with third parties.

The segment information for the reportable segments for 2018 and 2017 is disclosed below.

Information for Flow Control is included in note 8.

	Minerals		ESCO		Oil & Gas		Total continuing operations	
	2018 £m	Restated (note 2) 2017 £m	2018 £m	2017 £m	2018 £m	Restated (note 2) 2017 £m	2018 £m	Restated (note 2) 2017 £m
<b>Revenue</b>								
Sales to external customers	<b>1,416.7</b>	1,306.1	<b>251.8</b>	–	<b>781.4</b>	679.5	<b>2,449.9</b>	1,985.6
Inter-segment sales	<b>1.5</b>	0.7	–	–	–	0.2	<b>1.5</b>	0.9
Segment revenue	<b>1,418.2</b>	1,306.8	<b>251.8</b>	–	<b>781.4</b>	679.7	<b>2,451.4</b>	1,986.5
Eliminations							<b>(1.5)</b>	(0.9)
							<b>2,449.9</b>	1,985.6
<b>Sales to external customers – 2017 at 2018 average exchange rates</b>								
Sales to external customers	<b>1,416.7</b>	1,255.2	<b>251.8</b>	–	<b>781.4</b>	655.5	<b>2,449.9</b>	1,910.7
<b>Segment result</b>								
Segment result before share of results of joint ventures	<b>250.2</b>	228.1	<b>32.5</b>	–	<b>93.8</b>	81.4	<b>376.5</b>	309.5
Share of results of joint ventures	–	–	<b>0.2</b>	–	<b>2.2</b>	10.9	<b>2.4</b>	10.9
Segment result	<b>250.2</b>	228.1	<b>32.7</b>	–	<b>96.0</b>	92.3	<b>378.9</b>	320.4
Unallocated expenses							<b>(30.8)</b>	(24.1)
Operating profit before exceptional items & intangibles amortisation							<b>348.1</b>	296.3
Total exceptional items & intangibles amortisation							<b>(224.0)</b>	(56.3)
Net finance costs before exceptional items							<b>(38.0)</b>	(41.4)
Profit before tax from continuing operations							<b>86.1</b>	198.6
<b>Segment result – 2017 at 2018 average exchange rates</b>								
Segment result before share of results of joint ventures	<b>250.2</b>	219.5	<b>32.5</b>	–	<b>93.8</b>	78.3	<b>376.5</b>	297.8
Share of results of joint ventures	–	–	<b>0.2</b>	–	<b>2.2</b>	10.6	<b>2.4</b>	10.6
Segment result	<b>250.2</b>	219.5	<b>32.7</b>	–	<b>96.0</b>	88.9	<b>378.9</b>	308.4
Unallocated expenses							<b>(30.8)</b>	(24.1)
Operating profit before exceptional items & intangibles amortisation							<b>348.1</b>	284.3

Revenues from any single external customer do not exceed 10% of Group revenue.

	Minerals		ESCO		Oil & Gas		Discontinued operations		Total Group	
	Restated (note 2)				Restated (note 2)				Restated (note 2)	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
<b>Assets &amp; liabilities</b>										
Intangible assets	<b>606.3</b>	603.0	<b>747.5</b>	—	<b>773.5</b>	763.0	—	137.5	<b>2,127.3</b>	1,503.5
Property, plant & equipment	<b>218.1</b>	221.3	<b>106.1</b>	—	<b>93.9</b>	89.9	—	72.5	<b>418.1</b>	383.7
Working capital assets	<b>682.9</b>	621.3	<b>215.8</b>	—	<b>384.0</b>	365.7	—	229.3	<b>1,282.7</b>	1,216.3
	<b>1,507.3</b>	1,445.6	<b>1,069.4</b>	—	<b>1,251.4</b>	1,218.6	—	439.3	<b>3,828.1</b>	3,103.5
Investments in joint ventures	—	—	<b>15.6</b>	—	<b>21.0</b>	19.2	—	—	<b>36.6</b>	19.2
Segment assets held for sale	—	—	—	—	—	—	<b>394.4</b>	—	<b>394.4</b>	—
Segment assets	<b>1,507.3</b>	1,445.6	<b>1,085.0</b>	—	<b>1,272.4</b>	1,237.8	<b>394.4</b>	439.3	<b>4,259.1</b>	3,122.7
Unallocated assets									<b>485.7</b>	467.1
Total assets									<b>4,744.8</b>	3,589.8
Working capital liabilities	<b>402.2</b>	353.2	<b>80.0</b>	—	<b>181.3</b>	175.9	—	126.7	<b>663.5</b>	655.8
Segment liabilities held for sale	—	—	—	—	—	—	<b>134.0</b>	—	<b>134.0</b>	—
Unallocated liabilities									<b>1,798.4</b>	1,465.3
Total liabilities									<b>2,595.9</b>	2,121.1
<b>Other segment information – total Group</b>										
Segment additions to non-current assets	<b>47.5</b>	43.5	<b>9.5</b>	—	<b>26.9</b>	24.8	<b>5.9</b>	6.4	<b>89.8</b>	74.7
Unallocated additions to non-current assets									<b>3.9</b>	11.0
Total additions to non-current assets									<b>93.7</b>	85.7
<b>Other segment information – total Group</b>										
Segment depreciation & amortisation	<b>44.1</b>	45.0	<b>16.8</b>	—	<b>54.6</b>	51.5	<b>3.7</b>	11.8	<b>119.2</b>	108.3
Segment impairment of property, plant & equipment	<b>12.9</b>	0.1	—	—	<b>0.4</b>	2.4	<b>0.3</b>	1.4	<b>13.6</b>	3.9
Segment impairment of intangible assets	<b>3.1</b>	—	—	—	—	—	<b>45.0</b>	—	<b>48.1</b>	—
Unallocated depreciation, amortisation & impairment									<b>12.6</b>	5.4
Total depreciation, amortisation & impairment									<b>193.5</b>	117.6

Unallocated assets are continuing operations and primarily comprise cash and short-term deposits, derivative financial instruments, income tax receivable, deferred tax assets and retirement benefit surpluses as well as those assets which are used for general head office purposes. Unallocated liabilities are continuing operations and primarily comprise interest-bearing loans and borrowings, derivative financial instruments, income tax payable, provisions, deferred tax liabilities and retirement benefit deficits as well as liabilities relating to general head office activities. Segment additions to non-current assets do not include those additions which have arisen from business combinations (note 13).

## Notes to the Group Financial Statements continued

### 3. Segment information continued

#### Geographical information

Geographical information in respect of revenue and non-current assets for 2018 and 2017 is disclosed below. Revenues are allocated based on the location to which the product is shipped. Assets are allocated based on the location of the assets and operations. Non-current assets consist of property, plant & equipment, intangible assets and investments in joint ventures.

Year ended 31 December 2018	UK £m	US £m	Canada £m	Europe & FSU £m	Asia Pacific £m	Australia £m	South America £m	Middle East & Africa £m	Total £m
Revenue from continuing operations									
Sales to external customers	<b>28.0</b>	<b>802.5</b>	<b>287.9</b>	<b>142.8</b>	<b>285.7</b>	<b>227.7</b>	<b>370.3</b>	<b>305.0</b>	<b>2,449.9</b>
Non-current assets	<b>332.5</b>	<b>1,554.4</b>	<b>54.5</b>	<b>39.3</b>	<b>285.4</b>	<b>152.8</b>	<b>87.3</b>	<b>124.1</b>	<b>2,630.3</b>
Year ended 31 December 2017 (Restated note 2)	UK £m	US £m	Canada £m	Europe & FSU £m	Asia Pacific £m	Australia £m	South America £m	Middle East & Africa £m	Total £m
Revenue from continuing operations									
Sales to external customers	15.8	641.7	233.2	126.2	202.2	190.8	307.6	268.1	1,985.6
Non-current assets	345.4	723.0	49.0	171.2	335.3	155.7	65.1	118.5	1,963.2

The following disclosures are given in relation to continuing operations.

							Restated (note 2) <b>2018 £m</b>	2017 £m
An analysis of the Group's revenue is as follows:								
Original equipment							<b>578.2</b>	460.8
Aftermarket parts							<b>1,536.6</b>	1,199.2
Sales of goods							<b>2,114.8</b>	1,660.0
Provision of services							<b>310.9</b>	282.3
Construction contracts							<b>24.2</b>	43.3
Revenue							<b>2,449.9</b>	1,985.6

	Minerals		ESCO		Oil & Gas		Total continuing operations	
	2018 £m	Restated (note 2) 2017 £m	2018 £m	2017 £m	2018 £m	Restated (note 2) 2017 £m	2018 £m	Restated (note 2) 2017 £m
<b>Timing of revenue recognition</b>								
At a point in time	<b>1,342.2</b>	1,241.4	<b>251.8</b>	—	<b>772.2</b>	675.1	<b>2,366.2</b>	1,916.5
Over time	<b>76.0</b>	65.4	—	—	<b>9.2</b>	4.6	<b>85.2</b>	70.0
Segment revenue	<b>1,418.2</b>	1,306.8	<b>251.8</b>	—	<b>781.4</b>	679.7	<b>2,451.4</b>	1,986.5
Eliminations							<b>(1.5)</b>	(0.9)
							<b>2,449.9</b>	1,985.6

### 4. Revenues & expenses

The following disclosures are given in relation to continuing operations and exclude exceptional items & intangibles amortisation.

		Restated (note 2) <b>2018 £m</b>	2017 £m
A reconciliation of revenue to operating profit is as follows:			
Revenue		<b>2,449.9</b>	1,985.6
Cost of sales		<b>(1,633.0)</b>	(1,316.2)
Gross profit		<b>816.9</b>	669.4
Other operating income		<b>6.2</b>	4.4
Selling & distribution costs		<b>(245.8)</b>	(225.3)
Administrative expenses		<b>(231.6)</b>	(163.1)
Share of results of joint ventures		<b>2.4</b>	10.9
Operating profit		<b>348.1</b>	296.3

	2018 £m	Restated (note 2) 2017 £m
Operating profit from continuing operations is stated after charging (crediting):		
Cost of inventories recognised as an expense	<b>1,633.0</b>	1,316.2
Depreciation of property, plant & equipment (note 11)	<b>61.8</b>	49.7
Amortisation of intangible assets (note 12)	<b>66.3</b>	52.0
Acquisition integration costs	–	0.4
Exceptional items (note 5)	<b>157.7</b>	3.5
Net foreign exchange losses (gains)	<b>14.9</b>	(1.1)
Net impairment charge of trade receivables excluding additional restructuring action amounts (note 17)	<b>5.2</b>	7.5

Details of the exceptional items and intangibles amortisation are provided in note 5. In 2018 these included acquisition and integration costs associated with the ESCO acquisition.

Depreciation of property, plant & equipment (note 11) for discontinued operations was £2.7m (2017: £8.5m).

Amortisation of intangible assets (note 12) for discontinued operations was £1.0m (2017: £3.4m).

#### **Research & development costs**

Research & development costs for continuing operations amount to £37.3m (2017: £35.4m) of which £34.4m (2017: £25.2m) was charged directly to cost of sales in the income statement and £2.9m (2017: £10.2m) was capitalised (note 12). Research & development costs for discontinued operations amounted to £4.7m (2017: £5.0m) of which £4.5m (2017: £4.8m) was charged to cost of sales in the income statement and £0.2m (2017: £0.2m) was capitalised (note 12).

#### **Operating leases**

Minimum lease payments for continuing operations under operating leases recognised as an expense in the year were £53.6m (2017: £47.6m).

	2018 £m	Restated (note 2) 2017 £m
<b>Employee benefits expense</b>		
Wages & salaries	<b>550.4</b>	461.0
Social security costs	<b>40.0</b>	35.4
Pension costs		
Defined benefit plans	<b>7.4</b>	(3.3)
Defined contribution plans	<b>23.4</b>	21.0
Share-based payments – equity settled transactions (note 27)	<b>8.6</b>	7.0
	<b>629.8</b>	521.1

Details of Directors' remuneration is disclosed in note 28.

	2018 Number	Restated (note 2) 2017 Number
The average monthly number of people employed by the Company and its subsidiaries is as follows:		
Minerals	<b>8,562</b>	8,506
ESCO	<b>2,444</b>	–
Oil & Gas	<b>3,038</b>	2,795
Group companies	<b>482</b>	435
	<b>14,526</b>	11,736

The following disclosures are given in relation to total operations.

At 31 December 2018, the number of people employed by the Group and including those under temporary contracts was 17,515 (2017: 14,906).

## Notes to the Group Financial Statements continued

### 4. Revenues & expenses continued

	2018 £m	2017 £m
<b>Auditors' remuneration</b>		
The total fees payable by the Group to our auditors for work performed in respect of the audit and other services provided to the Company and its subsidiary companies during the year are disclosed below		
Fees payable to the Company's auditor for the audit of the Company and Consolidated Financial Statements	<b>2.5</b>	1.7
Fees payable to the Company's auditor for other services		
The audit of the Company's subsidiaries	<b>1.3</b>	0.9
Audit related assurance services	<b>0.4</b>	0.1
Other non-audit services	<b>—</b>	0.3
Fees payable in respect of the Group's pension schemes		
Audit (performed by Ernst & Young LLP)	<b>—</b>	0.1

### 5. Exceptional items & intangibles amortisation

	2018 £m	2017 £m
Recognised in arriving at operating profit from continuing operations		
Intangibles amortisation (note 12)	<b>(66.3)</b>	(52.0)
Exceptional item – intangibles impairment (note 12)	<b>(3.1)</b>	—
Exceptional item – ESCO inventory unwind	<b>(63.1)</b>	—
Exceptional item – ESCO acquisition and integration related costs	<b>(30.8)</b>	—
Exceptional item – legacy product warranty	<b>(24.4)</b>	—
Exceptional item – restructuring and rationalisation charges	<b>(29.2)</b>	(2.7)
Exceptional item – pension equalisation (note 23)	<b>(6.3)</b>	—
Exceptional item – legal claims	<b>(0.7)</b>	(2.1)
Exceptional item – gain on sale of EPI joint venture	<b>—</b>	10.4
Exceptional item – fair value adjustment to contingent consideration asset/liability	<b>(0.1)</b>	(9.1)
	<b>(224.0)</b>	(55.5)
Recognised in finance costs		
Exceptional item – unwind in respect of contingent consideration liability	<b>—</b>	(0.8)
Recognised in arriving at operating profit from discontinued operations		
Intangibles amortisation (note 12)	<b>(1.0)</b>	(3.4)
Exceptional item – intangibles impairment (note 12)	<b>(45.0)</b>	—
Exceptional item – disposal related costs	<b>(5.0)</b>	—
Exceptional item – restructuring and rationalisation charges	<b>0.1</b>	(9.8)
Exceptional item – legal claims	<b>(2.0)</b>	—
Exceptional item – related to prior disposal	<b>0.3</b>	(0.1)
	<b>(52.6)</b>	(13.3)

### Continuing operations

Exceptional items in the year include costs associated with the ESCO acquisition which completed on 12 July 2018 (note 13). This includes a £63.1m charge related to the unwind of the inventory fair value uplift booked in accordance with IFRS 3 in the opening balance sheet. A further £30.8m has been recognised for acquisition and integration costs. The majority of these costs relate to adviser fees, due diligence and initial integration costs.

An exceptional charge of £24.4m has been booked in relation to a legacy product warranty issue which has arisen in Oil & Gas. As a result, an inventory provision of £7.5m and costs of £16.9m to cover warranty compensation arrangements have been recognised. During 2018, £10.2m of the exceptional charge has been utilised, with the remaining £6.7m expected to be utilised early in 2019.

Restructuring and rationalisation charges represent costs related to the right-sizing of operations, including facility closures, headcount reductions, tangible asset impairments and inventory write downs. This includes £17.2m which has been recognised following the decision to exit the Minerals Malaysia foundry operations. The remaining £12.0m restructuring relates to restructuring actions in Minerals North America and China, plus Oil & Gas International. An exceptional impairment of related goodwill has also been recognised of £3.1m.

Following the Lloyds Banking Group High Court ruling on 26 October 2018 in relation to guaranteed minimum pension (GMP) inequality, a charge of £6.3m for GMP equalisation has been booked.

Legacy legal claims and the finalisation of contingent consideration balances led to a total charge of £0.8m in the year.

In the prior year, restructuring and rationalisation charges represented the additional cost of programmes which commenced in earlier periods to right-size operations and discontinue certain activities (£2.7m). Other exceptional items related to costs of £2.1m associated with the extension of a prior period legal claim, a fair value adjustment of £9.6m related to the acquisition of Weir International, offset by a £0.5m credit following settlement of Delta deferred consideration and £0.8m unwind of contingent consideration liability for Weir International. An exceptional gain of £10.4m was recognised on the sale of the 49% stake in the Energy Products LLC (EPI) joint venture sold in November 2017.

#### **Discontinued operations**

Exceptional items of £51.6m (2017: £9.9m) includes a write down to Flow Control's carrying value of £45.0m to £260.4m, reflecting the agreed transaction enterprise value of £275m less our latest estimate of future costs to sell including separation costs, transfer value of pension and other liabilities as well as certain capital commitments. A further £5.0m of disposal related costs has been incurred in relation to the intended sale. Additional items recognised in the year include facility closure costs £0.8m offset by the release of an exceptional provision of £0.9m, legal fees and settlement costs associated with a historic legal claim involving a Group company (£2.0m) and a receipt related to the previous disposal of Ynfini Engineering Systems of £0.3m.

In 2017, exceptional items comprised restructuring and rationalisation costs associated with the continuation of previously announced programmes (£9.8m) and costs relating to the sale of Ynfini Engineering Systems.

#### **6. Finance (costs) income**

The following disclosures are given in relation to continuing operations.

##### **Finance costs**

	2018 £m	Restated (note 2) 2017 £m
Interest payable on bank loans, fixed-rate notes & overdrafts	<b>(34.8)</b>	(38.1)
Finance charges related to committed loan facilities	<b>(1.6)</b>	(1.4)
Other finance costs – retirement benefits	<b>(4.3)</b>	(3.4)
	<b>(40.7)</b>	(42.9)
Unwind of discount in respect of contingent consideration – exceptional item (note 5)	–	(0.8)
	<b>(40.7)</b>	(43.7)

##### **Finance income**

	2018 £m	Restated (note 2) 2017 £m
Interest receivable on financial assets	<b>2.7</b>	1.5

## Notes to the Group Financial Statements continued

### 7. Tax expense

#### Income tax (expense) credit from total operations

	2018 £m	Restated (note 2) 2017 £m
<b>Consolidated Income Statement</b>		
Current income tax		
UK corporation tax	3.5	(2.5)
Adjustments in respect of previous years	(1.3)	1.1
UK corporation tax	2.2	(1.4)
Foreign tax	(71.3)	(57.2)
Adjustments in respect of previous years	(3.5)	6.0
Total current income tax	<b>(72.6)</b>	(52.6)
Deferred income tax		
Origination & reversal of temporary differences	33.7	14.4
Adjustment to estimated recoverable deferred tax assets	0.8	8.8
Effect of changes in tax rates	(1.8)	16.7
Adjustments in respect of previous years	2.2	(5.4)
Total deferred tax*	<b>34.9</b>	34.5
Total income tax expense in the Consolidated Income Statement	<b>(37.7)</b>	(18.1)
Total income tax expense is attributable to:		
Profit from continuing operations	(32.7)	(14.2)
Profit (loss) from discontinued operations	(5.0)	(3.9)
	<b>(37.7)</b>	(18.1)

\*Includes £35.3m of deferred tax credit relating to foreign tax (2017: £29.3m credit).

The total income tax expense is disclosed in the Consolidated Income Statement, and note 8, as follows.

	2018 £m	Restated (note 2) 2017 £m
<b>Tax (expense) credit</b>		
– continuing operations before exceptional items & intangibles amortisation	(78.6)	(53.2)
– discontinued operations before exceptional items & intangibles amortisation	(6.3)	(5.6)
– exceptional items	31.4	23.1
– intangibles amortisation and impairment	15.8	17.6
Total income tax expense in the Consolidated Income Statement	<b>(37.7)</b>	(18.1)

The total deferred tax included in the income tax expense is detailed in note 22.

#### Tax relating to items charged or credited to equity from continuing operations

	2018 £m	2017 £m
<b>Consolidated Statement of Comprehensive Income</b>		
Deferred tax – origination & reversal of temporary differences	(10.1)	2.3
Deferred tax – effect of change in tax rates	1.2	(0.8)
Tax (debit) credit on actuarial losses on retirement benefits	(8.9)	1.5
Tax credit on hedge losses	3.0	0.8
Tax (charge) credit in the Consolidated Statement of Comprehensive Income	<b>(5.9)</b>	2.3
<b>Consolidated Statement of Changes in Equity</b>		
Deferred tax on share-based payments	(1.7)	0.7
Tax (charge) credit in the Consolidated Statement of Changes in Equity	<b>(1.7)</b>	0.7

**Reconciliation of the total tax charge from continuing operations**

The tax debit (2017: debit) in the Consolidated Income Statement for the year is higher (2017: lower) than the weighted average of standard rates of corporation tax across the Group of 37.2% (2017: 33.2%). The differences are reconciled below.

	2018 £m	Restated (note 2) 2017 £m
Profit before tax from continuing operations	<b>86.1</b>	198.6
Loss before tax from discontinued operations	<b>(30.0)</b>	(20.8)
Profit before tax	<b>56.1</b>	177.8
At the weighted average of standard rates of corporation tax across the Group of 37.2% (2017: 33.2%)	<b>20.9</b>	59.0
Adjustments in respect of previous years – current tax	<b>4.8</b>	(7.1)
– deferred tax	<b>(2.2)</b>	5.4
Joint ventures	<b>(0.4)</b>	(1.0)
Unrecognised deferred tax assets	<b>8.0</b>	6.8
Overseas tax on unremitted earnings	<b>(4.2)</b>	1.7
Transitional impact of US Tax Reform	<b>–</b>	(22.6)
Permanent differences	<b>6.4</b>	(4.2)
Tax effect of funding overseas operations	<b>(9.8)</b>	(22.5)
Effect of changes in tax rates	<b>(0.4)</b>	0.5
Exceptional items ineligible for tax	<b>14.6</b>	2.1
At effective tax rate of 67.2% (2017:10.2%)	<b>37.7</b>	18.1

The increase in permanent differences from a (£4.2m) deduction in 2017 to a £6.4m addition in 2018 arises in part because of the non-recurrence of release of tax risk provisions in 2017 following the resolution of tax authority enquiries in the UK, Canada and the US.

Other key movements in permanent differences include a credit in relation to non-taxable exchange gains/losses across various jurisdictions, debits in relation to provisions for tax risk including transfer pricing, provision relating to loss utilisation, and a credit for research & development incentives.

The Group's provision for overseas tax on unremitted earnings reduced from an addition of £1.7m in 2017 to a deduction of (£4.2m) in 2018. This is due to a release of provision in relation to unremitted earnings in Canada following repatriation of funds through long-term loans from the Canadian entities to the UK group.

Finance arrangements are in place to fund the acquisition of business operations in overseas territories. This finance is provided primarily to US operations through intragroup loans which provide a benefit to the Group effective tax rate. In addition, the Group claims a partial exemption under the UK Controlled Foreign Companies legislation for profits from 'qualifying loan relationships'. The Group is monitoring the developments in relation to EU State Aid investigations into the UK Government's tax legislation in this area, noting that at this stage the final outcome of any investigation is unclear. The Group considers that no provision is required in respect of this issue and will review this position as the European Commission's investigation continues.

## Notes to the Group Financial Statements continued

### 8. Discontinued operations

On 19 April 2018, the Group announced its intention to sell the Flow Control division and, in line with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Group has classified the division as held for sale. On 25 February 2019, the Group announced an agreement had been entered into to sell the division, as disclosed in note 32. The Flow Control division designs and manufactures valves and pumps as well as providing specialist support services to the global power generation, industrial oil and gas sectors.

Previously reported as an individual reporting segment, the division is now reported as a discontinued operation. In compliance with IFRS 5, the results for the year ended 31 December 2018 for the division are disclosed within one line in the income statement, with the comparative periods also restated. In the balance sheet, the assets and liabilities of the division, in the current period only, are reported as current assets/liabilities held for sale. As a discontinued operation, the division is measured at the lower of its carrying amount and fair value less costs to sell. In order to reflect this an impairment of £45.0m in relation to goodwill was recognised in the year. When the sale of the disposal group occurs, a gain or loss will arise. At the time of disposal the foreign currency translation reserve will be recycled to the income statement and included in the gain or loss on disposal.

Prior periods include £0.1m operating profit and in December 2016 a tax credit of £0.1m in relation to finalisation of American Hydro Corporation and Ynfiniti Engineering Services disposals in 2016.

#### Financial performance and cash flow information for discontinued operations

	Year ended 31 December 2018			Restated (note 2) Year ended 31 December 2017		
	Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation (note 5) £m	Total £m	Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation (note 5) £m	Total £m
<b>Revenue</b>	<b>342.7</b>	–	<b>342.7</b>	359.5	–	359.5
<b>Operating profit (loss)</b>	<b>22.9</b>	(52.6)	<b>(29.7)</b>	(7.2)	(13.3)	(20.5)
Finance costs	(0.4)	–	(0.4)	(0.4)	–	(0.4)
Finance income	0.1	–	0.1	0.1	–	0.1
<b>Profit (loss) before tax from discontinued operations</b>	<b>22.6</b>	(52.6)	<b>(30.0)</b>	(7.5)	(13.3)	(20.8)
Tax credit (expense)	(6.3)	1.3	(5.0)	(5.6)	1.7	(3.9)
<b>Profit (loss) after tax from discontinued operations</b>	<b>16.3</b>	(51.3)	<b>(35.0)</b>	(13.1)	(11.6)	(24.7)
<b>Attributable to:</b>						
Equity holders of the Company	<b>16.3</b>	(51.3)	<b>(35.0)</b>	(12.8)	(11.6)	(24.4)
Non-controlling interest	–	–	–	(0.3)	–	(0.3)
<b>Profit (loss) for the period from discontinued operations</b>	<b>16.3</b>	(51.3)	<b>(35.0)</b>	(13.1)	(11.6)	(24.7)
				Year ended 31 December 2018 £m	Year ended 31 December 2017 £m	
Cash flows from operating activities				<b>38.7</b>	11.3	
Cash flows from investing activities				(5.9)	(3.9)	
Cash flows from financing activities				(0.9)	0.5	
<b>Net increase in cash &amp; cash equivalents from discontinued operations</b>	<b>31.9</b>					7.9

#### Loss per share

Loss per share from discontinued operations were as follows.

	2018 pence	2017 pence
Basic	(14.3)	(11.1)
Diluted	(14.3)	(11.0)

These loss per share figures were derived by dividing the net profit attributable to equity holders of the Company from discontinued operations by the weighted average number of ordinary shares, for both basic and diluted amounts, shown in note 9.

The following table details the assets and liabilities classified as held for sale in the Consolidated Balance Sheet.

	<b>31 December 2018 £m</b>
<b>ASSETS</b>	
Property, plant & equipment	<b>75.9</b>
Intangible assets	98.8
Deferred tax assets	5.7
Other receivables	0.6
Inventories	71.2
Trade & other receivables	124.7
Derivative financial instruments	0.9
Income tax receivable	0.5
Cash & short-term deposits	16.1
<b>Assets held for sale</b>	<b>394.4</b>
<b>LIABILITIES</b>	
Interest-bearing loans & borrowings	2.2
Trade & other payables	103.5
Derivative financial instruments	1.3
Income tax payable	6.5
Provisions	15.4
Deferred tax liabilities	0.3
Retirement benefit plan deficits	4.8
<b>Liabilities held for sale</b>	<b>134.0</b>
<b>NET ASSETS</b>	<b>260.4</b>

#### **9. Earnings per share**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for the effect of dilutive share awards.

The following reflects the earnings and share data used in the calculation of earnings per share.

	2018	Restated (note 2) 2017
Profit attributable to equity holders of the Company		
Total operations* (£m)	18.0	159.9
Continuing operations** (£m)	53.0	184.3
Continuing operations before exceptional items & intangibles amortisation** (£m)	231.1	201.6
Weighted average share capital		
Basic earnings per share (number of shares, million)	244.1	219.9
Diluted earnings per share (number of shares, million)	245.8	221.3

The difference between the weighted average share capital for the purposes of the basic and the diluted earnings per share calculations is analysed as follows.

	2018	2017
	Shares million	Shares million
Weighted average number of ordinary shares for basic earnings per share	244.1	219.9
Effect of dilution: employee share awards	1.7	1.4
Adjusted weighted average number of ordinary shares for diluted earnings per share	245.8	221.3

## Notes to the Group Financial Statements continued

### 9. Earnings per share continued

The profit attributable to equity holders of the Company used in the calculation of both basic and diluted earnings per share from continuing operations before exceptional items and intangibles amortisation is calculated as follows.

	2018 £m	Restated (note 2) 2017 £m
	2018 pence	Restated (note 2) 2017 pence
Net profit attributable to equity holders from continuing operations**	<b>53.0</b>	184.3
Exceptional items & intangibles amortisation net of tax	<b>178.1</b>	17.3
Net profit attributable to equity holders from continuing operations before exceptional items & intangibles amortisation	<b>231.1</b>	201.6
<b>Basic earnings per share:</b>		
Total operations*	<b>7.4</b>	72.7
Continuing operations**	<b>21.7</b>	83.8
Continuing operations before exceptional items & intangibles amortisation**	<b>94.7</b>	91.7
<b>Diluted earnings per share:</b>		
Total operations*	<b>7.3</b>	72.3
Continuing operations**	<b>21.6</b>	83.3
Continuing operations before exceptional items & intangibles amortisation**	<b>94.0</b>	91.1

\* Adjusted for a profit of £0.4m (2017: loss of £0.2m) in respect of non-controlling interests for total operations.

\*\* Adjusted for a profit of £0.4m (2017: profit of £0.1m) in respect of non-controlling interests for continuing operations.

There have been no share options (2017: nil) exercised between the reporting date and the date of signing of these financial statements.

Loss per share from discontinued operations are disclosed in note 8.

### 10. Dividends paid & proposed

	2018 £m	2017 £m
Declared & paid during the year		
Equity dividends on ordinary shares		
Final dividend for 2017: 29.0p (2016: 29.0p)	<b>69.9</b>	63.1
Interim dividend for 2018: 15.75p (2017: 15.0p)	<b>40.9</b>	33.6
	<b>110.8</b>	96.7
Proposed for approval by shareholders at the Annual General Meeting		
Final dividend for 2018: 30.45p (2017: 29.0p)	<b>79.0</b>	65.0

The Weir Group PLC Scrip Dividend Scheme, in 2017, allowed shareholders on record the opportunity to elect to receive dividends in the form of new fully paid ordinary shares. In the current period, participation in the Scheme resulted in shares with a value of £31.2m being issued and a cash dividend of £38.7m for the 2017 final dividend. In the prior year for the 2016 final dividend, shares with a value of £6.4m were issued with a cash dividend of £56.7m. The interim dividend for 2018 of £40.9m was a cash dividend (interim dividend for 2017: £16.1m share issue; £17.5m cash).

The proposed dividend is based on the number of shares in issue, excluding treasury shares held, at the date that the financial statements were approved and authorised for issue. The final dividend may differ due to increases or decreases in the number of shares in issue between the date of approval of this Annual Report and Financial Statements and the record date for the final dividend.

Dividends have been maintained in the year with dividend cover of 2.1 times (2017 restated: 2.1 times) as explained in the Financial Review.

**11. Property, plant & equipment**

	Land & buildings £m	Plant & equipment £m	Total property, plant & equipment £m
<b>Cost</b>			
At 31 December 2016	199.6	667.6	867.2
Additions	9.3	58.0	67.3
Acquisitions	3.5	4.4	7.9
Disposals	(4.5)	(24.9)	(29.4)
Group transfers	2.4	(2.4)	–
Reclassifications to intangible assets (note 12)	–	(1.8)	(1.8)
Reclassifications	4.3	(4.3)	–
Fair value adjustments (note 2)	1.0	–	1.0
Exchange adjustment	(7.1)	(39.3)	(46.4)
At 31 December 2017 restated (note 2)	<b>208.5</b>	<b>657.3</b>	<b>865.8</b>
Additions	<b>3.9</b>	<b>79.2</b>	<b>83.1</b>
Acquisitions	<b>35.6</b>	<b>66.5</b>	<b>102.1</b>
Disposals	<b>(0.9)</b>	<b>(35.9)</b>	<b>(36.8)</b>
Reclassifications from intangible assets (note 12)	–	<b>0.4</b>	<b>0.4</b>
Reclassifications to inventory	–	<b>(0.6)</b>	<b>(0.6)</b>
Reclassifications	<b>(0.8)</b>	<b>0.8</b>	–
Transferred to assets held for sale (note 8)	<b>(60.8)</b>	<b>(91.5)</b>	<b>(152.3)</b>
Exchange adjustment	<b>3.7</b>	<b>12.5</b>	<b>16.2</b>
At 31 December 2018	<b>189.2</b>	<b>688.7</b>	<b>877.9</b>
<b>Accumulated depreciation &amp; impairment</b>			
At 31 December 2016	50.7	414.5	465.2
Depreciation charge for the year	6.8	51.4	58.2
Impairment during the year	0.9	3.1	4.0
Disposals	(2.2)	(22.2)	(24.4)
Reclassifications to inventory	–	(0.1)	(0.1)
Reclassifications	0.1	(0.1)	–
Exchange adjustment	(2.8)	(27.6)	(30.4)
At 31 December 2017	<b>53.5</b>	<b>419.0</b>	<b>472.5</b>
Depreciation charge for the year*	<b>7.4</b>	<b>57.1</b>	<b>64.5</b>
Impairment during the year	<b>4.8</b>	<b>8.8</b>	<b>13.6</b>
Disposals	<b>(0.9)</b>	<b>(31.7)</b>	<b>(32.6)</b>
Reclassifications	<b>(0.4)</b>	<b>0.4</b>	–
Transferred to assets held for sale (note 8)	<b>(16.2)</b>	<b>(60.2)</b>	<b>(76.4)</b>
Exchange adjustment	<b>1.3</b>	<b>7.9</b>	<b>9.2</b>
At 31 December 2018	<b>49.5</b>	<b>401.3</b>	<b>450.8</b>
Net book value at 31 December 2016	148.9	253.1	402.0
Net book value at 31 December 2017 restated (note 2)	155.0	238.3	393.3
<b>Net book value at 31 December 2018</b>	<b>139.7</b>	<b>287.4</b>	<b>427.1</b>

\* Includes depreciation in relation to discontinued operations of £2.7m (2017: £8.5m).

In line with IFRS 5 no depreciation has been charged on discontinued operations since the Group announced its intention to sell the Flow Control division.

The carrying value of buildings held under finance leases for continuing operations is nil for both 2017 and 2018. Discontinued operations carrying value of buildings held under finance leases is £0.7m (2017: £0.8m). The carrying value of plant & equipment held under finance leases for continuing operations is £2.6m (2017: £1.7m). Discontinued operations have carrying value of plant & equipment held under finance leases of £0.1m (2017: £0.1m). Leased assets are pledged as security for the related finance lease liabilities.

The carrying amount of assets under construction included in plant & equipment for continuing operations is £30.4m (2017: £23.2m). Discontinued operations have a carrying amount of assets under construction included in plant & equipment of £1.4m (2017: £1.4m).

The impairment charges in the year are primarily related to Weir Minerals Malaysia with buildings impairment of £4.8m and equipment impairment £7.6m (note 5).

The carrying value of assets transferred to assets held for sale is £75.9m (note 8).

## Notes to the Group Financial Statements continued

### 12. Intangible assets

	Goodwill £m	Brand names £m	Customer & distributor relationships £m	Purchased software £m	Intellectual property & trademarks £m	Development costs £m	Other £m	Total £m
<b>Cost</b>								
At 31 December 2016	1,310.8	249.7	679.5	97.9	89.7	14.4	26.8	2,468.8
Additions	–	–	–	7.8	–	10.4	0.2	18.4
Acquisitions	51.6	4.4	5.4	–	12.4	–	–	73.8
Disposals	–	–	–	(0.9)	–	–	–	(0.9)
Reclassifications from property, plant & equipment (note 11)	–	–	–	1.1	0.1	–	0.6	1.8
Reclassifications	–	–	–	(25.0)	(2.9)	28.1	(0.2)	–
Fair value adjustment (note 2)	0.8	–	–	–	–	–	–	0.8
Exchange adjustment	(99.7)	(22.4)	(57.8)	(2.3)	(6.5)	–	(1.7)	(190.4)
At 31 December 2017 restated (note 2)	<b>1,263.5</b>	<b>231.7</b>	<b>627.1</b>	<b>78.6</b>	<b>92.8</b>	<b>52.9</b>	<b>25.7</b>	<b>2,372.3</b>
Additions	–	–	–	6.5	0.4	3.1	0.6	10.6
Acquisitions	<b>394.6</b>	<b>128.6</b>	<b>104.6</b>	<b>3.3</b>	<b>40.8</b>	–	<b>60.7</b>	<b>732.6</b>
Disposals	–	–	–	(2.3)	–	–	–	(2.3)
Reclassifications to property, plant & equipment (note 11)	–	–	–	(0.4)	–	–	–	(0.4)
Transferred to assets held for sale (note 8)	<b>(107.5)</b>	<b>(12.0)</b>	<b>(37.5)</b>	<b>(13.8)</b>	<b>(1.8)</b>	<b>(5.4)</b>	<b>(3.5)</b>	<b>(181.5)</b>
Exchange adjustment	<b>69.7</b>	<b>17.9</b>	<b>36.6</b>	<b>0.5</b>	<b>4.0</b>	<b>(0.2)</b>	<b>2.7</b>	<b>131.2</b>
At 31 December 2018	<b>1,620.3</b>	<b>366.2</b>	<b>730.8</b>	<b>72.4</b>	<b>136.2</b>	<b>50.4</b>	<b>86.2</b>	<b>3,062.5</b>
<b>Accumulated amortisation &amp; impairment</b>								
At 31 December 2016	434.8	8.4	276.6	43.8	47.7	4.3	24.4	840.0
Amortisation charge for the year*	–	0.5	38.1	6.8	5.1	3.8	1.1	55.4
Disposals	–	–	–	(0.9)	–	–	–	(0.9)
Reclassifications	–	–	–	(5.5)	(0.4)	5.9	–	–
Exchange adjustment	(41.6)	(0.9)	(23.8)	(1.3)	(3.7)	–	(1.6)	(72.9)
At 31 December 2017	<b>393.2</b>	<b>8.0</b>	<b>290.9</b>	<b>42.9</b>	<b>48.7</b>	<b>14.0</b>	<b>23.9</b>	<b>821.6</b>
Amortisation charge for the year*	–	2.0	38.3	6.8	10.0	8.9	1.3	67.3
Impairment during the year	<b>48.1</b>	–	–	–	–	–	–	<b>48.1</b>
Disposals	–	–	–	(2.3)	–	–	–	(2.3)
Transferred to assets held for sale (note 8)	<b>(45.0)</b>	–	<b>(23.0)</b>	<b>(10.8)</b>	<b>(0.8)</b>	<b>(3.1)</b>	–	<b>(82.7)</b>
Exchange adjustment	<b>23.9</b>	<b>0.8</b>	<b>15.8</b>	<b>0.6</b>	<b>2.5</b>	<b>(0.2)</b>	<b>0.5</b>	<b>43.9</b>
At 31 December 2018	<b>420.2</b>	<b>10.8</b>	<b>322.0</b>	<b>37.2</b>	<b>60.4</b>	<b>19.6</b>	<b>25.7</b>	<b>895.9</b>
Net book value at 31 December 2016	876.0	241.3	402.9	54.1	42.0	10.1	2.4	1,628.8
Net book value at 31 December 2017 restated (note 2)	870.3	223.7	336.2	35.7	44.1	38.9	1.8	1,550.7
<b>Net book value at 31 December 2018</b>	<b>1,200.1</b>	<b>355.4</b>	<b>408.8</b>	<b>35.2</b>	<b>75.8</b>	<b>30.8</b>	<b>60.5</b>	<b>2,166.6</b>

\* Includes amortisation in relation to discontinued operations of £1.0m (2017: £3.4m).

The impairment charge recorded in 2018 of £48.1m (2017: £nil) includes £45.0m in relation to a write down of goodwill in discontinued operations and write down of £3.1m for goodwill associated with the decision to exit the Minerals division's Malaysia foundry operations.

Brand names, including those acquired with ESCO, but with the exception of those acquired during the KOP Surface Products purchase in 2017, have been assigned an indefinite useful life and as such are not amortised. The brand names acquired during 2017 for KOP Surface Products, with a carrying value at the year end of £1.9m, will be amortised fully over the next year. The carrying value of brand names with an indefinite life is tested annually for impairment (note 14). There is no impairment charge in the current or prior year. The carrying value at the year end was £355.4m (2017: £223.7m).

The brand name value includes the brands of ESCO, Linatex, Warman, SPM and Multiflo, all of which are considered to be market leaders in their respective markets. The allocation of significant brand names is as follows.

	Brand names	
	2018 £m	2017 £m
ESCO	<b>127.8</b>	—
Warman	<b>65.1</b>	61.4
Linatex	<b>44.7</b>	42.1
Seaboard	<b>30.4</b>	28.6
SPM	<b>42.8</b>	40.3
Trio	<b>18.7</b>	17.6
Gabbioneta	<b>6.1</b>	6.0
Mathena	<b>9.3</b>	8.8
Other	<b>22.5</b>	18.9
	<b>367.4</b>	223.7
Gabbioneta transferred to assets held for sale	<b>(6.1)</b>	—
Other brands transferred to assets held for sale	<b>(5.9)</b>	—
	<b>355.4</b>	223.7

The allocation of customer and distributor relationships, and the amortisation period of these assets is as follows.

	Remaining amortisation period	Customer and distributor relationships	
		2018 Years	2017 Years
ESCO	<b>27-30</b>	n/a	<b>106.8</b>
SPM	<b>13</b>	14	<b>75.9</b>
Seaboard	<b>9</b>	10	<b>85.2</b>
Mathena	<b>7</b>	8	<b>78.5</b>
Novatech	<b>7</b>	8	<b>29.2</b>
Trio	<b>6</b>	7	<b>14.2</b>
Other	<b>Up to 12</b>	Up to 13	<b>33.5</b>
			<b>423.3</b>
Other customer and distributor relationships transferred to assets held for sale	<b>Up to 12</b>	n/a	<b>(14.5)</b>
			<b>408.8</b>
			336.2

## Notes to the Group Financial Statements continued

### 13. Business combinations

#### ESCO

On 12 July 2018, the Group completed the acquisition of ESCO Corporation ('ESCO') for an enterprise value of US\$1.3bn (£972.3m). In order to part fund the acquisition a placement of 16,699,763 ordinary shares was completed on 23 April 2018, raising £355.5m (net of £7.7m fees). As part of the final consideration, a further 16,779,861 ordinary shares were issued directly to ESCO shareholders on 12 July 2018 valued at £325.3m with an additional equity consideration of £1.4m in relation to pre-acquisition cost of share-based payment awards (see note 27). ESCO is the world's leading provider of ground engaging tools for surface mining and infrastructure. ESCO forms a new division of The Weir Group, and is reported as a separate segment alongside Minerals and Oil & Gas. The provisional fair values, which are subject to finalisation during the first half of 2019, are disclosed in the table below.

There are certain intangible assets included in the £390.5m of goodwill recognised that cannot be individually separated and reliably measured due to their nature. These items include anticipated business growth, synergies and an assembled workforce.

	2018 £m
ESCO provisional fair values	
Property, plant & equipment	<b>102.0</b>
Intangible assets	
– Customer & distributor relationships	<b>104.6</b>
– Brand names	<b>128.6</b>
– Technology	<b>103.8</b>
Investments in joint ventures	<b>15.8</b>
Deferred tax assets	<b>3.8</b>
Other receivables	<b>37.5</b>
Derivative financial instrument assets	<b>1.2</b>
Inventories	<b>172.2</b>
Trade & other receivables	<b>96.1</b>
Income tax receivable	<b>7.6</b>
Cash & cash equivalents	<b>41.2</b>
Interest-bearing loans & borrowings	<b>(120.9)</b>
Trade & other payables	<b>(66.0)</b>
Derivative financial instrument liabilities	<b>(7.3)</b>
Income tax payable	<b>(1.0)</b>
Provisions	<b>(88.2)</b>
Deferred tax liabilities	<b>(62.1)</b>
Retirement benefit plan deficits	<b>(64.2)</b>
Fair value of net assets	<b>404.7</b>
Non-controlling interests	<b>(3.5)</b>
Goodwill arising on acquisition	<b>390.5</b>
Total consideration	<b>791.7</b>
Cash consideration	<b>464.8</b>
Equity consideration	<b>326.7</b>
Contingent consideration	<b>0.2</b>
Total consideration	<b>791.7</b>

The total net cash outflow on current year acquisitions was as follows:

ESCO	
– cash paid	<b>(464.8)</b>
– cash & cash equivalents acquired	<b>41.2</b>
Other – asset purchases	
– cash paid	<b>(6.0)</b>
Total cash outflow (note 25)	<b>(429.6)</b>

The gross amount and fair value of ESCO trade receivables amounts to £79.1m. It is expected that virtually all the contractual amounts will be collected.

ESCO contributed £251.8m to revenue and an operating profit of £32.7m (before exceptional items and amortisation) in the period from acquisition to 31 December 2018. If the acquisition had occurred at the start of 2018, on a pro forma basis, total continuing revenue would amount to £2,722.7m and

continuing operating profit £378.9m (before exceptional items and intangibles amortisation). Group exceptional acquisition and integration costs totalled £30.8m in the year (note 5).

The fair values for KOP Surface Products (KOP) acquired in 2017 were finalised in the first half of 2018 and are disclosed in note 2.

#### **Other business combination**

On 31 July 2018, the Group completed the acquisition of Ralph A. Hiller Company, a manufacturer of certain valve products for use in nuclear power facilities, for a consideration of US\$4.0m (£3.1m). The provisional fair values, which are subject to finalisation during the first half of 2019 include property, plant & equipment of £0.1m, intangible assets £0.9m, inventory and provisions £0.2m, with resulting goodwill arising on consolidation of £1.6m.

#### **Trade and asset purchase**

On 18 April 2018, the Group completed a trade and asset purchase of Davidson Sales & Engineering Inc., a provider of marketing, distributing, selling and servicing mining and other industrial equipment, for a consideration of US\$4.1m (£2.9m). The provisional fair values, which are subject to finalisation during the first half of 2019, include intangible assets £0.1m and inventory £0.3m, with resulting goodwill arising on consolidation of £2.5m.

#### **Contingent consideration**

	Asset	Liability		
	<b>2018 £m</b>	2017 £m	<b>2018 £m</b>	2017 £m
Opening balance	<b>0.4</b>	3.9	<b>(3.4)</b>	(31.0)
Liability arising on business combinations	—	—	<b>(0.2)</b>	—
Asset arising on business disposal	—	0.4	—	—
Fair value changes in profit or loss	<b>(0.1)</b>	(0.1)	<b>3.5</b>	(9.1)
Contingent consideration (received) paid (note 25)	<b>(0.3)</b>	(3.5)	—	38.0
Unwind of discount (note 5)	—	—	—	(0.8)
Exchange movements in the year	—	(0.3)	<b>(0.1)</b>	(0.5)
Closing balance	—	0.4	<b>(0.2)</b>	(3.4)

Any contingent consideration is recognised at the date of acquisition or disposal of a subsidiary.

##### i) Contingent consideration receivable

The escrow receivable of £0.4m was settled in 2018 relating to the sale of the joint venture entity, Energy Products LLC (EPI).

##### ii) Contingent consideration payable

An escrow payable was booked in the year relating to the purchase of ESCO. The balance was paid in early 2019.

The contingent consideration payable of £3.5m in relation to the 2014 Weir Trio acquisition working capital balances was released in the year and offset by a corresponding exceptional working capital write down.

#### **14. Impairment testing of goodwill & intangible assets with indefinite lives**

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated at acquisition to cash generating units (CGUs) that are expected to benefit from the business combination. The Group tests goodwill and intangible assets with indefinite lives annually for impairment, or more frequently if there are indications that these might be impaired.

ESCO Corporation ('ESCO'), acquired during 2018 as described in note 13, has been reported as a separate CGU.

The carrying amounts of goodwill and intangible assets with indefinite lives have been allocated as per the table below.

	<b>Goodwill 2018 £m</b>	<b>Intangibles 2018 £m</b>	Goodwill 2017 £m	Intangibles 2017 £m
Minerals	<b>378.2</b>	<b>137.2</b>	372.9	130.0
ESCO	<b>406.0</b>	<b>133.8</b>	—	—
Oil & Gas International	<b>56.7</b>	—	53.7	—
Oil & Gas North America	<b>359.2</b>	<b>82.5</b>	338.0	77.7
Continuing operations	<b>1,200.1</b>	<b>353.5</b>	764.6	207.7
Discontinued operations	<b>62.5</b>	<b>12.0</b>	104.9	12.1
	<b>1,262.6</b>	<b>365.5</b>	869.5	219.8

#### **Description of CGUs**

A description of each of the CGUs is provided below along with a summary of the key drivers of revenue growth and EBITA margin.

##### **Minerals**

Minerals includes the Weir Warman, Weir Linatex and Weir Trio brands. Weir Minerals companies supply pumps and associated equipment and services to all global mining markets. The key drivers for revenues are: (i) levels of mining capital expenditure which drives demand for original equipment; and (ii) levels of actual mining activity which drives demand for spare parts and service. Independent forecasts of mining capital expenditure and activity have been used to derive revenue growth assumptions. These independent forecasts were prepared during the final quarter of 2018.

## Notes to the Group Financial Statements continued

### 14. Impairment testing of goodwill & intangible assets with indefinite lives continued

#### ESCO

ESCO includes the Bucyrus Blades and ESCO brands. This CGU is a supplier of ground engaging tools (GET) and associated equipment and services to the mining and infrastructure industries. Independent forecasts of expenditure in these sectors have been used to derive revenue growth assumptions. These independent forecasts were prepared during the final quarter of 2018.

#### Oil & Gas International

Oil & Gas International comprises multiple service centre locations within the Middle East and Europe and wellhead locations across a number of countries in Asia Pacific. The service centre locations supply services including repair, manufacture and certification of oilfield equipment, to a diverse portfolio of customers. The Asia Pacific locations supply surface wellheads, surface trees, valves and actuators as well as providing support to customers including installation, maintenance, rental and refurbishment services. The key drivers for revenues are oil and natural gas prices. Independent forecasts of these commodity prices have been used to derive revenue growth assumptions. These independent forecasts were prepared during the final quarter of 2018.

#### Oil & Gas North America

Oil & Gas North America includes the Weir SPM, Weir Seaboard and Weir Mathena brands. This CGU is a supplier of oil and gas well service pumps, wellhead solutions, associated flow control equipment and services to the oil and gas production industry. Demand in Oil & Gas North America is closely related to the number of conventional and unconventional oil drilling rigs and gas well drilling rigs in operation which is in turn dependent upon oil and natural gas prices and storage levels. Independent forecasts of North American oil and gas well drilling activity, which take into account forecast oil and natural gas prices and storage levels, have been used to derive revenue growth assumptions, during the final quarter of 2018.

#### Discontinued operations

Discontinued operations primarily incorporate the former Flow Control CGU and certain components of the Oil & Gas International CGU, and includes the Gabbioneta brand. Flow Control is a supplier of highly engineered pumps, valves and associated aftermarket services to oil and gas refinery, petro-chemical and power generation industries. The key drivers for revenues are capital expenditure within oil refinery, petro-chemical industries and power generation.

#### Impairment testing assumptions

The basis of the impairment tests for the five primary CGUs, including key assumptions, are set out in the table below.

CGU	Basis of valuation	Period of forecast	Discount rate <sup>1</sup>	Real growth <sup>2</sup>	Key assumptions	Source
Minerals	Value in use	5 years	15.2% (2017: 14.8%)	1.2% (2017: 1.2%)	Revenue growth EBITA margins	External forecast Historical experience
ESCO	Value in use	5 years	14.6% (2017: n/a)	1.2% (2017: n/a)	Revenue growth EBITA margins	External forecast Historical experience
Oil & Gas International	Value in use	5 years	14.5% (2017: 12.0%)	1.2% (2017: 1.2%)	Revenue growth EBITA margins	External forecast Historical experience
Oil & Gas North America	Value in use	5 years	14.6% (2017: 15.1%)	1.2% (2017: 1.2%)	Revenue growth EBITA margins	External forecast Historical experience
Discontinued operations	Fair value less costs to sell	n/a	n/a	n/a	n/a	n/a

1 Discount rate

The pre-tax nominal weighted average cost of capital (WACC) is the basis for the discount rate, with adjustments made, as appropriate, for geographic risk. The WACC is the weighted average of the pre-tax cost of debt financing and the pre-tax cost of equity finance. During the year there have been changes in the bond yields, equity market risk premium and industry asset beta which has led to an increase in the overall discount rate for the majority of countries.

2 Real growth

Real growth beyond the five-year forecast period has been held consistent with the prior year at 1.2% (2017: 1.2%), reflecting the increasingly global nature of these businesses, the long-term growth prospects in their end markets and the fact that they sell a significant proportion of their products to emerging markets which also have strong long-term growth prospects.

#### EBITA margins

EBITA margins have been forecast based on historic levels taking cognisance of the likely impact of changing economic environments and competitive landscapes on volumes and revenues, and the impact of associated management actions.

#### Impairment testing and sensitivity analysis

Base case forecasts for all continuing CGUs show significant headroom above carrying value. No sensitivity analysis has been undertaken for these as there is no reasonable possible change in key assumptions that would cause the carrying values to exceed recoverable amounts. With regard to ESCO, no sensitivity analysis is provided due to the strong post-acquisition trading and positive run-rate synergies targeted.

Discontinued operations, in line with IFRS 5, are measured at the lower of carrying amount and fair value less costs to sell. To reflect the agreed transaction enterprise value of £275m less our latest estimate of future costs to sell including separation costs, transfer value of pension and other liabilities as well as certain capital commitments, an impairment of £45.0m has been recognised in relation to goodwill. When the sale is completed a gain or loss is likely to arise. At this time the foreign currency translation reserve will also be recycled to the income statement and reflected in the gain or loss on disposal.

**15. Investments in joint ventures**

The investments in joint ventures are as follows.

	£m
At 31 December 2016	40.5
Additions	1.4
Disposals	(21.8)
Share of results	10.9
Share of dividends	(8.0)
Exchange adjustment	(3.8)
At 31 December 2017	<b>19.2</b>
Acquisitions	<b>15.8</b>
Disposals	—
Share of results	<b>2.4</b>
Share of dividends	<b>(1.6)</b>
Exchange adjustment	<b>0.8</b>
At 31 December 2018	<b>36.6</b>

Details of the Group's share of the balance sheet, revenue and profit of its joint ventures are given below.

	2018 £m	2017 £m
Share of joint ventures' balance sheets		
Goodwill	<b>4.1</b>	3.9
Current assets	<b>28.0</b>	18.3
Non-current assets	<b>16.8</b>	2.9
Current liabilities	<b>(9.8)</b>	(4.5)
Non-current liabilities	<b>(2.5)</b>	(1.4)
Net assets	<b>36.6</b>	19.2
Share of joint ventures' revenue & profits		
Revenue	<b>29.1</b>	65.7
Cost of sales	<b>(21.7)</b>	(48.0)
Selling & distribution costs	<b>(2.8)</b>	(4.3)
Administrative expenses	<b>(1.8)</b>	(1.5)
Income tax expense	<b>(0.4)</b>	(1.0)
Profit after tax	<b>2.4</b>	10.9

The acquisition in the year relates to the Group's investment in joint ventures acquired as part of ESCO on 12 July 2018. The cash flow associated with the investment is included within the total consideration reflected in note 13.

The addition during 2017 relates to the Group's investment in EPIX, a joint venture with MTU, on 24 March 2017. The disposal relates to Energy Products

LLC (EPI) which was divested on 30 November 2017 for proceeds of £31.8m and a deferred consideration receivable balance of £0.4m (note 13).

This resulted in a gain on sale of £10.4m which has been disclosed as an exceptional item in the period (note 5). The Group's investments in joint ventures are listed on page 199.

**16. Inventories**

	2018 £m	Restated (note 2) 2017 £m
Raw materials	<b>125.0</b>	142.1
Work in progress	<b>71.2</b>	130.2
Finished goods	<b>496.5</b>	316.8
	<b>692.7</b>	589.1

Inventories now classified as held for sale is included in note 8.

In 2018, the cost of inventories recognised as an expense within cost of sales for continuing operations amounted to £1,633.0m (2017: £1,316.2m). In 2018, the write-down of inventories to net realisable value for continuing operations amounted to £13.7m (2017: total Group £5.7m), which included £4.8m (2017: £4.8m) in relation to Group restructuring actions and £7.5m (2017: £nil) in relation to warranty issues in Oil & Gas, as disclosed in note 5. There is no impact as at 31 December 2018 from the fair value uplift in ESCO (note 5) as this was fully unwound during the year.

## Notes to the Group Financial Statements continued

### 17. Trade & other receivables

Other receivables presented as non-current on the face of the Consolidated Balance Sheet of £78.5m (2017: £43.0m) are in respect of insurance contracts. The current year balance includes Trust Owned Life Insurance policy investments which provide a form of security for certain unfunded employee benefit plans operated by ESCO, and insurance contracts relating to asbestos-related claims in the USA, which were also present in the prior year. Further detail on these claims is presented in note 21.

Current trade & other receivables are analysed in the following table.

	2018 £m	Restated (note 2) 2017 £m
Trade receivables	<b>501.5</b>	515.8
Loss allowance	<b>(18.2)</b>	(23.6)
	<b>483.3</b>	492.2
Other debtors	<b>41.5</b>	44.2
Sales tax receivable	<b>12.4</b>	14.7
Prepayments	<b>35.4</b>	29.5
Contingent consideration receivable	<b>—</b>	0.4
Contract assets	<b>25.1</b>	48.2
	<b>597.7</b>	629.2

Trade & other receivables now classified as held for sale are included in note 8.

The average credit period on sales of goods is 66 days (2017: 73 days) on a continuing basis, like for like. Other debtors includes £2.6m (2017: £2.4m) in respect of amounts due from joint ventures, and £9.1m (2017: £10.3m) in respect of insurance contracts relating to asbestos-related claims made in the USA (note 21).

### Impairment of trade & other receivables

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- i) trade receivables for sales of products and services; and
- ii) contract assets relating to construction contracts.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics.

The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. Due to the way in which these contracts are managed, expected credit loss is included within the loss allowance for trade receivables.

Due to the diverse end markets and customer geographies within the Group, the methodology applied to arrive at the expected loss rate is dictated by local circumstances. For short-term trade receivables, historical loss rates might be an appropriate basis for the estimate of expected future losses. These are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. As such, one methodology applied is the use of a provision matrix, where different loss rates are applied depending on the number of days that a trade receivable is past due. Alternatively the expected credit loss is calculated on an individual customer basis based on historical loss data for that customer, their receivables ageing, and any other knowledge of the customer's current and forecast financial position.

Trade receivables and contract assets are written-off when there is no reasonable expectation of recovery.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written-off are credited against the same line item.

The gross carrying amount of trade receivables, for which the loss allowance is measured at an amount equal to the lifetime expected credit losses under the simplified method, is analysed below:

### Analysis of gross carrying amount of trade receivables by days past due

	2018 £m	Restated (note 2) 2017 £m
Not past due	<b>325.4</b>	321.8
Up to 3 months past due	<b>112.3</b>	122.5
Between 3 & 6 months past due	<b>22.5</b>	26.1
More than 6 months past due	<b>41.3</b>	45.4
	<b>501.5</b>	515.8

**Reconciliation of opening to closing loss allowance for trade receivables**

	<b>2018 £m</b>	2017 £m
Balance at the beginning of the year	<b>(23.6)</b>	(17.7)
Transferred to assets held for sale	<b>7.2</b>	–
Impairment losses recognised on receivables	<b>(6.2)</b>	(8.6)
Amounts written off as uncollectable	<b>3.4</b>	0.5
Amounts recovered during the year	<b>0.2</b>	0.5
Impairment losses reversed	<b>1.0</b>	1.1
Exchange adjustment	<b>(0.2)</b>	0.6
Balance at the end of the year	<b>(18.2)</b>	(23.6)

The Group has recognised the following assets in relation to contracts with customers.

	Restated (note 2)	2018 £m	2017 £m
Construction contract assets		<b>3.2</b>	18.8
Accrued income		<b>21.9</b>	29.4
		<b>25.1</b>	48.2

The reduction in contract assets in the year primarily relates to assets now classified as held for sale (2017: £26.3m).

**18. Cash & short-term deposits**

	2018 £m	2017 £m
Cash at bank & in hand	<b>239.2</b>	155.1
Government securities & short-term deposits	<b>23.8</b>	129.5
	<b>263.0</b>	284.6
For the purposes of the Consolidated Cash Flow Statement, cash & cash equivalents comprise the following:		
Cash & short-term deposits	<b>263.0</b>	284.6
Bank overdrafts & short-term borrowings (note 19)	–	(0.1)
Cash & short-term deposits held for sale (note 8)	<b>16.1</b>	–
Bank overdrafts & short-term borrowings held for sale (note 8)	<b>(1.9)</b>	–
	<b>277.2</b>	284.5

Cash at bank & in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earns interest at the respective short-term deposit rates.

## Notes to the Group Financial Statements continued

### 19. Interest-bearing loans & borrowings

	2018 £m	2017 £m
<b>Current</b>		
Bank overdrafts	–	0.1
Fixed-rate notes	<b>164.3</b>	94.0
Bank loans	–	0.6
Commercial paper	<b>497.2</b>	293.4
Obligations under finance leases (note 26)	<b>1.0</b>	0.3
	<b>662.5</b>	388.4
<b>Non-current</b>		
Bank loans	<b>120.0</b>	–
Fixed-rate notes	<b>619.4</b>	738.7
Obligations under finance leases (note 26)	<b>1.5</b>	0.7
	<b>740.9</b>	739.4

Interest-bearing loans & borrowings now classified as held for sale are detailed in note 8

	Maturity	Interest basis	Weighted average interest rate		2018 £m	2017 £m
			2018 %	2017 %		
Bank loans						
<b>Revolving credit facility</b>						
Sterling variable rate loans	2021	£ LIBOR	<b>1.08</b>	–	<b>120.0</b>	–
<b>Other</b>						
United States Dollar pre-shipment credit in foreign currency	2018	US\$ LIBOR	–	3.96	–	0.4
Indian Rupee working capital loan facility	2018	FIXED	–	9.20	–	0.2
Purchasing cards in discontinued operations (note 8)	2019	FIXED	<b>24.00</b>	–	<b>0.3</b>	–
					<b>120.3</b>	0.6
Less: current instalments due on bank loans						
United States Dollar pre-shipment credit in foreign currency	2018	US\$ LIBOR			–	(0.4)
Indian Rupee working capital loan facility	2018	FIXED			–	(0.2)
Purchasing cards in discontinued operations	2019	FIXED			<b>(0.3)</b>	–
Non-current bank loans					<b>120.0</b>	–

	Maturity	Interest basis	Weighted average interest rate		2018 £m	2017 £m
			2018 %	2017 %		
Commercial paper						
<b>Commercial paper</b>						
United States Dollar variable rate commercial paper	2019	US\$ LIBOR	<b>3.21</b>	–	<b>19.6</b>	–
Euro variable rate commercial paper	2019	EUR LIBOR	<b>0.05</b>	0.06	<b>477.6</b>	293.4
					<b>497.2</b>	293.4
Less: current instalments due on commercial paper						
United States Dollar variable rate commercial paper	2019	US\$ LIBOR			<b>(19.6)</b>	–
Euro variable rate commercial paper	2019	EUR LIBOR			<b>(477.6)</b>	(293.4)
Non-current commercial paper					–	–

The weighted average interest rates include an applicable margin over and above the interest basis.

Fixed-rate notes	Maturity	Interest basis	Fixed interest rate		2018 £m	2017 £m
			2018 %	2017 %		
<b>Private placement</b>						
Sterling fixed-rate notes	2018	FIXED	<b>5.36</b>	5.36	–	43.0
United States Dollar fixed-rate notes	2018	FIXED	<b>5.03</b>	5.03	–	51.0
United States Dollar fixed-rate notes	2019	FIXED	<b>3.69</b>	3.69	<b>164.3</b>	155.0
United States Dollar fixed-rate notes	2022	FIXED	<b>4.27</b>	4.27	<b>462.7</b>	435.9
United States Dollar fixed-rate notes	2023	FIXED	<b>4.34</b>	4.34	<b>156.7</b>	147.8
					<b>783.7</b>	832.7
Less: current instalments due on fixed-rate notes						
Sterling fixed-rate notes	2018	FIXED			–	(43.0)
United States Dollar fixed-rate notes	2018	FIXED			–	(51.0)
United States Dollar fixed-rate notes	2019	FIXED			<b>(164.3)</b>	–
Non-current fixed-rate notes					<b>619.4</b>	738.7

The disclosures above represent the interest profile and currency profile of financial liabilities before the impact of derivative financial instruments.

At 31 December 2018, a total of £497.2m equivalent (2017: £293.4m equivalent) was outstanding under the Group's US\$1bn commercial paper programme.

At 31 December 2018, £120.0m (2017: £nil) was drawn under the US\$950m multi-currency revolving credit facility. The revolving credit facility was increased from US\$800m during 2018 and matures in two tranches between September 2020 and September 2021.

At 31 December 2018, a total of £783.7m (2017: £832.7m) was outstanding under private placement which includes total unamortised issue costs of £0.9m (2017: £1.5m).

## 20. Trade & other payables

		Restated (note 2)	2018 £m	2017 £m
<b>Current</b>				
Trade payables			<b>347.0</b>	341.8
Other creditors			<b>8.9</b>	8.6
Other taxes & social security costs			<b>11.4</b>	16.0
Accruals			<b>216.8</b>	177.5
Contingent consideration payable			<b>0.2</b>	3.4
Contract liabilities			<b>45.6</b>	67.0
			<b>629.9</b>	614.3
<b>Non-current</b>				
Other payables			<b>0.8</b>	0.5
			<b>0.8</b>	0.5

Trade & other payables now classified as held for sale are included in note 8.

The Group has recognised the following liabilities in relation to contracts with customers.

	2018 £m	2017 £m
Construction contract liabilities	<b>1.4</b>	3.3
Deferred income	<b>44.2</b>	63.7
	<b>45.6</b>	67.0

The reduction in contract liabilities in the year primarily relates to liabilities now classified as held for sale (2017: £27.9m).

## Notes to the Group Financial Statements continued

### 20. Trade & other payables

#### Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised in the current reporting period related to carried forward contract liabilities.

	2018 £m	2017 £m
Revenue recognised that was included in the contract liability balance at the beginning of the year	<b>38.9</b>	32.6

#### Transaction price allocated to unsatisfied performance obligations

As the vast majority of contracts are expected to have a duration of one year or less, the Group does not disclose information about remaining performance obligations as permitted by the practical expedient in paragraph 121 of IFRS 15.

### 21. Provisions

	Warranties & onerous sales contracts £m	Asbestos- related £m	Employee- related £m	Exceptional rationalisation £m	Other £m	Total £m
At 31 December 2017	<b>29.6</b>	<b>58.0</b>	<b>18.5</b>	<b>13.6</b>	<b>4.9</b>	<b>124.6</b>
IFRS 15 restatement (note 2)	<b>0.3</b>	–	–	–	–	<b>0.3</b>
At 31 December 2017	<b>29.9</b>	<b>58.0</b>	<b>18.5</b>	<b>13.6</b>	<b>4.9</b>	<b>124.9</b>
Additions	<b>31.3</b>	<b>4.0</b>	<b>7.4</b>	<b>11.3</b>	<b>1.4</b>	<b>55.4</b>
Acquisitions	<b>2.6</b>	–	<b>1.8</b>	<b>73.9</b>	<b>10.1</b>	<b>88.4</b>
Utilised	<b>(29.8)</b>	<b>(12.5)</b>	<b>(7.7)</b>	<b>(81.8)</b>	<b>(1.8)</b>	<b>(133.6)</b>
Unutilised	<b>(1.4)</b>	<b>(0.4)</b>	<b>(1.0)</b>	<b>(0.5)</b>	<b>(0.3)</b>	<b>(3.6)</b>
Transferred to liabilities held for sale (note 8)	<b>(11.5)</b>	–	<b>(3.4)</b>	<b>(0.1)</b>	<b>(0.4)</b>	<b>(15.4)</b>
Exchange adjustment	<b>0.4</b>	<b>3.2</b>	–	<b>(0.1)</b>	<b>0.6</b>	<b>4.1</b>
<b>At 31 December 2018</b>	<b>21.5</b>	<b>52.3</b>	<b>15.6</b>	<b>16.3</b>	<b>14.5</b>	<b>120.2</b>
Current 2018	<b>18.8</b>	<b>9.1</b>	<b>6.4</b>	<b>12.4</b>	<b>3.8</b>	<b>50.5</b>
Non-current 2018	<b>2.7</b>	<b>43.2</b>	<b>9.2</b>	<b>3.9</b>	<b>10.7</b>	<b>69.7</b>
<b>At 31 December 2018</b>	<b>21.5</b>	<b>52.3</b>	<b>15.6</b>	<b>16.3</b>	<b>14.5</b>	<b>120.2</b>
Current 2017	21.6	10.7	5.3	10.7	4.7	53.0
Non-current 2017	8.3	47.3	13.2	2.9	0.2	71.9
At 31 December 2017 (restated note 2)	29.9	58.0	18.5	13.6	4.9	124.9

#### Warranties & onerous sales contracts

Provision has been made in respect of actual warranty and contract penalty claims on goods sold and services provided and allowance has been made for potential warranty claims based on past experience for goods and services sold with a warranty guarantee. An additional amount has been provided for the legacy product warranty issue in Oil & Gas which has been classed as exceptional. It is expected that all costs related to such claims will have been incurred within five years of the balance sheet date.

Provision has been made in respect of sales contracts entered into for the sale of goods in the normal course of business where the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received from the contracts. Provision is made immediately when it becomes apparent that expected costs will exceed the expected benefits of the contract. It is expected that the majority of these costs will be incurred within one year of the balance sheet date.

#### Asbestos-related claims

Certain of the Group's US-based subsidiaries are co-defendants in lawsuits pending in the US in which plaintiffs are claiming damages arising from alleged exposure to products previously manufactured which contained asbestos. The Group has comprehensive insurance cover for cases of this nature with all claims directly managed by the Group's insurers who also meet associated defence costs. The insurers and their legal advisers agree and execute the defence strategy between them. There are currently no related cash flows to or from the Group, and we expect this to continue for the foreseeable future.

There remains inherent uncertainty associated with estimating future costs in respect of asbestos-related diseases. Actuarial estimates of future indemnity and defence costs associated with asbestos-related diseases are subject to significantly greater uncertainty than actuarial estimates for other types of exposures. This uncertainty results from factors that are unique to the asbestos claims litigation and settlement process including but not limited to:

- i) the possibility of future state or federal legislation applying to claims for asbestos-related diseases;
- ii) the ability of the plaintiff's bar to develop and sustain new legal theory and/or develop new populations of claimants;
- iii) changes in focus of the plaintiff's bar;
- iv) changes in the Group's defence strategy; and
- v) changes in the financial condition of other co-defendants in suits naming the Group and affiliated businesses.

A review of both the Group's expected liability for US asbestos-related diseases and the adequacy of the Group's insurance policies to meet future settlement and defence costs was completed in conjunction with external advisers in 2017 as part of our planned triennial actuarial update. This review estimated future claims experience based on an industry standard epidemiological decay model, and the Group's claims settlement history. Due to the inherent uncertainty resulting from the changing nature of the US litigation environment as outlined above, and in conjunction with the actuarial review, the Directors consider 10 years (2017: 10 years) of projected claims to provide a reliable estimate of the future liability. Confirmation was also received from external advisers that the insurance asset remained sufficient to match the Directors' best estimate of the future liability and therefore a corresponding asset was recognised for insurance proceeds (note 17).

A review of the claims submitted and those settled during the year confirmed that the actuarial review completed in 2017 remains appropriate. As such the liability provision and corresponding asset have been updated accordingly to reflect the nature of the actuarial decay model and the projected claims profile a year further out. A provision of £48.1m (2017: £53.3m) represents the Directors' best estimate of the future liability, with a corresponding asset remaining appropriate.

There can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred. Sensitivity analysis reflecting reasonably probable scenarios has been conducted. This involved:

- i) increasing/decreasing the number of projected future settled claims and estimated settlement value by 10%; or
- ii) increasing/decreasing the basis of provision by 2 years.

Application of these sensitivities would not lead to a material change in the provision.

In the UK, there are outstanding asbestos-related claims which are not the subject of insurance cover. The extent of the UK asbestos exposure involves a series of legacy employer's liability claims which all relate to former UK operations and employment periods in the 1960s and 1970s. In 1989 the Group's employer's liability insurer (Chester Street Employers Association Ltd) was placed into run-off which effectively generated an uninsured liability exposure for all future long-tail disease claims with an exposure period pre-dating 1 January 1972. All claims with a disease exposure post 1 January 1972 are fully compensated via the Government-established Financial Services Compensation Scheme. Any settlement to a former employee whose service period straddles 1972 is calculated on a pro rata basis. The Group provides for these claims based on management's best estimate of the likely costs given past experience of the volume and cost of similar claims brought against the Group.

The UK provision was reviewed and adjusted accordingly for claims experience in the year, resulting in a provision of £4.2m (2017: £4.7m).

#### **Employee-related**

Employee-related provisions arise from legal obligations, the majority of which relate to compensation associated with periods of service.

#### **Exceptional rationalisation**

Restructuring and rationalisation charges during the year led to additions of £2.5m due to new projects in Minerals, £2.2m for combining our Middle East and Asia Oil & Gas businesses and £1.9m relating to the continuation of existing projects. A further £4.5m was provided for costs in relation to the acquisition and integration of ESCO and £0.2m relating to legacy legal claims.

Exceptional provisions of £73.9m were acquired during the year including £67.0m which was utilised predominately to settle legacy share-based payments and transaction costs associated with ESCO.

The closing provision of £16.3m includes £8.0m which has been retained for costs incurred to date on the acquisition and integration of ESCO.

#### **Other**

Other provisions include environmental obligations, penalties, duties due, legal claims and other exposures across the Group. A provision has been recognised on the acquisition of ESCO in respect of environmental obligations. These balances typically include estimates based on multiple sources of information and reports from third party advisers. Where certain outcomes are unknown, a range of possible scenarios is calculated, with the most likely being reflected in the provision.

## Notes to the Group Financial Statements continued

### 22. Deferred tax

	2018 £m	2017 £m
<b>Deferred income tax assets</b>		
Post-employment benefits	<b>30.7</b>	24.3
Decelerated depreciation for tax purposes	<b>7.6</b>	6.2
Intangible assets	<b>2.4</b>	1.4
Untaxed reserves	<b>144.0</b>	109.6
Offset against liabilities	<b>(143.0)</b>	(95.9)
Deferred income tax assets	<b>41.7</b>	45.6
Deferred income tax assets attributable to:		
Continuing operations	<b>36.0</b>	
Discontinued operations	<b>5.7</b>	
	<b>41.7</b>	
<b>Deferred income tax liabilities</b>		
Accelerated depreciation for tax purposes	<b>(29.3)</b>	(16.3)
Overseas tax on unremitted earnings	<b>(8.1)</b>	(15.1)
Intangible assets	<b>(190.5)</b>	(108.7)
Other temporary differences	<b>(7.6)</b>	(14.0)
Offset against assets	<b>143.0</b>	95.9
Deferred income tax liabilities	<b>(92.5)</b>	(58.2)
Deferred income tax liabilities attributable to:		
Continuing operations	<b>(92.2)</b>	
Discontinued operations	<b>(0.3)</b>	
	<b>(92.5)</b>	
<b>Net deferred income tax liabilities</b>	<b>(50.8)</b>	(12.6)

The movement in deferred income tax assets and liabilities during the year was as follows.

	Post- employment benefits £m	Accelerated depreciation for tax purposes £m	Overseas tax on unremitted earnings £m	Intangible assets £m	Untaxed reserves & other temporary differences £m	Total £m
At 1 January 2017	26.4	(18.0)	(23.1)	(185.8)	142.1	(58.4)
Prior year adjustments	–	2.9	–	–	(2.9)	–
Acquisitions	–	(0.2)	–	–	3.7	3.5
(Charged) credited to the income statement (note 7)	(3.2)	3.9	7.1	65.3	(38.6)	34.5
Credited to equity (note 7)	1.5	–	–	–	0.8	2.3
Exchange adjustment	(0.4)	1.3	0.9	13.2	(9.5)	5.5
At 31 December 2017	<b>24.3</b>	<b>(10.1)</b>	<b>(15.1)</b>	<b>(107.3)</b>	<b>95.6</b>	<b>(12.6)</b>
Acquisitions	<b>14.6</b>	<b>(8.6)</b>	<b>(1.0)</b>	<b>(78.4)</b>	<b>15.1</b>	<b>(58.3)</b>
(Charged) credited to the income statement (note 7)	<b>(0.2)</b>	<b>(1.6)</b>	<b>78</b>	<b>6.6</b>	<b>22.3</b>	<b>34.9</b>
Credited to equity (note 7)	<b>(8.8)</b>	–	–	–	<b>(1.4)</b>	<b>(10.2)</b>
Exchange adjustment	<b>0.8</b>	<b>(1.4)</b>	<b>0.2</b>	<b>(9.0)</b>	<b>4.8</b>	<b>(4.6)</b>
<b>At 31 December 2018</b>	<b>30.7</b>	<b>(21.7)</b>	<b>(8.1)</b>	<b>(188.1)</b>	<b>136.4</b>	<b>(50.8)</b>
Continuing operations	<b>29.6</b>	<b>(18.6)</b>	<b>(8.1)</b>	<b>(186.5)</b>	<b>127.4</b>	<b>(56.2)</b>
Discontinued operations	<b>1.1</b>	<b>(3.1)</b>	–	<b>(1.6)</b>	<b>9.0</b>	<b>5.4</b>
<b>At 31 December 2018</b>	<b>30.7</b>	<b>(21.7)</b>	<b>(8.1)</b>	<b>(188.1)</b>	<b>136.4</b>	<b>(50.8)</b>

Untaxed reserves primarily relate to temporarily disallowed inventory/receivable provisions and accruals/provisions for liabilities where the tax allowance is deferred until the cash expense occurs.

Deferred tax asset balances for unused tax losses of £25.5m (2017: £18.2m) have not been recognised on the grounds that there is insufficient evidence that these assets will be recoverable. These assets will be recovered when future tax charges are sufficient to absorb these tax benefits. Deferred tax asset balances for capital losses in the UK amounting to £5.9m (2017: £5.9m) have not been recognised but would be available in the event of future capital gains being incurred by the Group.

#### **Temporary differences associated with Group investments**

A deferred tax liability of £8.1m (2017: £15.1m) has been recognised in respect of taxes on the unremitted earnings of the South American and Canadian subsidiaries. As at 31 December 2018, this is the only recognised deferred tax liability in respect of taxes on unremitted earnings, as the Group does not foresee a distribution of unremitted earnings from other subsidiaries or joint ventures which would result in a reversal of deferred tax. The temporary differences associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognised, aggregate to £2,254.0m (2017: £1,971.9m).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

#### **UK corporation tax rate changes**

Legislation was enacted on 26 October 2015 such that the main rate of UK corporation tax will be 19% from April 2017 and 17% from April 2020. Consequently, UK deferred tax has been provided at the prevalent rates during the periods in which the UK temporary differences are expected to unwind. Consequently, deferred tax has been provided on UK temporary differences at 17.4% (2017: 17.8%).

#### **23. Pensions & other post-employment benefit plans**

The Group operates various defined benefit pension plans in the UK and North America. All defined benefit plans are closed to new members. The most significant defined benefit plan is the Main funded UK plan.

#### **ESCO acquisition**

Following the acquisition of ESCO, the Group has taken on the assets and obligations for funded defined benefit pension plans in the US and Canada and certain unfunded post-employment healthcare and pension benefits for employees in the US.

The obligations inherited have been introduced onto the Group's balance sheet using consistent assumptions with those adopted by the Group for IAS 19 purposes as at 31 December 2017.

#### **UK plans**

The Group has two funded defined benefit plans (the Main Plan and the Executive Plan) and an unfunded retirement benefit plan for retired Executive Directors. The Group also operates a defined contribution plan, the contributions to which are in addition to those set out below, and are charged directly to the Consolidated Income Statement.

For the defined benefit plans, benefits are related to service and final salary. The Main Plan closed to future accrual of benefits effective from 30 June 2015.

The weighted average duration of the expected benefit payments from the Main Plan is around 17 years and from the Executive Plan it is around 14 years.

The current funding target for the UK plans is to maintain assets equal to the value of the accrued benefits. The Main Plan holds two insurance policies which match the liabilities in respect of a significant proportion of deferred and retired pensioners. The Executive Plan entered into an insurance contract in 2017 which matches the liabilities of the plan in full.

The regulatory framework in the UK requires the pension scheme Trustees and Group to agree upon the assumptions underlying the funding target, and then to agree upon the necessary contributions required to recover any deficit at the valuation date. There is a risk to the Group that adverse experience against these assumptions could lead to a requirement for the Group to make considerable contributions to recover any deficit. This risk is significantly reduced for the Main Plan and the Executive Plan through the insurance policies held.

#### **North American plans**

The Group also sponsors funded defined benefit pension plans in the US and Canada and certain unfunded arrangements (including post-employment healthcare benefits for senior employees) in the US.

Following the acquisition of ESCO, these plans combined make up 19% of the Group's pension and other post-employment benefit plan commitments and 13% of the Group's total associated assets.

The weighted average duration of these plans is around 11 years.

Following the announcement of the planned disposal of the Group's Flow Control business, some of the pension and post-retirement assets and obligations from the North American arrangement will be transferred out from the Group. A total of £4.8m obligations has been transferred to non-current liabilities in the discontinued balance sheet (note 8).

## Notes to the Group Financial Statements continued

### 23. Pensions & other post-employment benefit plans continued

#### Assumptions

The significant actuarial assumptions used for accounting purposes reflect prevailing market conditions in the UK and North America and are as follows.

	UK pensions	North American pensions & post-retirement healthcare		2017
		2018	2018	
Significant actuarial assumptions:				
Discount rate (% pa)	<b>2.9</b>	2.4	<b>4.1</b>	3.4
Retail Prices Inflation assumption (% pa)	<b>3.2</b>	3.2	<b>n/a</b>	n/a
Post-retirement mortality (life expectancies in years)				
Current pensioners at 65 – male	<b>21.6</b>	22.1	<b>20.6</b>	20.6
Current pensioners at 65 – female	<b>23.5</b>	24.0	<b>22.6</b>	22.6
Future pensioners at 65 – male	<b>23.0</b>	23.5	<b>22.2</b>	22.2
Future pensioners at 65 – female	<b>25.1</b>	25.5	<b>24.2</b>	24.2
Other related actuarial assumptions:				
Rate of increases for pensions in payment (% pa)				
Pre 6 April 2006 service	<b>3.1</b>	3.1	<b>n/a</b>	n/a
Post 5 April 2006 service	<b>2.1</b>	2.1	<b>n/a</b>	n/a
Consumer Prices Inflation assumption (% pa)	<b>2.1</b>	2.1	<b>n/a</b>	n/a
Rate of increase in healthcare costs	<b>n/a</b>	n/a	*	**

\*Between 7.4% and 20.9% per annum decreasing to 4.5% per annum and remaining static at that level from 2031 onwards.

\*\*Between 6.2% and 8.7% per annum decreasing to 4.5% per annum and remaining static at that level from 2028 onwards.

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost. For North America, weighted average assumptions are shown where applicable.

The post-retirement mortality assumptions allow for expected increases in longevity. The 'current' disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with 'future' being that relating to a member retiring in 2039 (in 20 years' time).

The assets and liabilities of the plans are as follows.

	UK pensions		North American pensions & post-retirement healthcare		Total
	2018 £m	2017 £m	2018 £m	2017 £m	
Plan assets at fair value					
Equities (quoted)	<b>177.5</b>	190.3	<b>30.5</b>	6.4	<b>208.0</b>
Diversified Growth Funds (primarily quoted)	<b>55.5</b>	56.8	<b>2.0</b>	–	<b>57.5</b>
Corporate bonds (quoted)	<b>37.3</b>	75.4	<b>51.5</b>	6.7	<b>88.8</b>
Government bonds (quoted)	<b>109.2</b>	74.7	<b>25.7</b>	–	<b>134.9</b>
Insurance policies (unquoted)	<b>360.9</b>	414.1	–	–	<b>360.9</b>
Property	–	–	<b>5.0</b>	–	<b>5.0</b>
Cash (quoted)	<b>8.7</b>	0.4	<b>1.1</b>	0.4	<b>9.8</b>
Fair value of plan assets	<b>749.1</b>	811.7	<b>115.8</b>	13.5	<b>864.9</b>
Present value of funded obligations	<b>(819.8)</b>	(935.3)	<b>(151.4)</b>	(20.3)	<b>(971.2)</b>
Net funded obligations	<b>(70.7)</b>	(123.6)	<b>(35.6)</b>	(6.8)	<b>(106.3)</b>
Present value of unfunded obligations	<b>(1.4)</b>	(1.5)	<b>(41.4)</b>	(5.8)	<b>(42.8)</b>
Net liability	<b>(72.1)</b>	(125.1)	<b>(77.0)</b>	(12.6)	<b>(149.1)</b>
Plans in deficit	<b>(72.1)</b>	(125.1)	<b>(77.0)</b>	(12.6)	<b>(149.1)</b>

Of the government bonds held at 31 December 2018, 16% are fixed interest bonds. These fixed interest bonds are all held by two funded ESCO plans (as in 2017, the government bonds held by the UK plans are all index linked). The pension plans have not directly invested in any of the Group's own financial instruments, or in properties or other assets used by the Group.

In the UK, where the majority of the Group's pension assets are held, the investment strategy is to hold equities and other return-seeking assets, such as diversified growth funds and a mixture of bonds, to meet the assessed value of the benefits promised for the non-insured deferred pensioners. For the remaining deferred pensioners and the bulk of pensioners currently receiving their benefit, the liabilities are backed by insurance policies and suitable bonds.

The change in net liabilities recognised in the balance sheet is comprised as follows.

	UK pensions		North American pensions & post-retirement healthcare		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Opening net liabilities	(125.1)	(121.3)	(12.6)	(15.9)	(137.7)	(137.2)
Net liability transferred on acquisition	–	–	(64.2)	–	(64.2)	–
Expense (charged) credited to the income statement	(9.3)	(3.3)	(2.7)	2.6	(12.0)	(0.7)
Amount recognised in Consolidated Statement of Comprehensive Income	59.2	(2.6)	(5.5)	(2.8)	53.7	(5.4)
Employer contributions	3.1	2.1	6.5	2.1	9.6	4.2
Net liability transferred to held for sale	–	–	4.8	–	4.8	–
Exchange adjustment	–	–	(3.3)	1.4	(3.3)	1.4
Closing net liabilities	(72.1)	(125.1)	(77.0)	(12.6)	(149.1)	(137.7)

The amounts recognised for total Group in the Consolidated Income Statement and in the Consolidated Statement of Comprehensive Income for the year are analysed as follows.

	UK pensions		North American pensions & post-retirement healthcare		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
<b>Recognised in the Consolidated Income Statement</b>						
Current service cost	–	–	(0.5)	–	(0.5)	–
Past service (cost) credit	(6.3)	–	–	3.5	(6.3)	3.5
Administrative expenses	(0.1)	(0.1)	(0.6)	(0.4)	(0.7)	(0.5)
Included in operating profit	(6.4)	(0.1)	(1.1)	3.1	(7.5)	3.0
Interest on net pension liability	(2.9)	(3.2)	(1.6)	(0.5)	(4.5)	(3.7)
Total expense charged to the income statement	(9.3)	(3.3)	(2.7)	2.6	(12.0)	(0.7)
<b>Recognised in the Consolidated Statement of Comprehensive Income</b>						
Actual return on plan assets	(22.7)	33.8	(5.7)	2.5	(28.4)	36.3
Less: interest on plan assets	(19.1)	(20.7)	(2.6)	(0.5)	(21.7)	(21.2)
	(41.8)	13.1	(8.3)	2.0	(50.1)	15.1
Other actuarial gains (losses) due to:						
Changes in financial assumptions	70.2	(32.9)	1.8	(2.2)	72.0	(35.1)
Changes in demographic assumptions	18.0	17.2	0.4	0.1	18.4	17.3
Experience on benefit obligations	12.8	–	0.6	(2.7)	13.4	(2.7)
Actuarial gains (losses) recognised in the Consolidated Statement of Comprehensive Income	59.2	(2.6)	(5.5)	(2.8)	53.7	(5.4)

Current service cost and administration expenses are recognised in operating costs and interest on net pension liability is recognised in other finance costs.

Following a High Court ruling in the UK in October 2018, an allowance of £6.3m in relation to expected future costs of equalising guaranteed minimum pensions has been included in the obligations on the Balance Sheet at 31 December 2018 and recognised in the Consolidated Income Statement as a past service cost under exceptional items (note 5).

Pension contributions are determined with the advice of independent qualified actuaries on the basis of regular valuations using the projected unit method. The Group made special contributions of £5.6m in 2018 (2017: £3.0m) in addition to the Group's regular contributions.

The actuarial funding valuation of the Main Plan as at 31 December 2017 is ongoing, and it is due to be completed in early 2019. Under the previous recovery plan agreed with the Trustees for the 31 December 2014 valuation, the Group entered into a pension funding partnership structure under which it will contribute interests in a Scottish Limited Partnership (SLP) for the Main Plan. The Main Plan's interests in the SLP will reduce the deficit on a funding basis, although the agreement will not affect the position directly on an IAS 19 accounting basis as the investments held do not qualify as assets for IAS 19 purposes. As a partner in the SLP, the Main Plan is entitled to receive a share of the profits of the SLP once a year for 15 years, subject to conditions being met. The profits to be shared with the Plan will be reflected in the Group's financial statements as a pension contribution.

## Notes to the Group Financial Statements continued

### 23. Pensions & other post-employment benefit plans continued

The Trustees of the UK Executive Scheme entered into a full buy-in transaction in the third quarter of 2017, meaning that all of the benefit payments due from the Executive Scheme are now covered by an insurance policy. There remains an outstanding premium payment (estimated to be £1.1m) due from the Trustees to Scottish Widows, which is expected to be paid in 2019 following a data cleanse process to finalise the insurance policy. The IAS 19 balance sheet at the 2018 year end reflects this expected payment due.

The Group has taken legal advice regarding its UK arrangements to confirm the accounting treatment under IFRIC 14 with regard to recognition of a current surplus and also recognition of a minimum funding requirement. This confirmed that there is no requirement to adjust the balance sheet and that recognition of a current surplus is appropriate on the basis that the Group has an unconditional right to a refund of a current (or projected future) surplus at some point in the future. For the same reason, there is no requirement for the Group to adjust the balance sheet to recognise the future agreed deficit recovery contributions. Having considered the position, taking account of the legal input received and noting that the Trustees of the UK arrangements do not have discretionary powers to unilaterally wind up the schemes without cause, the Directors of the Group have concluded that the Group has an unconditional right to a refund of any surplus.

The total Group contributions for 2019 (including those expected from the SLP in the UK) are expected to be £18.4m.

#### Sensitivity analysis

Changes in key assumptions can have a significant effect on the reported retirement benefit obligation and the Consolidated Income Statement expense for 2019. The effects of changes in those assumptions on the reported retirement benefit obligation are set out in the table below.

	Increase 2018 £m	Decrease 2018 £m	Increase 2017 £m	Decrease 2017 £m
Discount rate				
Effect on defined benefit obligation of a 1.0% change	<b>140.2</b>	<b>(167.1)</b>	146.7	(178.7)
Effect on net liability of a 1.0% change	<b>103.7</b>	<b>(126.0)</b>	105.3	(132.1)
RPI inflation (and associated assumptions)				
Effect on defined benefit obligation of a 1.0% change	<b>(91.0)</b>	<b>82.5</b>	(95.8)	87.3
Effect on net liability of a 1.0% change	<b>(57.9)</b>	<b>51.9</b>	(62.2)	56.0
Life expectancy				
Effect on defined benefit obligation of a 1 year change	<b>(34.0)</b>	<b>34.0</b>	(29.2)	29.2
Effect on net liability of a 1 year change	<b>(18.2)</b>	<b>18.2</b>	(14.0)	14.0

The impact on the net liability is significantly reduced as a result of the insurance policies held. In the absence of such policies, the impact on the net liability would be much closer to the significantly higher impact on the defined benefit obligation shown in the table.

These sensitivities have been calculated to show the movement in the defined benefit obligation and net liability in isolation and assume no other changes in market conditions at the accounting date. In practice, for example, a change in discount rate is unlikely to occur without any movement in the value of the invested (non-insurance policy) assets held by the plans.

Changes in the present value of the defined benefit obligations are analysed as follows.

	UK pensions		North American pensions & post-retirement healthcare		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Opening defined benefit obligations	<b>(936.8)</b>	(940.0)	<b>(26.1)</b>	(29.4)	<b>(962.9)</b>	(969.4)
Obligations transferred on acquisition	–	–	<b>(183.3)</b>	–	<b>(183.3)</b>	–
Current service cost	–	–	<b>(0.5)</b>	–	<b>(0.5)</b>	–
Past service (cost) credit	<b>(6.3)</b>	–	–	3.5	<b>(6.3)</b>	3.5
Interest on benefit obligations	<b>(22.0)</b>	(23.9)	<b>(4.2)</b>	(1.0)	<b>(26.2)</b>	(24.9)
Benefits paid	<b>42.9</b>	42.8	<b>9.5</b>	3.0	<b>52.4</b>	45.8
Actuarial gains (losses) due to						
Changes in financial assumptions	<b>70.2</b>	(32.9)	<b>1.8</b>	(2.2)	<b>72.0</b>	(35.1)
Changes in demographic assumptions	<b>18.0</b>	17.2	<b>0.4</b>	0.1	<b>18.4</b>	17.3
Experience on benefit obligations	<b>12.8</b>	–	<b>0.6</b>	(2.7)	<b>13.4</b>	(2.7)
Obligations transferred to held for sale (note 8)	–	–	<b>16.2</b>	–	<b>16.2</b>	–
Exchange rate adjustment	–	–	<b>(7.2)</b>	2.6	<b>(7.2)</b>	2.6
Closing defined benefit obligations	<b>(821.2)</b>	(936.8)	<b>(192.8)</b>	(26.1)	<b>(1,014.0)</b>	(962.9)

Changes in the fair value of plan assets are analysed as follows.

	UK pensions		North American pensions & post-retirement healthcare		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Opening plan assets	<b>811.7</b>	818.7	<b>13.5</b>	13.5	<b>825.2</b>	832.2
Assets transferred on acquisition	–	–	<b>119.1</b>	–	<b>119.1</b>	–
Interest on plan assets	<b>19.1</b>	20.7	<b>2.6</b>	0.5	<b>21.7</b>	21.2
Employer contributions	<b>3.1</b>	2.1	<b>6.5</b>	2.1	<b>9.6</b>	4.2
Administrative expenses	(0.1)	(0.1)	(0.6)	(0.4)	(0.7)	(0.5)
Benefits paid	<b>(42.9)</b>	(42.8)	<b>(9.5)</b>	(3.0)	<b>(52.4)</b>	(45.8)
Actual return on plan assets less interest on plan assets	<b>(41.8)</b>	13.1	<b>(8.3)</b>	2.0	<b>(50.1)</b>	15.1
Assets transferred to held for sale (note 8)	–	–	<b>(11.4)</b>	–	<b>(11.4)</b>	–
Exchange rate adjustment	–	–	<b>3.9</b>	(1.2)	<b>3.9</b>	(1.2)
Closing plan assets	<b>749.1</b>	811.7	<b>115.8</b>	13.5	<b>864.9</b>	825.2

#### 24. Share capital & reserves

	2018 Number million	2017 Number million
<b>Issued &amp; fully paid share capital</b>		
At the beginning of the year	<b>224.7</b>	218.4
Issued during the year in respect of ESCO acquisition (note 13)	<b>33.5</b>	–
Issued during the year in respect of KOP acquisition	–	5.1
Issued during the year in respect of scrip dividends (note 10)	<b>1.4</b>	1.2
At the end of the year	<b>259.6</b>	224.7
<b>Treasury shares</b>		
At the beginning of the year	<b>0.5</b>	0.7
Utilised during the year in respect of equity settled share-based payments	(0.3)	(0.2)
At the end of the year	<b>0.2</b>	0.5

The Company has one class of ordinary share with a par value of 12.5p which carries no rights to fixed income.

16,699,763 ordinary shares of 12.5p each were issued on 23 April 2018 raising cash proceeds of £355.5m (net of fees) which were used to fund the acquisition of ESCO Corporation. As part of the final consideration a further 16,779,861 ordinary shares of 12.5p each were issued directly to ESCO shareholders on 12 July 2018 valued at £325.3m.

As at 31 December 2018, 3,803 shares (2017: 3,803) were held by the Kleinwort Employee Benefit Trust (EBT) with a market value of £0.1m (2017: £0.1m). This trust has been wound up in early 2019.

As at 31 December 2018, 6,549 shares (2017: 28,181) were held by the Estera Employee Benefit Trust for the performance and restricted awards made under the LTIP. These shares have a market value of £0.1m (2017: £0.6m).

As at 31 December 2018, 25,828 shares (2017: 42,875) were held by the Estera Employee Benefit Trust for the bonus shares awarded under the LTIP. These shares have a market value of £0.3m (2017: £0.9m).

As at 31 December 2018, 21,128 shares (2017: nil) were held by the Estera Employee Benefit Trust for the bonus shares awarded under the Share Reward Plan (SRP). These shares have a market value of £0.3m (2017: £nil).

As at 31 December 2018, 47,207 shares (2017: nil) were held by the Estera Employee Benefit Trust for the ESCO restricted awards made under the ESCO 2010 stock incentive plan. These shares have a market value of £0.6m (2017: £nil).

#### Reserves

The period movements on the below reserves are summarised in the Consolidated Statement of Changes in Equity.

#### Merger reserve

The shares issued directly to ESCO shareholders on 12 July 2018 qualify for merger relief under Section 612 of the Companies Act 2006, resulting in an increase to the reserve of £323.2m. The merger reserve was originally created by the issue of new equity in relation to the acquisition of Delta Industrial Valves Inc. during 2015.

#### Capital redemption reserve

The capital redemption reserve was created by a repurchase and cancellation of own shares during the 53 weeks ended 1 January 1999.

## Notes to the Group Financial Statements continued

### 24. Share capital & reserves continued

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations and the Group's hedge of its net investment in foreign operations.

#### Hedge accounting reserve

This reserve records the portion of the gains or losses on hedging instruments used as cash flow hedges that are determined to be effective. Net gains (losses) transferred from equity during the year are included in the following line items in the Consolidated Income Statement and Consolidated Balance Sheet.

	2018 £m	2017 £m
Revenue	<b>1.2</b>	(1.8)
Cost of sales	<b>1.4</b>	2.1
	<b>2.6</b>	0.3

### 25. Additional cash flow information

	Notes	2018 £m	Restated (note 2) 2017 £m
<b>Total operations</b>			
<b>Net cash generated from operations</b>			
Operating profit – continuing operations		<b>124.1</b>	240.8
Operating loss – discontinued operations		<b>(29.7)</b>	(20.5)
Operating profit – total operations		<b>94.4</b>	220.3
Exceptional items	5, 8	<b>209.3</b>	23.8
Amortisation of intangible assets	5, 12	<b>67.3</b>	55.4
Share of results of joint ventures	15	<b>(2.4)</b>	(10.9)
Depreciation of property, plant & equipment	11	<b>64.5</b>	58.2
Impairment of property, plant & equipment		<b>–</b>	0.1
Grants received		<b>(1.5)</b>	(1.2)
Losses (gains) on disposal of property, plant & equipment		<b>0.2</b>	(0.1)
Exceptional item – gains on disposal of joint ventures	5, 15	<b>–</b>	(10.4)
Funding of pension & post-retirement costs		<b>(2.5)</b>	(4.8)
Employee share schemes	27	<b>8.6</b>	7.0
Transactional foreign exchange		<b>15.3</b>	(0.4)
Decrease in provisions		<b>(2.9)</b>	(0.3)
Cash generated from operations before working capital cash flows		<b>450.3</b>	336.7
Increase in inventories		<b>(53.2)</b>	(65.6)
Decrease (increase) in trade & other receivables		<b>36.5</b>	(113.0)
(Decrease) increase in trade & other payables		<b>(22.8)</b>	62.4
Cash generated from operations before exceptional cash items		<b>410.8</b>	220.5
Additional pension contributions paid		<b>(5.6)</b>	(3.0)
Exceptional cash items		<b>(114.0)</b>	(28.6)
Income tax paid		<b>(73.3)</b>	(60.5)
Net cash generated from operating activities		<b>217.9</b>	128.4

Cash flows from discontinued operations included above are disclosed separately in note 8.

Exceptional items are detailed in note 5.

The employee-related provision and associated insurance asset in relation to US asbestos-related claims disclosed in note 21 will not result in any cash flows either to or from the Group and therefore they have been excluded from the table above.

The following tables summarise the cash flows arising on acquisitions and disposals (note 13).

	2018 £m	2017 £m
<b>Acquisitions of subsidiaries</b>		
Acquisition of subsidiaries – cash paid	<b>(470.8)</b>	(92.5)
Cash & cash equivalents acquired	<b>41.2</b>	3.2
Acquisition of subsidiaries – current period acquisitions	<b>(429.6)</b>	(89.3)
Prior period acquisitions contingent consideration paid	–	(0.8)
Total cash outflow relating to acquisitions	<b>(429.6)</b>	(90.1)
<b>Net cash inflow arising on prior period disposals</b>		
Prior period disposals completion adjustment	<b>0.3</b>	3.5
Total cash inflow relating to prior period disposals	<b>0.3</b>	3.5
<b>Net debt comprises the following</b>		
Cash & short-term deposits (note 18)	<b>263.0</b>	284.6
Current interest-bearing loans & borrowings (note 19)	<b>(662.5)</b>	(388.4)
Non-current interest-bearing loans & borrowings (note 19)	<b>(740.9)</b>	(739.4)
Assets and liabilities held for sale (note 8)	<b>13.9</b>	–
	<b>(1,126.5)</b>	(843.2)

#### Reconciliation of financing cash flows to movement in net debt

	Opening balance at 31 December 2017 £m	Cash movements £m	Additions/ acquisitions £m	FX £m	Non-cash movements £m	Closing balance at 31 December 2018 £m	Transferred to assets/liabilities held for sale £m	Total continuing operations £m
Cash & cash equivalents	284.5	<b>(3.5)</b>	–	<b>(3.8)</b>	–	<b>277.2</b>	<b>14.2</b>	<b>263.0</b>
Third-party loans	(1,128.2)	<b>(103.7)</b>	<b>(118.6)</b>	<b>(51.6)</b>	–	<b>(1,402.1)</b>	<b>(0.3)</b>	<b>(1,401.8)</b>
Leases	(1.0)	<b>0.8</b>	<b>(2.3)</b>	–	–	<b>(2.5)</b>	–	<b>(2.5)</b>
Unamortised issue costs	1.5	–	–	–	<b>(0.6)</b>	<b>0.9</b>	–	<b>0.9</b>
Amounts included in gross debt	(1,127.7)	<b>(102.9)</b>	<b>(120.9)</b>	<b>(51.6)</b>	<b>(0.6)</b>	<b>(1,403.7)</b>	<b>(0.3)</b>	<b>(1,403.4)</b>
Amounts included in net debt	(843.2)	<b>(106.4)</b>	<b>(120.9)</b>	<b>(55.4)</b>	<b>(0.6)</b>	<b>(1,126.5)</b>	<b>13.9</b>	<b>(1,140.4)</b>
Financing derivatives	(9.2)	<b>(49.9)</b>	–	–	<b>40.8</b>	<b>(18.3)</b>	–	<b>(18.3)</b>
Contingent consideration	(3.4)	–	<b>(0.2)</b>	<b>(0.1)</b>	<b>3.5</b>	<b>(0.2)</b>	–	<b>(0.2)</b>
Other liabilities relating to financing activities	(12.6)	<b>(49.9)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>44.3</b>	<b>(18.5)</b>	–	<b>(18.5)</b>
Total financing liabilities*	(1,140.3)	<b>(152.8)</b>	<b>(121.1)</b>	<b>(51.7)</b>	<b>43.7</b>	<b>(1,422.2)</b>	<b>(0.3)</b>	<b>(1,421.9)</b>

\* Total financing liabilities comprise gross debt plus other liabilities relating to financing activities.

## Notes to the Group Financial Statements continued

### 25. Additional cash flow information continued

	Opening balance at 31 December 2016 £m	Cash movements £m	Additions/ acquisitions £m	FX movements £m	Non-cash movements £m	Closing balance at 31 December 2017 £m	Transferred to assets/liabilities held for sale £m	Total continuing operations £m
Cash & cash equivalents	257.0	53.5	–	(26.0)	–	284.5	–	284.5
Third-party loans	(1,093.2)	(110.1)	–	75.1	–	(1,128.2)	–	(1,128.2)
Leases	(0.8)	0.4	(0.6)	–	–	(1.0)	–	(1.0)
Unamortised issue costs	2.5	–	–	–	(1.0)	1.5	–	1.5
Amounts included in gross debt	(1,091.5)	(109.7)	(0.6)	75.1	(1.0)	(1,127.7)	–	(1,127.7)
Amounts included in net debt	(834.5)	(56.2)	(0.6)	49.1	(1.0)	(843.2)	–	(843.2)
Financing derivatives	(21.4)	6.6	–	–	5.6	(9.2)	–	(9.2)
Contingent consideration	(31.0)	38.0	–	(0.5)	(9.9)	(3.4)	–	(3.4)
Other liabilities relating to financing activities	(52.4)	44.6	–	(0.5)	(4.3)	(12.6)	–	(12.6)
Total financing liabilities*	(1,143.9)	(65.1)	(0.6)	74.6	(5.3)	(1,140.3)	–	(1,140.3)

\* Total financing liabilities comprise gross debt plus other liabilities relating to financing activities.

### 26. Commitments & legal claims

#### Operating lease commitments

The Group has entered into commercial leases for land & buildings, motor vehicles and plant & equipment. Land & building leases have an average term of between two and ten years, motor vehicle leases have an average term of between two and four years and plant & equipment leases have an average term of between three and five years. Certain leases have terms of renewal at the option of the lessee. Future minimum rentals payable under non-cancellable operating leases are shown in the table below.

	2018 £m	2017 £m
Less than 1 year	47.4	34.6
After 1 year but no more than 5 years	98.2	94.2
More than 5 years	51.7	57.8
	197.3	186.6

The above disclosures are given in relation to continuing operations for 2018 and total group basis for 2017. Total 2017 operating lease commitments for discontinued operations was £15.0m

#### Finance lease commitments

The Group has finance leases for buildings and plant & equipment. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are shown in the table below.

	Minimum payments 2018 £m	Present value of payments 2018 £m	Minimum payments 2017 £m	Present value of payments 2017 £m
Less than 1 year	1.0	1.0	0.3	0.3
After 1 year but not more than 5 years	1.5	1.4	0.6	0.5
After 5 years	0.1	0.1	0.2	0.2
Total minimum lease payments	2.6		1.1	
Less amounts representing finance charges	(0.1)		(0.1)	
Present value of minimum lease payments	2.5	2.5	1.0	1.0

The weighted average outstanding lease term is 3.08 years (2017: 5.54 years). For the year ended 31 December 2018, the weighted average effective borrowing rate was 8.2% (2017: 5.98%).

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

## Capital commitments

	2018 £m	2017 £m
Outstanding capital commitments contracted but not provided for – property, plant & equipment	<b>17.9</b>	14.6
Outstanding capital commitments contracted but not provided for – intangible assets	<b>2.5</b>	2.8

The Group's share of the capital commitments of its joint ventures amounted to £2.1m (2017: £1.5m).

## Legal claims

The Company and certain subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the normal course of business. Provisions have been made where the Directors have assessed that a cash outflow is likely and they believe all other claims are remote.

## 27. Equity settled share-based payments

### Employee share plans

The Group's 2018 Share Reward Plan (SRP) allows for Restricted shares and Bonus shares to be awarded to employees under the Plan. This replaces the LTIP 2014 Rules (LTIP) under which the types of awards which were granted included: Performance shares, Restricted shares and Bonus shares. Details of both the SRP and LTIP are outlined in the Remuneration Report on pages 95 to 106.

As part of the ESCO acquisition certain Restricted Stock Units (RSUs) and Restricted Stock Awards (RSA) issued by ESCO pre-acquisition were rolled into Weir Group share awards. The pre-acquisition cost of these awards totalled £1.4m and was recorded in reserves, with a corresponding increase in goodwill. These awards are treated in line with other restricted awards noted above.

One-off conditional share awards are also occasionally granted to employees. These transactions fall under the scope of IFRS 2 and are treated in line with awards issued under the Group's SRP in the year or LTIP in prior years.

The following tables illustrate the number and weighted average share prices (WASP) of shares awarded.

### Performance shares

	2018 Number million	2018 WASP	2017 Number million	2017 WASP
Outstanding at the beginning of the period	<b>1.1</b>	<b>£16.34</b>	1.7	£18.06
Awarded during the period	–	–	0.3	£18.58
Forfeited during the period	<b>(0.5)</b>	<b>£18.07</b>	(0.9)	£24.91
Outstanding at the end of the period	<b>0.6</b>	<b>£15.09</b>	1.1	£16.34

### Restricted shares

	2018 Number million	2018 WASP	2017 Number million	2017 WASP
Outstanding at the beginning of the period	<b>0.8</b>	<b>£14.89</b>	0.8	£12.91
Awarded during the period	<b>0.6</b>	<b>£20.17</b>	0.4	£18.59
Exercised during the period	<b>(0.3)</b>	<b>£14.41</b>	(0.2)	£14.75
Forfeited during the period	–	–	(0.2)	£13.84
Outstanding at the end of the period	<b>1.1</b>	<b>£18.14</b>	0.8	£14.89

An amount of £8.6m has been charged (2017: £7.0m) to the Consolidated Income Statement in respect of the number of awards which are expected to be made at the end of the vesting period.

The remaining contractual lives of the outstanding LTIP and one-off conditional share awards at the end of the period are as follows.

Year of award	2018 Number million	2018 Remaining contractual life	2017 Number million	2017 Remaining contractual life
2015	–	–	0.5	3 months
2016	<b>0.7</b>	<b>8 months</b>	0.8	15 months
2017	<b>0.5</b>	<b>12 months</b>	0.6	27 months
2018	<b>0.5</b>	<b>23 months</b>	–	–

The fair value at date of grant of the conditional awards under the LTIP has been independently estimated based on the type of award:

#### i) Restricted shares

The grant date fair value of these awards is calculated as the share price at the date of grant less an adjustment for loss of reinvestment return on the dividend equivalent. There are no performance conditions attached to these awards.

The fair value of occasional one-off conditional awards at grant date is also estimated on this basis.

## Notes to the Group Financial Statements continued

### 27. Equity settled share-based payments continued

#### ii) Performance shares

The grant date fair value of the performance share awards subject to the EPS and ROCE performance targets was calculated in the same way as the restricted share awards except that a discount of 11% is applied to reflect the holding period which applies to these awards. The EPS and ROCE performance targets are 'non-market' vesting conditions for the purpose of IFRS 2 and so their effect is not allowed for in the grant date fair values.

The valuation of performance share awards subject to the TSR-related performance targets was performed using a Monte Carlo simulation model.

The following table gives the assumptions made during the period ended 31 December 2017 in the calculation of the fair value of awards subject to the TSR-related performance targets made in that year. No performance shares were issued in 2018.

	2017
Weighted average expected volatility (%)	37.00
Weighted average expected life (years)	3.00
Weighted average risk-free rate (%)	0.30
Weighted average share price (£)	18.58
Weighted average fair value (£)	8.17

The expected life of the awards is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may also not necessarily be the actual outcome. Market-related performance conditions have been taken into account in the calculation of fair values.

#### Bonus shares

Under the Group's annual bonus plan, Executive Directors and members of the Group Executive typically receive 30% of any bonus deferred into an award of Weir Group shares which will normally be released after three years. These awards are entitled to accrue the value of the dividends payable on any deferred bonus awards during the three-year holding period.

The SRP and LTIP bonus shares are administered by the Estera EBT. The shares are acquired on market at the grant date and are held in the Estera EBT until such time as they are vested. Forfeited shares are reallocated in subsequent grants. Under the terms of the Trust Deed, Weir Group is required to provide the Estera EBT with the necessary funding for the acquisition of the shares at the time of the grant.

The number of shares to be granted is determined based on the applicable annual bonus divided by the price at which the Company's shares are traded at the date of the grant. In 2018, 21,128 shares were awarded (2017: 15,242).

The fair value of the rights at grant date was estimated by taking the market price of the Company's shares on that date.

### 28. Related party disclosure

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

Related party		Sales to related parties – goods £m	Sales to related parties – services £m	Purchases from related parties – goods £m	Purchases from related parties – services £m	Purchases from related parties to related parties £m	
						2018	2017
Joint ventures	2018	<b>4.5</b>	<b>0.4</b>	<b>10.1</b>	<b>0.8</b>	–	–
	2017	48.7	0.5	0.2	0.3	–	–
Group pension plans	2018	–	–	–	–	–	<b>6.3</b>
	2017	–	–	–	–	–	4.3

Contributions to the Group pension plans are disclosed in note 23.

### **Terms & conditions of transactions with related parties**

Sales to and from related parties are made at normal market prices. Outstanding balances at the period end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party balances. For 2018, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2017: £nil) as the payment history has been excellent. 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.

	2018 £m	2017 £m
<b>Compensation of key management personnel</b>		
Short-term employee benefits	<b>7.5</b>	6.9
Share-based payments	<b>2.2</b>	0.2
Post-employment benefits	<b>0.2</b>	0.2
	<b>9.9</b>	7.3
<b>Emoluments paid to the Directors of The Weir Group PLC</b>		
Remuneration	<b>2.9</b>	3.0
Gains made on the exercise of Long Term Incentive Plan awards	<b>1.4</b>	0.1
	<b>4.3</b>	3.1

Key management comprises the Board and the Group Executive. Further details of the Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 95 to 106.

### **29. Financial instruments**

#### **A. Derivative financial instruments**

The Group enters into derivative financial instruments in the normal course of business in order to hedge its exposure to foreign exchange risk. Derivatives are only used for economic hedging purposes and no speculative positions are taken. Derivatives are recognised as held for trading and at fair value through profit and loss unless they are designated in IFRS 9 compliant hedge relationships.

The table below summarises the types of derivative financial instrument included within each balance sheet category.

	2018 £m	2017 £m
<b>Included in non-current assets</b>		
Cross currency swaps designated as net investment hedges	<b>1.4</b>	–
Other forward foreign currency contracts	–	0.3
	<b>1.4</b>	0.3
<b>Included in current assets</b>		
Forward foreign currency contracts designated as cash flow hedges	–	0.3
Forward foreign currency contracts designated as net investment hedges	<b>0.5</b>	7.5
Other forward foreign currency contracts	<b>17.8</b>	8.9
	<b>18.3</b>	16.7
<b>Included in current liabilities</b>		
Forward foreign currency contracts designated as cash flow hedges	–	(0.1)
Forward foreign currency contracts designated as net investment hedges	<b>(26.4)</b>	(1.6)
Cross currency swaps designated as net investment hedges	–	(8.9)
Other forward foreign currency contracts	<b>(14.4)</b>	(15.2)
	<b>(40.8)</b>	(25.8)
<b>Included in non-current liabilities</b>		
Cross currency swaps designated as net investment hedges	–	(0.7)
Other forward foreign currency contracts	<b>(0.2)</b>	–
	<b>(0.2)</b>	(0.7)
<b>Net derivative financial liabilities – continuing operations</b>	<b>(21.3)</b>	(9.5)
<b>Net derivative financial liabilities held for sale (note 8)</b>	<b>(0.4)</b>	–
<b>Net derivative financial liabilities – total Group</b>	<b>(21.7)</b>	(9.5)

## Notes to the Group Financial Statements continued

### 29. Financial instruments continued

#### B. Financial assets and liabilities

Financial assets and liabilities (with the exception of derivative financial instruments) are initially recognised at fair value net of transaction costs. Subsequently they are recognised at either fair value or amortised cost. Derivative financial instruments are initially recognised at fair value and subsequently re-measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2018 and 31 December 2017, the Group has classified contingent consideration as level 3. A reconciliation of the movements in the contingent consideration fair value has been included in note 13.

During the periods ended 31 December 2018 and 31 December 2017, there were no transfers between level 1 and level 2 fair value measurements and no transfers into or out of level 3 fair value measurements.

#### Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legal right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

As at 31 December 2018, cash & short-term deposits of £279.1m (2017: £284.6m) and current interest bearing loans & borrowings of £664.7m (2017: £388.4m) were presented after elimination of debit and credit balances within individual pools of £0.8m (2017: £1.3m).

The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be offset in specific circumstances. As at 31 December 2018, the Group had derivative financial instruments of £19.9m which were subject to master netting arrangements but not offset.

#### Carrying amounts and fair values

The table below shows the carrying amounts and fair values of the Group's financial instruments that are reported in the financial statements.

	Carrying amount 2018 £m	Fair value 2018 £m	Fair value measurement using		
			Level 1 Quoted prices in active markets £m	Level 2 Significant observable inputs £m	Level 3 Significant unobservable inputs £m
<b>Financial assets – Continuing Operations</b>					
Derivative financial instruments recognised at fair value through profit or loss	<b>17.8</b>	<b>17.8</b>	–	17.8	–
Derivative financial instruments in designated hedge accounting relationships	<b>1.9</b>	<b>1.9</b>	–	1.9	–
Trade & other receivables excluding statutory assets, prepayments, contingent consideration & construction contract assets*	<b>625.2</b>	<b>625.2</b>	–	625.2	–
Cash & short-term deposits*	<b>263.0</b>	<b>263.0</b>	–	263.0	–
Financial assets held for sale	<b>125.1</b>	<b>125.1</b>	–	125.1	–
	<b>1,033.0</b>	<b>1,033.0</b>			
<b>Financial liabilities – Continuing Operations</b>					
Derivative financial instruments recognised at fair value through profit or loss	<b>14.6</b>	<b>14.6</b>	–	14.6	–
Derivative financial instruments in designated hedge accounting relationships	<b>26.4</b>	<b>26.4</b>	–	26.4	–
Contingent consideration payable	<b>0.2</b>	<b>0.2</b>	–	–	0.2
Amortised cost					
Fixed-rate borrowings	<b>783.7</b>	<b>827.7</b>	–	827.7	–
Floating-rate borrowings	<b>617.2</b>	<b>617.2</b>	–	617.2	–
Obligations under finance leases	<b>2.5</b>	<b>2.5</b>	–	2.5	–
Trade & other payables excluding statutory liabilities & contract liabilities*	<b>573.5</b>	<b>573.5</b>		573.5	
Financial liabilities held for sale	<b>93.2</b>	<b>93.2</b>		93.2	
	<b>2,111.3</b>	<b>2,155.3</b>			

	Restated (note 2) Carrying amount 2017 £m	Restated (note 2) Fair value 2017 £m	Fair value measurement using		
			Level 1 Quoted prices in active markets £m	Level 2 Significant observable inputs £m	Level 3 Significant unobservable inputs £m
<b>Financial assets – total Group</b>					
Derivative financial instruments recognised at fair value through profit or loss	9.2	9.2	–	9.2	–
Derivative financial instruments in designated hedge accounting relationships	7.8	7.8	–	7.8	–
Contingent consideration receivable	0.4	0.4	–	–	0.4
Trade & other receivables excluding statutory assets, prepayments, contingent consideration & construction contract assets*	608.8	608.8	–	608.8	–
Cash & short-term deposits*	284.6	284.6	–	284.6	–
	910.8	910.8			
<b>Financial liabilities – total Group</b>					
Derivative financial instruments recognised at fair value through profit or loss	15.2	15.2	–	15.2	–
Derivative financial instruments in designated hedge accounting relationships	11.3	11.3	–	11.3	–
Contingent consideration payable	3.4	3.4	–	–	3.4
Amortised cost					
Fixed-rate borrowings	832.9	896.6	–	896.6	–
Floating-rate borrowings	293.8	293.8	–	293.8	–
Obligations under finance leases	1.0	1.0	–	1.0	–
Bank overdrafts & short-term borrowings*	0.1	0.1	–	0.1	–
Trade & other payables excluding statutory liabilities & contract liabilities*	528.4	528.4	–	528.4	–
	1,686.1	1,749.8			

The fair value of cash & short-term deposits, trade & other receivables and trade & other payables approximate their carrying amount due to the short-term maturities of these instruments.

### C. Hedging activities

The Group designates certain derivative financial instruments in either cash flow hedging or net investment hedging relationships in accordance with IFRS 9.

	Cash flow hedge	Net investment hedge
<b>Hedge relationship</b>	Cash flow hedge of highly probable forecast foreign currency purchases and sales	Net investment hedge of foreign operations
<b>Hedged risk</b>	Transactional foreign exchange risk	Translational foreign exchange risk
<b>Hedging instruments</b>	Forward foreign currency contracts	Foreign currency debt Cross currency swaps Forward foreign currency contracts

## Notes to the Group Financial Statements continued

### 29. Financial instruments continued

For each type of derivative financial instrument, the net carrying amount and maturity date ranges are set out in the table below.

	Net carrying amount £m	Maturity dates
Year ended 31 December 2018		
Forward foreign currency contracts designated as cash flow hedges	–	2019
Forward foreign currency contracts designated as net investment hedges	(25.9)	2019
Cross currency swaps designated as net investment hedges	1.4	2018 to 2021
Other forward foreign currency contracts at fair value through profit or loss	2.8	2019 to 2020
	<b>(21.7)</b>	

	Net carrying amount £m	Maturity dates
Period ended 31 December 2017		
Forward foreign currency contracts designated as cash flow hedges	0.2	2018
Forward foreign currency contracts designated as net investment hedges	5.9	2018
Cross currency swaps designated as net investment hedges	(9.6)	2018 to 2021
Other forward foreign currency contracts at fair value through profit or loss	(6.0)	2018 to 2019
	<b>(9.5)</b>	

For each type of derivative financial instrument, the amounts recognised for the period in profit or loss and equity are set out in the table below. In the financial statements these amounts are offset by the retranslation of foreign currency denominated receivables and payables.

	Amounts recognised in profit or loss		Amounts recognised in equity		
	Other gains/ (losses) £m	Total amounts recognised in profit or loss £m	Hedge accounting reserve £m	Foreign currency translation reserve £m	Losses recycled to inventory £m
Year ended 31 December 2018					
<b>Instruments measured at FVTPL</b>					
<b>Designated in hedge accounting relationships</b>					
Forward foreign currency contracts designated as cash flow hedges	(2.6)	(2.6)	0.8	–	(0.1)
Forward foreign currency contracts designated as net investment hedges	–	–	–	(52.1)	–
Cross currency swaps designated as net investment hedges	–	–	–	0.7	–
<b>Not designated in hedge accounting relationships</b>					
Other forward foreign currency contracts at fair value through profit or loss (FVTPL)	13.9	13.9	–	–	–
<b>Total gains/(losses) on instruments measured at FVTPL</b>	<b>11.3</b>	<b>11.3</b>	<b>0.8</b>	<b>(51.4)</b>	<b>(0.1)</b>

	Amounts recognised in profit or loss		Amounts recognised in equity		
	Other gains/ (losses) £m	Total amounts recognised in profit or loss £m	Hedge accounting reserve £m	Foreign currency translation reserve £m	Losses recycled to inventory £m
Year ended 31 December 2017					
<b>Instruments measured at FVTPL</b>					
<b>Designated in hedge accounting relationships</b>					
Forward foreign currency contracts designated as cash flow hedges	(0.3)	(0.3)	0.4	–	0.6
Forward foreign currency contracts designated as net investment hedges	–	–	–	22.4	–
Cross currency swaps designated as net investment hedges	–	–	–	6.5	–
<b>Not designated in hedge accounting relationships</b>					
Other forward foreign currency contracts at fair value through profit or loss (FVTPL)	9.8	9.8	–	–	–
<b>Total gains/(losses) on instruments measured at FVTPL</b>	<b>9.5</b>	<b>9.5</b>	<b>0.4</b>	<b>28.9</b>	<b>0.6</b>

**Hedge ineffectiveness**

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency revenue and cost of sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to determine whether an economic relationship remains, and so assess effectiveness. As all critical terms matched during the year, the economic relationships were 100% effective.

Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

The Group enters into fixed-for-fixed cross currency interest rate swaps which are designated as hedging instruments in net investment hedges of the net assets of foreign operations. The swaps have similar critical terms as the hedged items, as the coupon and principal settlements exchange currencies matching both denomination and amounts of the hedged net assets, for amounts denominated in the presentation currency of the Group. The Group also utilises borrowings which are measured at amortised cost and denominated in the currency of the hedged net assets, as hedging instruments in net investment hedges. The Group does not hedge 100% of its net assets of foreign operations, therefore the hedged item is identified as a proportion of the net assets of the foreign operations up to the notional amount of the swaps and principal amount of the borrowings. As all critical terms matched during the year, the economic relationships were 100% effective.

Hedge ineffectiveness for the cross currency interest rate swaps is assessed using the same principles as for hedges of foreign currency revenue and cost of sales. It may occur due to the credit value/debit value adjustment on the cross currency interest rate swaps which is not matched by the net assets retranslation.

There was no ineffectiveness during 2018 or 2017 in relation to the cross currency interest rate swaps or foreign exchange forwards.

## Notes to the Group Financial Statements continued

### 29. Financial instruments continued

#### Effects of hedge accounting on financial position and performance

The effects of the foreign currency related hedging instruments on the Group's financial position and performance are as follows:

	2018	2017
Cash flow hedging: foreign currency forwards		
Carrying amount (£m)	–	0.3
Assets	<b>0.2</b>	0.4
Liabilities	<b>(0.2)</b>	(0.1)
Notional amounts (m)		
USD	<b>4.5</b>	21.5
GBP	<b>3.2</b>	7.6
Average exchange rates	–	–
GBP:USD	<b>1.37</b>	1.41
USD:AUD	<b>1.31</b>	1.26
Maturity dates	<b>01/2019</b> – <b>09/2019</b>	01/2018 – 09/2018
Hedge ratios*	<b>1:1</b>	1:1
Change in fair value of outstanding hedging instruments since 1 January (£m)	<b>0.8</b>	0.4
Change in value of hedged item used to determine hedge effectiveness (£m)	<b>(0.8)</b>	(0.4)

\* The foreign currency forwards are denominated in the same currency as the highly probable future transactions, therefore the hedge ratio is 1:1.

	2018	2017
Net investment hedging: foreign currency forwards, cross currency swaps and borrowings		
Carrying amount (£m)	<b>(499.3)</b>	(507.8)
Assets	<b>1.9</b>	7.5
Liabilities – derivatives	<b>(26.4)</b>	(11.2)
Liabilities – borrowings	<b>(474.9)</b>	(504.1)
Notional amounts (m)		
USD	<b>1,689.2</b>	881.2
ZAR	<b>345.0</b>	345.0
AUD	<b>176.2</b>	185.0
EUR	<b>117.6</b>	117.7
Average exchange rates		
GBP:USD	<b>1.35</b>	1.41
GBP:ZAR	<b>19.04</b>	18.12
GBP:EUR	<b>1.28</b>	1.28
GBP:AUD	<b>1.84</b>	1.90
Maturity dates	<b>01/2019</b> – <b>02/2022</b>	01/2018 – 02/2022
Hedge ratios*	<b>1:1</b>	1:1
Change in fair value of outstanding hedging instruments since 1 January (£m)	<b>(72.8)</b>	54.0
Change in value of hedged item used to determine hedge effectiveness (£m)	<b>72.8</b>	(54.0)

\*The derivatives and borrowings are denominated in the same currency as the highly probable future transactions, therefore the hedge ratio is 1:1.

#### D. Financial risk management

Financial risk management of the Group is carried out by Group Treasury in conjunction with individual subsidiaries. The principal financial risks to which the Group is exposed are market risk, liquidity risk and credit risk.

##### Market risk

The Group is exposed to foreign exchange risk and interest rate risk in the ordinary course of business.

###### i) Foreign exchange risk

The Group is exposed to both transactional and translational foreign exchange risk. Transactional risk arises when subsidiaries enter into transactions denominated in currencies other than their functional currency for operational or financing purposes or when the Group's Treasury function enters into transactions for financing or risk management purposes. Translational risk arises on the translation of overseas earnings and investments into Sterling for consolidated reporting purposes. Foreign currency transactional and translational risk could result in volatility in reported consolidated earnings and net assets.

In respect of transactional foreign currency risk, the Group maintains a policy that all operating units eliminate exposures on material committed foreign currency transactions, usually by entering into forward foreign currency contracts through the Group's Treasury function. Certain operating units apply cash flow hedge accounting in accordance with IFRS 9. The Group does not engage in any speculative foreign exchange transactions.

The Group has material foreign investments in the US, Australia, Europe and South Africa. In respect of translational risk, the Group has a policy of partially hedging its net investment exposure to US Dollar (US\$), Australian Dollar (AUD), Euro (EUR) and South African Rand (ZAR) denominated subsidiaries. This is achieved through designating an element of foreign currency borrowings, forward foreign currency contracts and cross currency swaps as net investment hedges against the Group's investments. The Group does not hedge the translational exposure arising from profit and loss items.

#### **Sensitivity to foreign exchange rates**

The Group considers the most significant transactional foreign exchange risk relates to the Australian Dollar, Euro and US Dollar. The following table shows the impact of movements in derivative valuation as a result of a weakening of these currencies. In the income statement, these amounts are offset by the retranslation of foreign currency denominated receivables and payables.

	Increase in currency rate	Effect on profit gain (loss) £m	Effect on equity gain £m
<b>Transactional foreign exchange</b>			
<b>2018</b>			
Australian Dollar	<b>+25%</b>	<b>(10.2)</b>	<b>19.0</b>
Euro	<b>+25%</b>	<b>(79.9)</b>	<b>20.3</b>
US Dollar	<b>+25%</b>	<b>13.8</b>	<b>262.8</b>
<b>2017</b>			
Australian Dollar	+25%	11.1	19.5
Euro	+25%	32.4	20.9
US Dollar	+25%	0.7	130.1

The Group is also exposed to translational foreign exchange risk as a result of its global operations and therefore the earnings of the Group will fluctuate due to changes in foreign exchange rates in relation to Sterling. The Group's operating profit from continuing operations before exceptional items and intangibles amortisation was denominated in the following currencies.

	2018 £m	Restated (note 2) 2017 £m
US Dollar	<b>224.6</b>	168.0
Australian Dollar	<b>29.8</b>	29.0
Euro	<b>22.1</b>	16.1
Canadian Dollar	<b>48.7</b>	31.9
United Arab Emirates Dirham	<b>7.3</b>	4.1
Chilean Peso	<b>40.5</b>	37.7
South African Rand	<b>5.9</b>	8.8
Brazilian Real	<b>4.7</b>	4.9
Russian Rouble	<b>4.9</b>	5.2
UK Sterling	<b>(44.0)</b>	(15.2)
Other	<b>3.6</b>	5.8
Operating profit from continuing operations before exceptional items & intangibles amortisation	<b>348.1</b>	296.3

#### ii) Interest rate risk

The Group is exposed to interest rate risk on its outstanding borrowings. Changes in interest rates will affect future interest cash flows on floating-rate debt and the fair value of fixed-rate borrowings.

## Notes to the Group Financial Statements continued

### 29. Financial instruments continued

The earnings of the Group are sensitive to changes in interest rates in respect of floating rate borrowings. As at 31 December 2018, 44% of the Group's borrowings were at floating interest rates. The interest rate profile of the Group's interest bearing borrowings was as follows.

	2018			2017		
	Floating-rate £m	Fixed-rate £m	Total £m	Floating-rate £m	Fixed-rate £m	Total £m
US Dollar	(19.6)	(784.6)	(804.2)	(0.4)	(791.2)	(791.6)
Euro	(477.6)	–	(477.6)	(293.4)	–	(293.4)
UK Sterling	(120.0)	(0.3)	(120.3)	–	(43.0)	(43.0)
Other	–	–	–	–	(0.2)	(0.2)

#### Sensitivity to interest rates

Based on borrowings at 31 December 2018, a 1% increase in interest rates would have a £6.7m impact on the profit before tax and amortisation of the Group. This assumes that the change in interest rates is effective from the beginning of the period and that all other variables are constant throughout the period.

#### Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial liabilities as they fall due.

Liquidity risk is managed by monitoring forecast and actual cash flows and ensuring that sufficient committed facilities are in place to meet possible downside scenarios. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of fixed-rate loan notes, bank loans, commercial paper and bank overdrafts. Further details of the Group's borrowing facilities are disclosed in note 19.

The tables below show only the financial liabilities of the Total Group by maturity. The amounts disclosed in the table are undiscounted cash flows and may therefore not agree to the amounts disclosed in the Consolidated Balance Sheet.

The Group manages its liquidity to ensure that it always has sufficient funding to grow the business and is able to meet its obligations as they fall due.

Year ended 31 December 2018	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total £m
Total Group					
Forward foreign currency contracts – net outflow	(15.9)	(0.3)	0.4	–	(15.8)
<b>Cash flows relating to derivative financial liabilities</b>	<b>(15.9)</b>	<b>(0.3)</b>	<b>0.4</b>	<b>–</b>	<b>(15.8)</b>
Trade & other payables excluding statutory liabilities & contract liabilities	(645.4)	(0.8)	–	–	(646.2)
Obligations under finance leases	(1.0)	(0.9)	(0.5)	(0.1)	(2.5)
Bank overdrafts & short-term borrowings	(1.9)	–	–	–	(1.9)
Bank loans	(120.3)	–	–	–	(120.3)
Commercial paper	(498.0)	–	–	–	(498.0)
Fixed-rate notes	(194.4)	(26.6)	(666.5)	–	(887.5)
<b>Cash flows relating to non-derivative financial liabilities</b>	<b>(1,459.1)</b>	<b>(28.3)</b>	<b>(667.0)</b>	<b>(0.1)</b>	<b>(2,154.5)</b>
	<b>(1,476.9)</b>	<b>(29.6)</b>	<b>(666.6)</b>	<b>(0.1)</b>	<b>(2,172.2)</b>

Year ended 31 December 2017	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total £m
Total Group					
Cross currency swaps – outflow	(58.1)	(4.9)	(87.6)	–	(150.6)
Cross currency swaps – inflow	47.8	3.6	89.5	–	140.9
Forward foreign currency contracts – net outflow	(1.8)	0.2	–	–	(1.6)
<b>Cash flows relating to derivative financial liabilities</b>	<b>(12.1)</b>	<b>(1.1)</b>	<b>1.9</b>	<b>–</b>	<b>(11.3)</b>
Trade & other payables excluding statutory liabilities & contract liabilities	(531.7)	(0.5)	–	–	(532.2)
Obligations under finance leases	(0.3)	(0.2)	(0.3)	(0.2)	(1.0)
Bank overdrafts & short-term borrowings	(0.1)	–	–	–	(0.1)
Bank loans	(0.7)	–	–	–	(0.7)
Commercial paper	(293.4)	–	–	–	(293.4)
Fixed-rate notes	(126.5)	(183.2)	(502.0)	(151.1)	(962.8)
<b>Cash flows relating to non-derivative financial liabilities</b>	<b>(952.7)</b>	<b>(183.9)</b>	<b>(502.3)</b>	<b>(151.3)</b>	<b>(1,790.2)</b>
	<b>(964.8)</b>	<b>(185.0)</b>	<b>(500.4)</b>	<b>(151.3)</b>	<b>(1,801.5)</b>

**Credit risk**

The Group is exposed to credit risk to the extent of non-payment by either its customers or the counterparties to its derivative financial instruments.

The Group's credit risk is primarily attributable to its trade receivables with risk spread over a large number of countries and customers, with no significant concentration of risk. Where appropriate, the Group endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance. In certain circumstances, operating entities are permitted to make use of invoice discounting facilities to reduce counterparty credit risk.

In addition, applicable credit worthiness checks are undertaken with external credit rating agencies before entering into contracts with customers and credit limits are set as appropriate and enforced. As shown in note 17, the trade receivables presented in the balance sheet are net of the expected credit loss allowance. Refer to those notes for detail of the loss allowance calculation.

The Group's exposure to the credit risk of financial instruments is limited by the adherence to counterparty credit limits, and by only trading with counterparties that have an investment grade credit rating or better at contract inception, based upon ratings provided by the major credit rating agencies. Exposures to those counterparties are regularly reviewed and, when the market view of a counterparty's credit quality changes, adjusted as considered appropriate.

The maximum exposure to credit risk is equal to the carrying value of the financial assets of the Group.

**30. Capital management**

The primary objective of the Group's capital management is to ensure that it maintains robust capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group's banking arrangements include bi-annual financial covenants of net debt to EBITDA (not greater than 3.5) and interest cover (not less than 3.5). The Group monitors capital using the following indicators.

**Net debt to EBITDA cover**

Net debt to EBITDA comprises net debt divided by operating profit from total operations before exceptional items, intangibles amortisation and depreciation.

For the purposes of the covenants required by the Group's lenders, the net debt is to be converted at the exchange rate used in the preparation of the Group's income statement and cash flows, i.e. average rate. In addition, results of businesses acquired in the financial year have to be included as if the acquisitions occurred at the start of the financial year, while the results of businesses disposed of in the year are to be excluded.

The Group considers that the ratio of net debt to EBITDA is the key metric from a capital management perspective and seeks to maintain the ratio below two times. Given the recent downturn in oil and gas markets, the metric is currently 2.3 times but is on a downward trajectory and remains actively managed.

	2018	2017
Net debt at average exchange rates (£m)	<b>1,085.6</b>	873.7
Operating profit (£m)	<b>125.2</b>	218.2
Exceptional items included in operating profit (£m)	<b>161.1</b>	13.3
Depreciation and intangibles amortisation (£m)	<b>187.6</b>	115.4
EBITDA (£m)	<b>473.9</b>	346.9
Net debt to EBITDA cover (ratio)	<b>2.3</b>	2.5

**Interest cover**

Interest cover comprises operating profit from total operations before exceptional items and intangibles amortisation divided by net finance costs (excluding exceptional items and other finance costs).

	2018	2017
Operating profit before exceptional items & intangibles amortisation (£m)	<b>401.8</b>	286.9
Net finance costs (excluding exceptional items and other finance costs) (£m)	<b>33.8</b>	38.0
Interest cover (ratio)	<b>11.9</b>	7.6

**Gearing ratio**

Gearing comprises net debt divided by total equity. Net debt comprises cash & short-term deposits and interest-bearing loans & borrowings (note 25).

	2018	2017
Net debt (£m)	<b>1,126.5</b>	843.2
Total equity (£m)	<b>2,148.9</b>	1,471.1
Gearing ratio (%)	<b>52.4</b>	57.3

2017 ratios presented on an as published basis and have not been restated.

## Notes to the Group Financial Statements continued

### 31. Exchange rates

The principal exchange rates applied in the preparation of these financial statements were as follows.

	2018	2017
<b>Average rate (per £)</b>		
US Dollar	<b>1.34</b>	1.29
Australian Dollar	<b>1.79</b>	1.68
Euro	<b>1.13</b>	1.14
Canadian Dollar	<b>1.73</b>	1.67
United Arab Emirates Dirham	<b>4.89</b>	4.73
Chilean Peso	<b>855.87</b>	835.52
South African Rand	<b>17.65</b>	17.15
Brazilian Real	<b>4.87</b>	4.11
Russian Rouble	<b>83.66</b>	75.17
<b>Closing rate (per £)</b>		
US Dollar	<b>1.27</b>	1.35
Australian Dollar	<b>1.81</b>	1.73
Euro	<b>1.11</b>	1.13
Canadian Dollar	<b>1.74</b>	1.69
United Arab Emirates Dirham	<b>4.68</b>	4.97
Chilean Peso	<b>884.36</b>	832.26
South African Rand	<b>18.33</b>	16.76
Brazilian Real	<b>4.95</b>	4.48
Russian Rouble	<b>88.40</b>	77.86

### 32. Events after the balance sheet date

On 25 February 2019, the Group announced an agreement had been entered into to sell its Flow Control division to First Reserve, a leading global private equity investment firm focused exclusively on energy, for an enterprise value of £275m, payable in cash and subject to customary working capital and debt-like adjustments at closing. The transaction remains subject to certain regulatory and other approvals, with completion expected in Q2 2019. Flow Control has been classified as held for sale since the announcement on 19 April 2018 of the Group's intention to sell the Division. Previously reported as an individual reporting segment, the division is now reported as a discontinued operation and the prior period comparatives have been restated accordingly.

# Company Balance Sheet

At 31 December 2018

	Notes	31 December 2018 £m	31 December 2017 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	3	<b>0.1</b>	0.2
Property, plant & equipment	4	<b>3.7</b>	4.0
Investments in subsidiaries	5	<b>4,435.2</b>	3,271.0
Deferred tax assets	6	<b>12.3</b>	21.3
Trade & other receivables	7	<b>41.6</b>	42.6
Derivative financial instruments	9	<b>2.1</b>	0.4
<b>Total non-current assets</b>		<b>4,495.0</b>	3,339.5
<b>Current assets</b>			
Trade & other receivables	7	<b>229.7</b>	178.0
Derivative financial instruments	9	<b>27.6</b>	28.0
Cash & short-term deposits		<b>36.1</b>	40.8
<b>Total current assets</b>		<b>293.4</b>	246.8
<b>Total assets</b>		<b>4,788.4</b>	3,586.3
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade & other payables	10	<b>2,422.8</b>	1,865.3
Derivative financial instruments	9	<b>54.8</b>	45.6
Provisions	12	<b>0.8</b>	–
<b>Total current liabilities</b>		<b>2,478.4</b>	1,910.9
<b>Non-current liabilities</b>			
Interest-bearing loans & borrowings	11	<b>911.7</b>	905.5
Derivative financial instruments	9	<b>0.6</b>	1.1
Provisions	12	<b>0.3</b>	–
Deferred tax liabilities	6	<b>3.4</b>	2.4
Retirement benefit plan deficits	8	<b>72.1</b>	125.1
<b>Total non-current liabilities</b>		<b>988.1</b>	1,034.1
<b>Total liabilities</b>		<b>3,466.5</b>	2,945.0
<b>NET ASSETS</b>		<b>1,321.9</b>	641.3
<b>CAPITAL &amp; RESERVES</b>			
Share capital	13	<b>32.5</b>	28.1
Share premium		<b>582.3</b>	197.9
Merger reserve		<b>332.6</b>	9.4
Treasury shares		<b>(2.1)</b>	(5.9)
Capital redemption reserve		<b>0.5</b>	0.5
Special reserve		<b>1.8</b>	1.8
Retained earnings		<b>374.3</b>	409.5
<b>TOTAL EQUITY</b>		<b>1,321.9</b>	641.3

In accordance with the concession granted under section 408 of the Companies Act 2006, the Income Statement and Statement of Comprehensive Income of the Company has not been separately presented in these financial statements. The profit of the company was £22.8m (2017: profit of £85.0m).

The financial statements on pages 183 to 197 were approved by the Board of Directors on 27 February 2019.

Jon Stanton  
Director

John Heasley  
Director

## Company Statement of Changes in Equity for the year ended 31 December 2018

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Capital redemption reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
At 31 December 2016	27.3	86.2	9.4	(5.9)	0.5	1.8	415.2	534.5
Profit for the period	—	—	—	—	—	—	85.0	85.0
Remeasurements on defined benefit plans	—	—	—	—	—	—	(2.6)	(2.6)
Tax relating to other comprehensive expense	—	—	—	—	—	—	0.9	0.9
Total net comprehensive income for the period	—	—	—	—	—	—	83.3	83.3
Issue of shares	0.8	111.7	—	—	—	—	—	112.5
Cost of share-based payments inclusive of tax credit	—	—	—	—	—	—	7.7	7.7
Dividends (note 2)	—	—	—	—	—	—	(96.7)	(96.7)
<b>At 31 December 2017</b>	<b>28.1</b>	<b>197.9</b>	<b>9.4</b>	<b>(5.9)</b>	<b>0.5</b>	<b>1.8</b>	<b>409.5</b>	<b>641.3</b>
Profit for the period	—	—	—	—	—	—	22.8	22.8
Remeasurements on defined benefit plans	—	—	—	—	—	—	59.2	59.2
Tax relating to other comprehensive income	—	—	—	—	—	—	(10.1)	(10.1)
<b>Total net comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>71.9</b>	<b>71.9</b>
Issue of shares	<b>4.4</b>	<b>384.4</b>	<b>323.2</b>	—	—	—	—	<b>712.0</b>
Cost of share-based payments inclusive of tax charge	—	—	—	—	—	—	8.3	8.3
Dividends (note 2)	—	—	—	—	—	—	(110.8)	(110.8)
Purchase of shares	—	—	—	(0.8)	—	—	—	(0.8)
Exercise of share based payments	—	—	—	4.6	—	—	(4.6)	—
<b>At 31 December 2018</b>	<b>32.5</b>	<b>582.3</b>	<b>332.6</b>	<b>(2.1)</b>	<b>0.5</b>	<b>1.8</b>	<b>374.3</b>	<b>1,321.9</b>

# Notes to the Company Financial Statements

## 1. Accounting policies

### Authorisation of financial statements and statement of compliance

The company financial statements of The Weir Group PLC (the 'Company') for the year ended 31 December 2018 ('2018') were approved and authorised for issue in accordance with a resolution of the Directors on 27 February 2019. The comparative information is presented for the year ended 31 December 2017 ('2017').

The Weir Group PLC is a public limited company incorporated in Scotland and is listed on the London Stock Exchange.

The company financial statements of The Weir Group PLC have been prepared on a going concern basis under the historic cost convention and in accordance with FRS 101 and applied in accordance with the provisions of the Companies Act 2006. The following disclosure exemptions from the requirements of IFRS have been consistently applied in the preparation of these financial statements, in accordance with FRS 101:

- i) Disclosures required by paragraphs 45(b) and 46-52 of IFRS 2 'Share-based payment' can be found in note 28 to the Group financial statements;
- ii) IFRS 7 'Financial Instruments: Disclosures' exemption has been taken as a result of the disclosures in note 30 to the Group financial statements;
- iii) IAS 7 'Statement of cash flows';
- iv) Disclosure of key management compensation as required by paragraph 17 of IAS 24 'Related party disclosures';
- v) Disclosure of related party transactions with wholly owned subsidiaries as required by IAS 24 'Related party disclosures'; and
- vi) Paragraph 10(d), paragraph 10(f), and paragraphs 134-136, of IAS 1 'Presentation of financial statements'.

The Company is the parent of The Weir Group PLC. Its principal activity is to act as a holding company for the Group and perform the head office function.

The accounting policies which follow are consistent with those of the previous period with the exception of the following new standards which apply for the first time in 2018:

### IFRS 9: Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The impact of adopting IFRS 9 on the Company's retained earnings and individual financial statement line items as at 1 January 2018 was determined to be immaterial and as such no adjustments have been recorded and comparative figures have not been restated.

The considerations relevant to this assessment are outlined below.

#### (i) Classification and measurement

No changes were necessary to the classification or re-measurement of the Company's financial instruments, as disclosed in the notes to the accounts, with derivative instruments remaining as measured at fair value through the profit and loss (FVTPL), or subject to the accounting provisions for hedge relationships under IFRS 9 where designated in effective hedge accounting relationships, and all other financial instruments remaining classified as measured at amortised cost under IFRS 9.

#### (ii) Impairment of financial assets

The Company has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- loans to subsidiaries, and
- other short-term receivables from subsidiaries.

The Company applies the IFRS 9 general model for measuring expected credit losses on loans to subsidiaries, and the simplified approach for all other short-term receivables from subsidiaries, which uses a lifetime expected loss allowance. This did not result in a material change to the loss allowance on 1 January 2018 for either loans to subsidiaries or other short-term receivables from subsidiaries, and as such no adjustment has been recorded and comparative figures have not been restated. Note 7 provides details about the calculation of the allowance. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

### IFRS 15: Revenue from contracts with customers (including associated amendments)

The Company has adopted IFRS 15, applying the full retrospective method in line with the Group. There has been no impact on the financial results of the Company due to the adoption of the standard.

There are no other new standards or interpretations effective for the year ended 31 December 2018, in addition to the above, which are considered to have a material impact on the Consolidated Financial Statements of the Company.

### Use of estimates & judgements

The Company's significant accounting policies are set out below. The preparation of the Company financial statements, in conformity with FRS 101, requires management to make judgements that affect the application of accounting policies and estimates that impact the reported amounts of assets, liabilities, income and expense.

Management bases these judgements and estimates on a combination of past experience, professional expert advice and other evidence that is relevant to each individual circumstance. Actual results may differ from these judgements and estimates, which are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The area where management considers the more complex estimates are required is in respect of retirement benefits. The assumptions underlying the valuation of retirement benefit assets and liabilities include discount rates, inflation rates and mortality assumptions which are based on actuarial advice. Changes in these assumptions could have a material impact on the measurement of the Company's retirement benefit obligations. Sensitivities to changes in key assumptions are provided in note 8.

## Notes to the Company Financial Statements continued

### Foreign currency translation

The presentational and functional currency of the Company is Sterling. Transactions denominated in foreign currencies are translated into the Company's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised in the income statement.

### Revenue recognition

Revenue is the consideration received or receivable which reflects the amount expected to be received, mainly the transaction price. Revenue will only be recognised when the fulfilment of performance obligations is achieved. Revenue mainly relates to transactions with other entities within the Group, primarily in relation to management recharges.

### Property, plant & equipment

Property, plant & equipment is presented at historical cost.

Depreciation of property, plant & equipment is provided on a straight-line basis so as to charge the cost less residual value to the income statement over the expected useful life of the asset concerned, and is in the following ranges:

Long leasehold land & buildings	20 years
Office & computer equipment	3 – 10 years

### Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any recognised impairment losses.

The expected useful lives of acquired intangible assets are as follows:

Purchased software	4 – 8 years
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### Investments

Investments in subsidiaries are held at cost less accumulated impairment losses.

Loans are carried at amortised cost using the effective interest method.

### Post-employment benefits

Post-employment benefits comprise pension benefits provided to certain current and former employees in the UK.

For defined benefit pension plans, the annual service cost is calculated using the projected unit credit method and is recognised over the future service lives of participating employees, in accordance with the advice of qualified actuaries. Current service cost and administration expenses are recognised in operating costs and net interest on net pension liability is recognised in finance costs.

The finance cost recognised in the income statement in the period reflects the net interest on the net pension liability. This represents the change in the net pension liability resulting from the passage of time, and is determined by applying the discount rate to the opening net liability, taking into account employer contributions paid into the plan, and hence reducing the net liability, during the period.

Past service costs resulting from enhanced benefits are recognised immediately in the income statement. Actuarial gains and losses, which represent differences between interest on the plan assets, experience on the benefit obligation and the effect of changes in actuarial assumptions, are recognised in full in other comprehensive income in the period in which they occur.

The defined benefit liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation, using a discount rate based on yields at the balance sheet date on appropriate high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and are denominated in the currency in which the benefits are expected to be paid, minus the fair value of the plan assets, if any, at the balance sheet date. The balance sheet amount recognised is limited to the present value of economic benefits which the Company expects to recover by way of refunds or a reduction in future contributions. In order to calculate the present value of economic benefits, consideration is also given to any minimum funding requirements.

For defined contribution plans, the cost represents the Company's contributions to the plans and these are charged to the income statement in the period in which they fall due.

### Share-based payments

Equity settled share-based incentives are provided to employees under the Group's Share Reward Plan, formerly the Long Term Incentive Plan (LTIP), and as a consequence of occasional one-off conditional awards made to employees.

The fair value of the awards at the date of the grant is calculated using appropriate option pricing models and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service or performance conditions. The conditions of the Share Reward Plan which took effect in 2018 are summarised in the Directors' Remuneration Policy which can be found on the Company's website, [www.corporategovernance.weir](http://www.corporategovernance.weir).

### Financial assets & liabilities

The Company's principal financial assets and liabilities, other than derivatives, comprise bank overdrafts, short-term borrowings, loans and fixed-rate notes, commercial paper, cash and short-term deposits. The Company also has other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations.

A financial asset is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss. In the current year under IFRS 9, where the modification is not substantial, the modified cash flows are discounted at the original effective interest rate to determine a revised carrying amount of the liability, with any difference in carrying amount recognised in profit or loss. In the prior year under IAS 39, such a modification would instead have resulted in an adjustment to the effective interest rate of the liability.

#### **Derivative financial instruments**

The Company uses derivative financial instruments, principally forward foreign currency contracts, to reduce its exposure to exchange rate movements. The Company does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets or liabilities measured at their fair values at the balance sheet date. The fair value of forward foreign currency contracts is calculated as the present value of the estimated future cash flows based on spot and forward foreign exchange rates. The fair value of interest rate swaps and cross currency swaps is calculated as the present value of the estimated future cash flows based on interest rate curves, spot foreign exchange rates and counterparty and own credit risk. Changes in their fair values have been recognised in the income statement.

#### **Treasury shares**

The Weir Group PLC shares held by the Company are classified in shareholders' equity as treasury shares and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken directly to revenue reserves. No gain or loss is recognised in the total comprehensive income on the purchase, sale, issue or cancellation of equity shares.

#### **Taxation**

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period.

Deferred tax is recognised on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base with the following exceptions:

- i) Deferred tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- ii) A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, the carry forward of unutilised tax losses and the carry forward of unused tax credits.

Deferred tax is measured on an undiscounted basis using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Current and deferred tax is recognised in the income statement except if it relates to an item recognised directly in equity, in which case it is recognised directly in equity.

#### **2. Profit (loss) attributable to the Company**

The profit dealt with in the accounts of the Company was £22.8m (2017: profit of £85.0m). The corporate tax credit dealt with in the accounts of the Company was £14.5m (2017: £11.0m).

	<b>2018</b> £m	2017 £m
Dividends paid & proposed		
Declared & paid during the period		
Equity dividends on ordinary shares		
Final dividend for 2017: 29.0p (2016: 29.0p)	<b>69.9</b>	63.1
Interim dividend for 2018: 15.75p (2017: 15.0p)	<b>40.9</b>	33.6
	<b>110.8</b>	96.7
Proposed for approval by shareholders at the Annual General Meeting		
Final dividend for 2018: 30.45p (2017: 29.0p)	<b>79.0</b>	65.0

In 2017 and 2018, shareholders on record were provided the opportunity to receive dividends in the form of new fully paid ordinary shares through The Weir Group PLC Scrip Dividend Scheme. Participation in the Scheme resulted in a final dividend for 2017 of £31.2m share issue and a cash dividend of £38.7m (final dividend for 2016: £6.4m share issue; £56.7m cash). The interim dividend for 2018 was cash only (interim dividend for 2017: £16.1m share issue; £17.5m cash).

## 2. Profit (loss) attributable to the Company continued

The proposed dividend is based on the number of shares in issue, excluding treasury shares held, at the date that the financial statements were approved and authorised for issue. The final dividend may differ due to increases or decreases in the number of shares in issue between the date of approval of this Annual Report and Financial Statements and the record date for the final dividend.

	2018 £m	2017 £m
<b>Employee benefits expense</b>		
Wages & salaries	<b>20.1</b>	13.3
Social security costs	<b>2.8</b>	2.5
Pension costs		
Defined benefit plans (note 8)	<b>6.4</b>	0.1
Defined contribution plans	<b>0.5</b>	0.4
Share-based payments – equity settled transactions	<b>8.6</b>	7.0
	<b>38.4</b>	23.3

During 2018, the average number of people employed by the Company was 183 (2017: 158).

### Directors

Details of Directors' remuneration are included in the Remuneration Report on pages 95 to 106, and in note 28 to the Group financial statements.

### Auditors' remuneration

The total fees payable by the Company to PricewaterhouseCoopers LLP (PwC) for work performed in respect of the audit of the Company were £20,600 (2017: £20,000). Fees paid to PwC for non-audit services to the Company itself are not disclosed in these accounts as the Group's Consolidated Financial Statements, in which the Company is included, are required to disclose such fees on a consolidated basis.

## 3. Intangible assets

	Purchased software total £m
<b>Cost</b>	
At 31 December 2017	<b>1.1</b>
Reclassifications to property, plant & equipment (note 4)	<b>(0.1)</b>
At 31 December 2018	<b>1.0</b>
<b>Aggregate amortisation</b>	
At beginning and end of the year	<b>0.9</b>
Net book value at 31 December 2017	0.2
<b>Net book value at 31 December 2018</b>	<b>0.1</b>

Outstanding commitments entered into on behalf of a subsidiary contracted but not provided for relating to intangible assets amounted to £nil (2017: £nil).

## Notes to the Company Financial Statements continued

### 4. Property, plant & equipment

	Long leasehold land & buildings £m	Office & computer equipment £m	Total £m
<b>Cost</b>			
At 31 December 2017	<b>4.3</b>	<b>1.7</b>	<b>6.0</b>
Reclassifications from intangible assets (note 3)	–	<b>0.1</b>	<b>0.1</b>
Reclassifications	<b>(0.6)</b>	<b>0.6</b>	–
At 31 December 2018	<b>3.7</b>	<b>2.4</b>	<b>6.1</b>
<b>Aggregate depreciation</b>			
At 31 December 2017	<b>0.5</b>	<b>1.5</b>	<b>2.0</b>
Charge for period	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>
Reclassifications	<b>(0.2)</b>	<b>0.2</b>	–
At 31 December 2018	<b>0.5</b>	<b>1.9</b>	<b>2.4</b>
Net book value at 31 December 2017	3.8	0.2	4.0
<b>Net book value at 31 December 2018</b>	<b>3.2</b>	<b>0.5</b>	<b>3.7</b>

Outstanding capital commitments entered into on behalf of a subsidiary contracted but not provided for relating to property, plant & equipment amounted to £nil (2017: £nil).

### 5. Investments in subsidiaries

	Subsidiaries shares £m	Loans £m	Total £m
<b>Cost</b>			
At 31 December 2017	<b>1,738.9</b>	<b>1,538.8</b>	<b>3,277.7</b>
Additions	<b>875.1</b>	<b>934.0</b>	<b>1,809.1</b>
Disposal	<b>(0.1)</b>	–	<b>(0.1)</b>
Settlement	–	<b>(381.7)</b>	<b>(381.7)</b>
Exchange	–	<b>62.2</b>	<b>62.2</b>
At 31 December 2018	<b>2,613.9</b>	<b>2,153.3</b>	<b>4,767.2</b>
<b>Impairment</b>			
At 31 December 2017	<b>1.3</b>	<b>5.4</b>	<b>6.7</b>
Impairment of investment in subsidiary	<b>325.3</b>	–	<b>325.3</b>
At 31 December 2018	<b>326.6</b>	<b>5.4</b>	<b>332.0</b>
Net book value at 31 December 2017	1,737.6	1,533.4	3,271.0
<b>Net book value at 31 December 2018</b>	<b>2,287.3</b>	<b>2,147.9</b>	<b>4,435.2</b>

The subsidiaries and joint ventures of the Company are listed on page 199.

On 12 July 2018, as part of the steps taken to facilitate the acquisition of ESCO, the Company received a dividend of £325.3m from its subsidiary Ranger UK 2 Ltd and subsequently impaired its investment in the subsidiary by the same amount.

Over the term of the loans, the Company accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. The majority of the Company's loans are repayable on demand by the Company. In calculating the expected credit loss allowance of repayable on demand loans, the Company considers the financial position and internal forecasts of each subsidiary and their ability to repay on request, or over time. For those loans repayable on maturity, expected credit losses are calculated using market-implied probabilities of default and loss-given-default estimations.

The Company considers the probability of default upon initial recognition of an asset and subsequently whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The primary indicators considered are actual or expected significant adverse changes in business and financial conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.

## Notes to the Company Financial Statements continued

### 5. Investments in subsidiaries continued

Independent of the primary indicators above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is considered to occur when the counterparty fails to make contractual payments within 90 days of when they fall due. A write off is considered to be required when there is no reasonable expectation of recovery, or when a debtor fails to make contractual payments greater than 120 days past due. Where loans or receivables have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the income statement.

As at 31 December 2018 and 1 January 2018, the loss allowances for all loans to subsidiaries were measured at an amount equal to 12-month expected credit losses. This did not result in a material change to the loss allowance on 1 January 2018 for the loans, and as such no adjustment has been recorded and comparative figures have not been restated.

The closing loss allowances for loans due from subsidiaries as at 31 December 2018 reconcile to the opening loss allowances as follows:

	£m
31 December 2017 – calculated under IAS 39	5.4
Amounts restated through opening retained earnings	–
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9 (2018) / IAS 39 (2017)	5.4
At 31 December 2018	5.4

### 6. Deferred tax

	2018 £m	2017 £m
<b>Deferred income tax assets</b>		
Retirement benefits	<b>12.3</b>	21.3
Deferred income tax assets	<b>12.3</b>	21.3
<b>Deferred income tax liabilities</b>		
Other timing differences	<b>(3.4)</b>	(2.4)
Retirement benefits	<b>12.3</b>	21.3
	<b>8.9</b>	18.9

### 7. Trade & other receivables

Trade & other receivables presented as non-current on the face of the Company balance sheet of £41.6m (2017: £42.6m) are in respect of a prepayment recognised as a result of the pension funding partnership structure. Further information pertaining to this arrangement can be found in note 8.

	2018 £m	2017 £m
Amounts recoverable within one year		
Amounts owed by subsidiaries	<b>204.4</b>	158.8
Tax receivable	<b>18.8</b>	15.3
Other debtors	<b>5.6</b>	3.6
Prepayments & accrued income	<b>0.9</b>	0.3
	<b>229.7</b>	178.0

Amounts owed by subsidiaries relate to management recharges in respect of support services provided. Intercompany balances are typically managed on a Group basis, and the Company's credit risk management practices reflect this. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all such trade receivables.

The amounts owed by subsidiaries do not carry an interest charge, and it is the Company's expectation that materially all the amounts owed by subsidiaries are fully recoverable over time. Expected credit losses at both 1 January 2018 and 31 December 2018 are therefore immaterial, and there has been no material change to the expected loss allowance during the year.

## 8. Retirement benefits

The Company has two funded defined benefit plans (the Main Plan and the Executive Plan) and an unfunded retirement benefit plan for retired directors. The Company also operates a defined contribution plan. Contributions to the defined contribution arrangement are in addition to those set out below and are charged directly to the income statement.

For the defined benefit plans, benefits are related to service and final salary. The Main Plan closed to future accrual of benefits effective from 30 June 2015.

The weighted average duration of the expected benefit payments from the Main Plan is around 17 years and from the Executive Plan it is around 14 years.

The current funding target for the UK plans is to maintain assets equal to the value of the accrued benefits. The Main Plan holds insurance policies in respect of a significant proportion of deferred and retired pensioners. The Executive Plan entered into an insurance contract in 2017 which will match the liabilities of the plan in full.

The regulatory framework in the UK requires the Trustees and Company to agree upon the assumptions underlying the funding target, and then to agree upon the necessary contributions required to recover any deficit at the valuation date. There is a risk to the Company that adverse experience could lead to a requirement for the Company to make considerable contributions to recover any deficit. This risk is significantly reduced through the insurance policies held.

### Assumptions

The significant actuarial assumptions used for accounting purposes reflect prevailing market conditions and are as follows:

	2018	2017
Significant actuarial assumptions:		
Discount rate (% pa)	<b>2.9</b>	2.4
Retail Prices inflation assumption (% pa)	<b>3.2</b>	3.2
Post-retirement mortality (life expectancies in years):		
Current pensioners at 65 – male	<b>21.6</b>	22.1
Current pensioners at 65 – female	<b>23.5</b>	24.0
Future pensioners at 65 – male	<b>23.0</b>	23.5
Future pensioners at 65 – female	<b>25.1</b>	25.5
Other related actuarial assumptions:		
Rate of increases for pensions in payment (% pa)		
Pre 6 April 2006 service	<b>3.1</b>	3.1
Post 5 April 2006 service	<b>2.1</b>	2.1
Consumer Prices inflation assumption (% pa)	<b>2.1</b>	2.1

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following period's cost.

The post-retirement mortality assumptions allow for expected increases in longevity. The 'current' disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with 'future' being that relating to a member retiring in 2039 (in 20 years' time).

The assets and liabilities of the plans are as follows.

	2018 £m	2017 £m
Plan assets at fair value		
Equities (quoted)	<b>177.5</b>	190.3
Diversified Growth Funds (primarily quoted)	<b>55.5</b>	56.8
Corporate bonds (quoted)	<b>37.3</b>	75.4
Government bonds (quoted)	<b>109.2</b>	74.7
Insurance policies (unquoted)	<b>360.9</b>	414.1
Cash (quoted)	<b>8.7</b>	0.4
Fair value of plan assets	<b>749.1</b>	811.7
Present value of funded obligations	<b>(819.8)</b>	(935.3)
Net funded obligations	<b>(70.7)</b>	(123.6)
Present value of unfunded obligations	<b>(1.4)</b>	(1.5)
Net liability	<b>(72.1)</b>	(125.1)
Plan in deficit	<b>(72.1)</b>	(125.1)

The government bonds held in 2018 are all index-linked. The pension plans have not directly invested in any of the Company's own financial instruments, or in properties or other assets used by the Company.

## Notes to the Company Financial Statements continued

### 8. Retirement benefits continued

The investment strategy for the UK is to hold equities and other return-seeking assets such as diversified growth funds and a mixture of bonds to meet the assessed value of the benefits promised for the non-insured deferred pensioners. For the remaining deferred pensioners and the bulk of pensioners currently receiving their benefit, the liabilities are backed by insurance policies and suitable bonds.

The change in net liabilities recognised in the balance sheet is comprised as follows.

	2018 £m	2017 £m
Opening net liabilities	<b>(125.1)</b>	(121.3)
Expense charged to profit & loss	<b>(9.3)</b>	(3.3)
Amount recognised in Statement of Comprehensive Income	<b>59.2</b>	(2.6)
Employer contributions	<b>3.1</b>	2.1
Closing net liabilities	<b>(72.1)</b>	(125.1)

The amounts recognised in the income statement and in the Statement of Comprehensive Income for the period are analysed as follows.

	2018 £m	2017 £m
<b>Recognised in the Income Statement</b>		
Past service cost	<b>(6.3)</b>	–
Administrative expenses	<b>(0.1)</b>	(0.1)
Included in operating loss	<b>(6.4)</b>	(0.1)
Interest on net pension liability	<b>(2.9)</b>	(3.2)
Total expense charged to profit & loss	<b>(9.3)</b>	(3.3)

### Recognised in the Statement of Comprehensive Income

Actual return on plan assets	<b>(22.7)</b>	33.8
Less: interest on plan assets	<b>(19.1)</b>	(20.7)
	<b>(41.8)</b>	13.1
Other actuarial (losses) gains due to:		
Changes in financial assumptions	<b>70.2</b>	(32.9)
Changes in demographic assumptions	<b>18.0</b>	17.2
Experience on benefit obligations	<b>12.8</b>	–
Actuarial gains (losses) recognised in the Statement of Comprehensive Income	<b>59.2</b>	(2.6)

Current service cost and administration expenses are recognised in operating costs and interest on net pension liability is recognised in other finance costs.

In October 2018, following a High Court ruling in the UK, a £6.3m allowance in relation to expected future costs of equalising guaranteed minimum pensions has been included in the obligations on the balance sheet at 31 December 2018 and recognised in profit & loss as a past service cost.

Pension contributions are determined with the advice of independent qualified actuaries on the basis of regular valuations using the projected unit method. The Company made special contributions of £3.0m in 2018 (2017: £2.0m) in addition to the Company's regular contributions.

The actuarial funding valuation of the Main Plan as at 31 December 2017 is ongoing, and it is due to be completed in early 2019. Under the previous recovery plan agreed with the Trustees for the 31 December 2014 valuation, the Company entered into a pension funding partnership structure under which it will contribute interests in a Scottish Limited Partnership ('SLP') for the Main Plan. The Main Plan's interests in the SLP will reduce the deficit on a funding basis, although the agreement will not affect the position directly on an FRS 101 accounting basis as the investments held do not qualify as assets for FRS101 purposes. As a partner in the SLP, the Main Plan is entitled to receive a share of the profits of the SLP once a year for 15 years, subject to conditions being met. The profits to be shared with the Plan will be reflected in the Company's financial statements as a pension contribution.

The Trustees of the UK Executive Scheme entered into a full buy-in transaction with Scottish Widows in Q3 2017, meaning all of the benefit payments due from the Executive Scheme are now covered by an insurance policy. There remains an outstanding premium payment (expected to be £1.1m) due from the Trustees to Scottish Widows, which is expected to be paid in 2019 following a data cleanse process to finalise the insurance policy data. The FRS101 balance sheet at the 2018 year-end therefore shows a deficit reflecting this payment due.

The Company has taken legal advice regarding its UK arrangements to confirm the accounting treatment under IFRIC 14 with regard to recognition of a current surplus and also recognition of a minimum funding requirement. This confirmed that there is no requirement to adjust the balance sheet and that recognition of a current surplus is appropriate on the basis that the Company has an unconditional right to a refund of a current (or projected future) surplus at some point in the future. For the same reason, there is no requirement for the Company to adjust the balance sheet to recognise the future agreed deficit recovery contributions. Having considered the position, taking account of the legal input received and noting that the Trustees of the UK arrangements do not have discretionary powers to unilaterally wind up the schemes without cause, the Directors of the Company have concluded that the Company has an unconditional right to a refund of any surplus. Amendments to the current version of IFRIC 14 are currently being considered. The legal advice received by the Company has confirmed that the above accounting treatment will not be affected by the current exposure draft of the revised IFRIC 14.

The total Company contributions for 2019 (including those expected from the SLP) are expected to be £5.1m.

**Sensitivity analysis**

Changes in key assumptions can have a significant effect on the reported net retirement benefit obligation and the income statement expense for 2019. The effects of changes in those assumptions are set out in the table below.

	<b>Increase 2018 £m</b>	<b>Decrease 2018 £m</b>	Increase 2017 £m	Decrease 2017 £m
Discount rate				
Effect on defined benefit obligation of a 1.0% change	<b>120.4</b>	<b>(144.8)</b>	144.5	(176.2)
Effect on net liability of a 1.0% change	<b>83.9</b>	<b>(103.7)</b>	103.0	(129.5)
RPI inflation (and associated assumptions)				
Effect on defined benefit obligation of a 1.0% change	<b>(91.0)</b>	<b>82.5</b>	(95.8)	87.3
Effect on net liability of a 1.0% change	<b>(57.9)</b>	<b>51.9</b>	(62.2)	56.0
Life expectancy				
Effect on defined benefit obligation of a 1 year change	<b>(28.8)</b>	<b>28.8</b>	(28.0)	28.0
Effect on net liability of a 1 year change	<b>(13.0)</b>	<b>13.0</b>	(12.8)	12.8

The impact on the net liability is significantly reduced as a result of the insurance policies held. In the absence of such policies, the impact on the net liability would be much closer to the significantly higher impact on the defined benefit obligation shown in the table.

These sensitivities have been calculated to show the movement in the defined benefit obligation and net liability in isolation and assume no other changes in market conditions at the accounting date. In practice, for example, a change in discount rate is unlikely to occur without any movement in the value of the invested (non-insurance policy) assets held by the plans.

Changes in the present value of the defined benefit obligations are analysed as follows.

	<b>2018 £m</b>	2017 £m
Opening defined benefit obligations	<b>(936.8)</b>	(940.0)
Past service cost	<b>(6.3)</b>	–
Interest on benefit obligations	<b>(22.0)</b>	(23.9)
Benefits paid	<b>42.9</b>	42.8
Actuarial gains (losses) due to		
Changes in financial assumptions	<b>70.2</b>	(32.9)
Changes in demographic assumptions	<b>18.0</b>	17.2
Experience on benefit obligations	<b>12.8</b>	–
Closing defined benefit obligations	<b>(821.2)</b>	(936.8)

Changes in the fair value of plan assets are analysed as follows.

	<b>2018 £m</b>	2017 £m
Opening plan assets	<b>811.7</b>	818.7
Interest on plan assets	<b>19.1</b>	20.7
Employer contributions	<b>3.1</b>	2.1
Administrative expenses	<b>(0.1)</b>	(0.1)
Benefits paid	<b>(42.9)</b>	(42.8)
Actual return on plan assets less interest on plan assets	<b>(41.8)</b>	13.1
Closing plan assets	<b>749.1</b>	811.7

## Notes to the Company Financial Statements continued

### 9. Derivative financial instruments

	2018 £m	2017 £m
<b>Non-current assets</b>		
Cross currency swaps	<b>1.4</b>	–
Forward foreign currency contracts	<b>0.7</b>	0.4
	<b>2.1</b>	0.4
<b>Current assets</b>		
Forward foreign currency contracts	<b>27.6</b>	28.0
	<b>27.6</b>	28.0
<b>Current liabilities</b>		
Cross currency swaps	–	(8.9)
Forward foreign currency contracts	<b>(54.8)</b>	(36.7)
	<b>(54.8)</b>	(45.6)
<b>Non-current liabilities</b>		
Cross currency swaps	–	(0.7)
Forward foreign currency contracts	<b>(0.6)</b>	(0.4)
	<b>(0.6)</b>	(1.1)

The figures in the above table include derivative financial instruments where the counterparty is a subsidiary of The Weir Group PLC.

### 10. Trade & other payables

	2018 £m	2017 £m
Bank overdrafts & short-term borrowings	<b>662.0</b>	387.7
Loans from subsidiaries (note 11)	<b>1,683.6</b>	1,421.2
Amounts owed to subsidiaries	<b>30.9</b>	25.4
Other taxes & social security costs	<b>1.4</b>	1.3
Other creditors	<b>15.2</b>	1.7
Accruals & deferred income	<b>29.7</b>	28.0
	<b>2,422.8</b>	1,865.3

**11. Interest-bearing loans & borrowings**

	<b>2018</b> £m	2017 £m
Amounts due are repayable as follows		
Less than one year		
– fixed-rate notes	<b>164.6</b>	94.4
– commercial paper	<b>497.2</b>	293.3
– loans from subsidiaries	<b>1,683.6</b>	1,421.2
More than one year but not more than two years		
– fixed-rate notes	–	155.0
– loans from subsidiaries	–	4.4
More than two years but not more than five years		
– bank loans	<b>120.0</b>	–
– fixed rate-notes	<b>619.4</b>	435.8
– loans from subsidiaries	<b>172.3</b>	162.5
More than five years		
– fixed rate-notes	–	147.8
	<b>3,257.1</b>	2,714.4
Less current instalments due on		
– fixed rate-notes	<b>(164.6)</b>	(94.4)
– commercial paper	<b>(497.2)</b>	(293.3)
– loans from subsidiaries	<b>(1,683.6)</b>	(1,421.2)
	<b>911.7</b>	905.5

The loans from subsidiaries with a maturity date greater than two years and less than five years are repayable in 2021 and have an interest rate of 5.43%.

Details of the interest and repayment terms of the bank loans, fixed-rate notes and commercial paper can be found in note 19 to the Group financial statements.

**12. Provisions**

	<b>Exceptional rationalisation</b> £m
At 31 December 2017	–
Additions	<b>1.6</b>
Utilised	<b>(0.5)</b>
<b>At 31 December 2018</b>	<b>1.1</b>
Current 2018	<b>0.8</b>
Non-current 2018	<b>0.3</b>
<b>At 31 December 2018</b>	<b>1.1</b>

## Notes to the Company Financial Statements continued

### 13. Share capital & reserves

	2018 £m	2017 £m
	2018 Number million	2017 Number million
<b>Allotted, called up &amp; fully paid</b>		
Ordinary shares of 12.5p each	<b>32.5</b>	28.1
<b>Shares allotted</b>		
Issued during the period in respect of ESCO acquisition	<b>33.5</b>	–
Issued during the period in respect of KOP acquisition	–	5.1
Issued during the period in respect of scrip dividends	<b>1.4</b>	1.2
<b>Treasury shares</b>		
At the beginning of the period	<b>0.5</b>	0.7
Utilised during the period in respect of equity settled share-based payment	<b>(0.3)</b>	(0.2)
At the end of the period	<b>0.2</b>	0.5
<b>Equity settled share-based payments</b>		
Share awards outstanding at the end of the period	<b>1.7</b>	1.9

On 12 July 2018, the Company completed the acquisition of ESCO for an enterprise value of US\$1.3bn. In order to part fund the acquisition, a placement of 16,699,763 ordinary shares was completed on 23 April 2018, raising £355.5m (net of fees). As part of the final consideration, a further 16,779,861 ordinary shares were issued directly to ESCO shareholders on 12 July 2018 valued at £325.3m.

Further details of the equity settled share-based payments and the associated cost for the period can be found in note 27 to the Group financial statements.

#### Merger reserve

The shares issued directly to ESCO shareholders on 12 July 2018 qualify for merger relief under Section 612 of the Companies Act 2006, resulting in an increase to the reserve of £323.2m. The merger reserve was originally created by the issue of new equity in relation to the acquisition of Delta Industrial Valves Inc. during 2015.

#### Capital redemption reserve

The capital redemption reserve was created by a repurchase and cancellation of own shares during the 53 weeks ended 1 January 1999.

#### Special reserve

The premium of £1.8m arising on the issue of shares for the acquisition of the entire share capital of Liquid Gas Equipment Limited in 1988 has been credited to a special reserve in accordance with the merger relief provisions of the Companies Act 1985.

### 14. Operating lease commitments

The Company has entered into a commercial lease for a building which has a lease term of twenty years. Future minimum rentals payable under non-cancellable operating leases are shown in the table below.

	2018 £m	2017 £m
Less than 1 year	<b>0.8</b>	0.1
After 1 year but no more than 5 years	<b>3.0</b>	3.0
More than 5 years	<b>8.7</b>	9.3
	<b>12.5</b>	12.4

## **15. Contingent liabilities & legal claims**

### **Guarantees**

The Company has given guarantees in relation to the bank and other borrowings of certain subsidiary companies amounting to £967.1m (2017: £628.7m). These guarantees are treated as contingent liabilities until it becomes probable they will be called upon. The likelihood of the guarantees being called upon is considered remote.

### **Legal claims**

The Company and certain subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the normal course of business. Provisions have been made where the Directors have assessed that a cash outflow is likely and they believe all other claims are remote.

## **16. Related party disclosures**

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with related parties that are wholly owned by a subsidiary of The Weir Group PLC. The following table provides the total amount of transactions which have been entered into with non-wholly owned related parties for the relevant financial year and outstanding balances at the period end.

Related party		<b>Group charges £m</b>	<b>Amounts due £m</b>
Weir ABF LP	<b>2018</b>	–	<b>56.7</b>
	2017	–	55.9
Weir Minerals (India) Private Ltd	<b>2018</b>	<b>0.1</b>	–
	2017	–	0.2
Vulco SA	<b>2018</b>	<b>(0.5)</b>	<b>1.2</b>
	2017	1.0	1.4

## **17. Financial risk management objectives and policies**

The description of the Group's financial risk management objectives and policies is provided in note 29 to the Group financial statements.

These financial risk management objectives and policies also apply to the Company.

## Subsidiary Undertakings

The subsidiary undertakings of the Company as at 31 December 2018 are noted below. Unless otherwise indicated, the Company's shareholdings are held indirectly.

<sup>^</sup> Directly held by The Weir Group PLC

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>Aislación Sísmica Perú SA</b>	Peru	Av. Separadora Industrial N° 2201 Urb Vulcano Ate Lima Peru	Ordinary	<b>99.99</b>	<b>Dongying Weir O&amp;G Pump Products Co., Ltd.</b>	China	No. 69 Dengzhou Road Dongying Area Shandong China	N/A	<b>100</b>
<b>Aspir Pty Ltd</b>	Australia	1-5 Marden Street Artarmon NSW 2064 Australia	Ordinary	<b>100</b>	<b>Downhole Oiltools Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>Autotork Controls Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>	<b>Duhn Oil Tool, Inc.</b>	United States	3912 Gilmore Avenue Bakersfield CA 93308 United States	Common	<b>100</b>
<b>Batley Valve Company Limited,(The)</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100<sup>^</sup></b>	<b>EnviroTech (Pty) Limited</b>	South Africa	31 Isando Road Isando Gauteng 1600 South Africa	Ordinary	<b>100</b>
<b>Blakeborough Valves Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100<sup>^</sup></b>	<b>Envirotech Pumpsystems LLC</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Units	<b>100</b>
<b>Bucyrus Blades de Mexico S.A. DE C.V.</b>	Mexico	Calle 14 Manzana 4 Lote 4 Parque Industrial Apartado Postal 129 Atlacomulco Mexico	Fixed Capital Variable Capital	<b>100</b>	<b>EPIX Power Systems, LLC</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Units	<b>50</b>
<b>Bucyrus Blades Inc.</b>	United States	260 E Beal Avenue Bucyrus OH 44820 United States	Ordinary	<b>100</b>	<b>ESCO – Bucyrus Blades Canada</b>	Canada	1800 – 510 West Georgia Street Vancouver BC V6B 0M3 Canada	N/A	<b>100</b>
<b>Bucyrus Blades of Canada ULC</b>	Canada	1800 – 510 West Georgia Street Vancouver BC V6B 0M3 Canada	Ordinary	<b>100</b>	<b>ESCO – Bucyrus Blades Financing Ltd. Partnership (RH)</b>	Canada	1800 – 510 West Georgia Street Vancouver BC V6B 0M3 Canada	N/A	<b>100</b>
<b>Capstead Systems Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>	<b>ESCO (Shanghai) Trading Co., Ltd.</b>	China	25GH Lekai Building No. 660 Shangcheng Road Pudong New District Shanghai China	N/A	<b>100</b>
<b>CH Warman Asia Limited</b>	Malta	93 Mill Street Qormi QRM3102 Malta	Ordinary	<b>100</b>	<b>ESCO (UK) Holdings Limited</b>	England and Wales	Ings Road Doncaster DN5 9SN	Ordinary	<b>100</b>
<b>Comercializadora TEP Limitada</b>	Chile	San José N° 815 San Bernardo Santiago de Chile Chile	Ordinary	<b>100</b>	<b>ESCO (UK) Limited</b>	England and Wales	Ings Road Doncaster DN5 9SN	Ordinary	<b>100</b>
<b>Cunnington and Cooper Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>					

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>ESCO (Xuzhou) Wearparts Co., Ltd.</b>	China	DaZhai Road and CuiZhan Nan Road Tongshan Economic Development Zone Xuzhou City Jiangsu Province 221116 China	N/A	<b>100</b>	<b>ESCO GP Ltd.</b>	Canada	2500 10175 – 101 Street Edmonton Alberta T5J 0H3 Canada	Common	<b>100</b>
<b>ESCO Australia Holdings Pty Limited</b>	Australia	25 Trade Street Lytton Queensland QLD 4178 Australia	Ordinary	<b>100</b>	<b>ESCO Group Holdings Pty Ltd</b>	Australia	25 Trade Street Lytton Queensland QLD 4178 Australia	Ordinary	<b>100</b>
<b>ESCO Belgium SA</b>	Belgium	Rue des Fours à Chaux Zoning Industriel Frameries 7080 Belgium	Ordinary	<b>100</b>	<b>ESCO Group LLC</b>	United States	1209 Orange Street Wilmington DE 19801 United States	Units	<b>100</b>
<b>ESCO Canada Finance Company Inc.</b>	Canada	1800 – 510 West Georgia Street Vancouver BC V6B 0M3 Canada	Common	<b>100</b>	<b>ESCO Hydra (UK) Limited</b>	England and Wales	Ings Road Doncaster DN5 9SN	Ordinary Ordinary – A	<b>100</b>
<b>ESCO Canada Ltd.</b>	Canada	1800 – 510 West Georgia Street Vancouver BC V6B 0M3 Canada	Ordinary	<b>100</b>	<b>ESCO Indonesia Investco No 1 Pty Ltd</b>	Australia	25 Trade Street Lytton Queensland QLD 4178 Australia	Ordinary	<b>100</b>
<b>ESCO Dunedin Pty Ltd</b>	Australia	25 Trade Street Lytton Queensland QLD 4178 Australia	Ordinary	<b>100</b>	<b>ESCO Indonesia Investco No 2 Pty Ltd</b>	Australia	25 Trade Street Lytton Queensland QLD 4178 Australia	Ordinary	<b>100</b>
<b>ESCO Elecmetal Fundación Limitada</b>	Chile	Calle Miraflores Numero 222 Piso veinticuatro Santiago Chile (Joint Venture)	Ordinary	<b>50</b>	<b>ESCO International (H.K.) Holdings Limited</b>	Hong Kong	Suites 5801 5804-06 Central Plaza 18 Harbour Road Wanchai Hong Kong	Ordinary	<b>100</b>
<b>ESCO Electric Steel Foundry Company of Africa (Pty) Ltd</b>	South Africa	22 Chester Road Parkwood Johannesburg 2193 South Africa	Ordinary	<b>100</b>	<b>ESCO International Holdings SPRL</b>	Belgium	Rue des Fours à Chaux Zoning Industriel Frameries 7080 Belgium	N/A	<b>100</b>
<b>ESCO EMEA Holdings (UK) Ltd.</b>	England and Wales	Ings Road Doncaster DN5 9SN	Ordinary	<b>100</b>	<b>ESCO Japan, Inc.</b>	Japan	Marunouchi Mitsui Building 2-2-2 Marunouchi Chiyoda-ku Tokyo 100-0005 Japan	Common	<b>100</b>
<b>ESCO Engineering Kingaroy Pty Ltd</b>	Australia	25 Trade Street Lytton Queensland QLD 4178 Australia	Ordinary D, F	<b>100</b>	<b>ESCO Latin América Comércio e Indústria Ltda.</b>	Brazil	Rua Engenheiro Gerhard Ett nº 1.215 Distrito Industrial Paulo Camilo Sul CEP 32669-110 Brazil	Ordinary	<b>100</b>
<b>ESCO Engineering Pty Ltd</b>	Australia	25 Trade Street Lytton Queensland QLD 4178 Australia	Ordinary	<b>100</b>	<b>ESCO Limited</b>	Canada	1800 – 510 West Georgia Street Vancouver BC V6B 0M3 Canada	Ordinary A, B Preference	<b>100</b>
<b>ESCO GmbH</b>	Germany	Marie-Bernays Ring 1 Moenchengladbach 41199 Germany	Ordinary D, F	<b>100</b>	<b>ESCO Moçambique S.A.</b>	Mozambique	Avenida Kim Il Sung no. 961 Maputo Mozambique	Ordinary	<b>100</b>

## Subsidiary Undertakings continued

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>ESCO Northgate Pty Limited</b>	Australia	25 Trade Street Lytton Queensland QLD 4178 Australia	Ordinary	<b>100</b>	<b>Fabrica de Aisladores Sismicos de Chile Limitada</b>	Chile	San José N° 815 San Bernardo Santiago de Chile Chile	Ordinary	<b>100</b>
<b>ESCO Peru S.R.L.</b>	Peru	Av. Manuel Olguin 211 Suite 304 Surco Lima Peru	Common	<b>100</b>	<b>Fundición Vulco Ltda</b>	Chile	San José N° 815 San Bernardo Santiago de Chile Chile	Ordinary	<b>100</b>
<b>ESCO RUS Limited Liability Company</b>	Russian Federation	69 Leningradskoe shosse Building 1 125445 Moscow Russian Federation	Ordinary	<b>100</b>	<b>G. &amp; J. Weir, Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>
<b>ESCO S.A.S.</b>	France	57 rue d'Amsterdam 75008 Paris France	Ordinary	<b>100</b>	<b>Hopkinsons Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>ESCO Servicios Mineros S.A.</b>	Argentina	Tucuman 1 Piso 4 C1049AAA Buenos Aires Argentina	Ordinary	<b>100</b>	<b>Hurricane Investments Inc.</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Common	<b>100</b>
<b>ESCO South Africa Wearparts (Pty) Limited</b>	South Africa	22 Chester Road Parkwood Johannesburg 2193 South Africa	Ordinary A Cumulative Redeemable Preference and Empowerment Shares.	<b>100</b>	<b>Inversiones ESCO Chile Limitada</b>	Chile	Calle Miraflores Número 222 Piso veinticuatro Santiago Chile	N/A	<b>100</b>
<b>ESCO Supply and Service Kazakhstan</b>	Kazakhstan	Office 9 2nd floor 38 Dostyk avenue Almaty city 050010 Kazakhstan	Ordinary	<b>100</b>	<b>Inversiones Linatex Chile (Holdings) Limitada</b>	Chile	San José N° 815 San Bernardo Santiago de Chile Chile	Ordinary	<b>100</b>
<b>ESCO Supply Carajás Industria De Pecas E Equipamentos Ltda</b>	Brazil	Rodovia PA-160 Loteamento Parque dos Carajás II Quadra 73 Lotes 1, 2, 3, 4, 5, 6, 7, 22, 23 e 24 Parauapebas/PA CEP 68515-000	Ordinary	<b>100</b>	<b>JF (Jiangsu) Machinery Co. Ltd</b>	China	East 188 Hutai Road Liuhe Town Taicang City China	N/A	<b>100</b>
<b>ESCO Supply Ltd.</b>	Canada	2500 10175 – 101 Street Edmonton Alberta T5J 0H3 Canada	Ordinary	<b>100</b>	<b>KOP Surface Products (Services) UK Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>ESCO Turbine Components Europe, sprl</b>	Belgium	Rue des Fours à Chaux Zoning Industriel Frameries 7080 Belgium	Ordinary	<b>100</b>	<b>Linatex (H.K.) Limited</b>	Hong Kong	Level 54 Hopewell Centre 183 Queen's Road East Hong Kong	Ordinary	<b>100</b>
<b>ESCO Wearparts Supply and Services (Namibia) (Proprietary) Limited</b>	Namibia	Private Bag 12012 Ausspannplatz Windhoek Namibia	Ordinary	<b>100</b>	<b>Linatex Africa (Pty) Limited</b>	South Africa	5 Clarke Street Airode Alberton Gauteng 1449 South Africa	Ordinary	<b>100</b>
<b>ESCO Windber Inc.</b>	United States	2141 NW 25th Avenue Portland OR 97210 United States	Ordinary	<b>100</b>	<b>Linatex Asset Holdings Malaysia Sdn. Bhd.</b>	Malaysia	2nd Floor No 2-4 Jalan Manau 50460 Kuala Lumpur Wilayah Persekutuan Malaysia	Ordinary	<b>100</b>
					<b>Linatex Australia Pty Limited</b>	Australia	1-5 Marden Street Artarmon NSW 2064 Australia	Ordinary A, B	<b>100</b>
					<b>Linatex Chile Limitada</b>	Chile	San José N° 815 San Bernardo Santiago de Chile Chile	Ordinary	<b>100</b>

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>Linatex Chile SpA</b>	Chile	Santa Catalina de Chena 850 San Bernardo Santiago de Chile Chile	Ordinary	<b>100</b>	<b>PT Weir Minerals Indonesia</b>	Indonesia	Jl. Mulawarman Rt. 20 No. 20 Kelurahan Manggar Kec Balikpapan Timur Kota Balikpapan 76116 Indonesia	Ordinary	<b>100</b>
<b>Linatex Consolidated Holdings Ltd</b>	British Virgin Islands	Kingston Chambers PO Box 173 Road Town Tortola British Virgin Islands	Ordinary	<b>100</b>	<b>PT Weir Oil &amp; Gas Indonesia</b>	Indonesia	Jl. Mulawarman Rt. 20 No. 20 Kelurahan Manggar Kec Balikpapan Timur Kota Balikpapan 76116 Indonesia	Ordinary	<b>95</b>
<b>Linatex Limited</b>	England and Wales	C/o Weir Minerals Europe Halifax Road Todmorden Lancashire OL14 5RT	Ordinary	<b>100</b>	<b>PT Weir Pressure Control Indonesia</b>	Indonesia	Suite 701B 7th Floor Setiabudi Atrium Jl. H.R. Rasuna Said Kav 62 Jakarta 12920 Indonesia	Ordinary A, B	<b>100</b>
<b>Linatex Rubber Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>	<b>Ralph A. Hiller Company</b>	United States	241 Center Street McKeesport PA 15132 United States	Common	<b>100</b>
<b>Linatex Rubber Products Sdn. Bhd.</b>	Malaysia	2nd Floor No 2-4 Jalan Manau 50460 Kuala Lumpur Wilayah Persekutuan Malaysia	Ordinary	<b>100</b>	<b>Ranger UK 1 Ltd</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>
<b>Linatex UK Holding Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>	<b>Ranger UK 2 Ltd</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>Metalúrgica Vulco Ltda</b>	Chile	San José N° 815 San Bernardo Santiago de Chile Chile	N/A	<b>100</b>	<b>S.P.M. Flow Control, Inc.</b>	United States	1999 Bryan St. Dallas TX 75201 United States	Common	<b>100</b>
<b>Multiflo Pumps Pty Limited</b>	Australia	1-5 Marden Street Artarmon NSW 2064 Australia	Ordinary	<b>100</b>	<b>Seaboard Canada Ltd.</b>	Canada	5233 49 Ave Red Deer AB T4N 6G5 Canada	Common	<b>100</b>
<b>Overseas ESCO Corporation Ltd.</b>	British Virgin Islands	The Lake Building 1st Floor Wickams Cay 1 P. O. Box 3152 Road Town Tortola British Virgin Islands	Ordinary	<b>100</b>	<b>Seaboard Holdings, Inc.</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Common	<b>100</b>
<b>PT ESCO Mining Products</b>	Indonesia	The Garden Centre #3-04 Cilandak Commercial Estate JL Raya Cilandak KKO Jakarta 12075 Indonesia	Ordinary	<b>100</b>	<b>Seaboard International Holding Company (Hong Kong) Limited</b>	Hong Kong	Level 54 Hopewell Centre 183 Queen's Road East Hong Kong	Ordinary	<b>100</b>
<b>PT Weir Minerals Contract Services Indonesia</b>	Indonesia	Jl. Mulawarman Rt. 20 No. 20 Kelurahan Manggar Kec Balikpapan Timur Kota Balikpapan 76116 Indonesia	Ordinary	<b>100</b>	<b>Seaboard International Inc.</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Common	<b>100</b>
					<b>Seaboard Real Estate, LLC</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Units	<b>100</b>

## Subsidiary Undertakings continued

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>Shanghai JF Engineering Equipment Co. Ltd</b>	China	No.572 Yonghe Road Jing'an District Shanghai China	N/A	<b>100</b>	<b>The Weir Group Insurance Company Limited</b>	Isle of Man	1st Floor Rose House 51-59 Circular Road Douglas Isle of Man	Ordinary	<b>100</b>
<b>Shanghai JF Industries Co. Ltd</b>	China	Building #1 No.1268 Shuangzhu Road Huating Town Jiading District Shanghai China	N/A	<b>100</b>	<b>The Weir Group International S.A.</b>	Switzerland	Rue de Romont 35 c/o Daniel Schneuwly 1700 FRIBOURG Fribourg Switzerland	Ordinary	<b>100</b>
<b>Shanghai Vortex Engineering Machinery Co. Ltd</b>	China	Building #3 No.4918 Liuxiang Road Jiading District Shanghai China	N/A	<b>100</b>	<b>The Weir Group Pension Trust Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary Limited by Guarantee	<b>100<sup>a</sup></b>
<b>Shanxi Changfeng Wearparts Co. Ltd.</b>	China	No. 53 Yuhe Street Wanbailin District Taiyuan Shanxi 030024 China	N/A	<b>54.43</b>	<b>Trio Engineered Products (Hong Kong) Limited</b>	Hong Kong	Level 54 Hopewell Centre 183 Queen's Road East Hong Kong	Ordinary	<b>100</b>
<b>Slurry Holdings Limited</b>	Malta	93 Mill Street Qormi QRM3102 Malta	Ordinary	<b>100</b>	<b>Trio Engineered Products, Inc.</b>	United States	CT Corporation System 818 West Seventh Street Suite 930 Los Angeles CA 90017 United States	Common	<b>100</b>
<b>Soldering comércio e indústria Itdta.</b>	Brazil	Rua Engenheiro Gerhard Ett nº 1.215 Distrito Industrial Paulo Camilo Sul CEP 32669-110 Brazil	Ordinary	<b>100</b>	<b>TWG Canada Holdings Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>Specialised Petroleum Manufacturing Limited</b>	Scotland	SPM House Badentoy Crescent Badentoy Industrial Park Portlethen Aberdeen AB12 4YD	Ordinary	<b>100</b>	<b>TWG Cayman Limited</b>	Cayman Islands	M & C Corporate Services Limited PO Box 309 Ugland House South George Street George Town Grand Cayman KY1-1104 Cayman Islands	Ordinary, Preference	<b>100</b>
<b>SPM Flow Control de Mexico, S. de R.L. de C.V.</b>	Mexico	Bosque De Ciruelos 180 Bosques De Las Lomas Bosque Hayas Y Bosque De La Reforma Miguel Hidalgo Distrrito Federal CP 11700 Mexico	Serie A	<b>100</b>	<b>TWG Drilling Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>SPM Flow Control Ltd.</b>	Canada	5233 49 Ave Red Deer AB T4N 6G5 Canada	Common	<b>100</b>	<b>TWG Engineering (No.1) Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>
<b>SPM UK Limited</b>	Cayman Islands	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands	Ordinary	<b>100</b>	<b>TWG Engineering (No.2) Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>
<b>Thandilwa Training Centre (Pty) Ltd</b>	South Africa	22 Chester Road Parkwood Johannesburg 2193 South Africa	Ordinary	<b>100</b>	<b>TWG Engineering (No.3) Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>
					<b>TWG Engineering (No.4) Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>TWG Engineering (No.5) Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>	<b>TWG UK Holdings Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>TWG Engineering (No.7) Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>	<b>TWG US Forex Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>TWG Finance, Inc.</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Common	<b>100</b>	<b>TWG US Holdings LLC</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Units	<b>100</b>
<b>TWG Investments (No. 6) Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>	<b>TWG Young Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>
<b>TWG Investments (No. 7) Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>	<b>Vulco Peru SA</b>	Peru	Av. Separadora Industrial Nº 2201 Urb Vulcano Ate Lima Peru	Ordinary	<b>100</b>
<b>TWG Investments (No.8) Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>	<b>Vulco S.A.</b>	Chile	San José N° 815 San Bernardo Santiago de Chile Chile	Ordinary	<b>99</b>
<b>TWG Investments (No.10) Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>	<b>W. Luff Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>
<b>TWG Investments (No.3) Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary and Preference	<b>100^</b>	<b>W.P.R. Marks Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary, Ordinary B	<b>100</b>
<b>TWG Investments (No.4) Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary and Preference	<b>100^</b>	<b>Warman Pumps Ltd</b>	Australia	1-3 Marden Street Artarmon NSW 2064 Australia	Ordinary	<b>100</b>
<b>TWG Overseas Finance S.à.r.l</b>	Luxembourg	20 rue des Peupliers L-2328 Luxembourg	Ordinary, Preference	<b>100</b>	<b>Waterloo West Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100^</b>
<b>TWG Skye Holdings Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>	<b>Weir ABF LP</b>	Scotland	1 West Regent Street Glasgow G2 1RW	Partnership	<b>100</b>
<b>TWG South America Holdings Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary, Preference	<b>100</b>	<b>Weir Arabian Metals Company</b>	Saudi Arabia	Makkah Street Dammam 2nd Industrial City Al Khobar Saudi Arabia	Common	<b>49</b>
<b>TWG UK Forex Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>	<b>Weir B.V.</b>	Netherlands	PO Box 249 5900 AE Venlo Netherlands	Ordinary	<b>100</b>

## Subsidiary Undertakings continued

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>Weir Canada, Inc.</b>	Canada	2360 Millrace Court Mississauga ON L5N 1W2 Canada	Common	<b>100</b>	<b>Weir Group African IP Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>
<b>Weir Canadian Investments, Inc.</b>	Canada	2360 Millrace Court Mississauga ON L5N 1W2 Canada	Common	<b>100</b>	<b>Weir Group Energy Equipment (Suzhou) Co., Ltd.</b>	China	No.22 Chunwang Road Huangdai Town Xiangcheng District Suzhou Jiangsu Province China	N/A	<b>100</b>
<b>Weir Control Valves (Suzhou) Co., Ltd</b>	China	Chun Wang Road Huangdai Town Xiangcheng District Suzhou Jiangsu Province China	N/A	<b>100</b>	<b>Weir Group Engineering Hong Kong Limited</b>	Hong Kong	Level 54 Hopewell Centre 183 Queen's Road East Hong Kong	Ordinary	<b>100</b>
<b>Weir do Brasil Ltda</b>	Brazil	Av Jose Benassi 2151 – Condomini FAZGRAN CEP 13213-085 - Brazil	Nominal	<b>100</b>	<b>Weir Group General Partner Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>
<b>Weir Drilling Services Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary A, B, C	<b>100</b>	<b>Weir Group Holdings Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>
<b>Weir Engineering Products (Shanghai) Co., Ltd</b>	China	Room 318 Floor 3 No. 458 Fute North Road Shanghai China	N/A	<b>100</b>	<b>Weir Group Inc.</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Common, Preferred	<b>100</b>
<b>Weir Engineering Services Limited</b>	Scotland	20 Waterloo Street Glasgow G2 6DB	Ordinary	<b>100</b>	<b>Weir Group Investments Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>
<b>Weir Flow Control (Hong Kong) Limited</b>	Hong Kong	Level 54 Hopewell Centre 183 Queen's Road East Hong Kong	Ordinary	<b>75</b>	<b>Weir Group IP Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>
<b>Weir Floway, Inc.</b>	United States	Delaware Corp. Mgmt. Inc. 1105 North Market St. Suite 1300 Wilmington DE 19899 United States	Common	<b>100</b>	<b>Weir Group Machinery Equipment (Shanghai) Co., Ltd.</b>	China	No.4918 Liuxiang Road Xuxing Town Jiading District Shanghai China	N/A	<b>100</b>
<b>Weir France SAS</b>	France	106 Boulevard Paul Raphel 13730 Saint-Victoret France	Ordinary	<b>100</b>	<b>Weir Group Management Services Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>
<b>Weir Gabbioneta S.r.l.</b>	Italy	Via M.G. Agnesi 1 20834 Nova Milanese (MB) Italy	Ordinary	<b>100</b>	<b>Weir Group Trading (Shanghai) Co., Ltd.</b>	China	Room 02 03 Longlife Level 14 No. 1566 West Yan'an Road Shanghai China	N/A	<b>100</b>
<b>Weir Group (Australian Holdings) Pty Limited</b>	Australia	1-5 Marden Street Artarmon NSW 2064 Australia	Ordinary	<b>100^</b>	<b>Weir Group Trading Mexico, S.A. de C.V.</b>	Mexico	Av. Nafta No. 775 Col. Parque Industrial Stiva Aeropuerto Mexico	Ordinary	<b>100</b>
<b>Weir Group (Overseas Holdings) Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>					

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>Weir HBF (Pty) Ltd</b>	South Africa	50 Strudbaker Street Markman Industria Port Elizabeth South Africa	Ordinary	<b>100</b>	<b>Weir Minerals Africa (Proprietary) Limited</b>	South Africa	5 Clarke Street South Alrode Alberton South Africa 1149 South Africa	Ordinary	<b>100</b>
<b>Weir Heat Exchange Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>	<b>Weir Minerals Armenia LLC</b>	Armenia	Index 0069 16/35 Kamarak Str Yerevan Armenia	Ordinary	<b>100</b>
<b>Weir Holdings B.V.</b>	Netherlands	PO Box 249 5900 AE Venlo Netherlands	Ordinary	<b>100</b>	<b>Weir Minerals Australia Limited</b>	Australia	1-3 Marden Street Artarman NSW 2064 Australia	Ordinary	<b>100</b>
<b>Weir India Private Limited</b>	India	Office Unit No 912 and 914 9th Floor DLF Tower-A Plot No 10 Jasola District Centre New Delhi 110025 India	Ordinary	<b>99.99</b>	<b>Weir Minerals Botswana (Proprietary) Limited</b>	Botswana	Plot 5039/5040 Somerset East Industrial Francistown Botswana	Ordinary	<b>100</b>
<b>Weir International Co. Ltd</b>	Republic of Korea	#151 Beomjigi-ro Danwon-gu Ansan City Gyeonggi-do 425-852 Republic of Korea	Common	<b>100</b>	<b>Weir Minerals Caribe SRL</b>	Dominican Republic	KK 22 5 AUTOPISTA DUARTE PARQUE INDUSTRIAL DUARTE PARQUE DE NAVES PID 4 SANTO DOMINGO Dominican Republic	Ordinary	<b>100</b>
<b>Weir Investments Four Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100^</b>	<b>Weir Minerals Central Africa Limited</b>	Zambia	Plot 3655 Chimbuluma Road Kitwe Zambia	Ordinary	<b>100</b>
<b>Weir Investments One Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary, Preference	<b>100^</b>	<b>Weir Minerals China Co., Limited</b>	China	Factory #27 158 Hua Shan Road Suzhou New District Suzhou 215011 China	N/A	<b>100</b>
<b>Weir Investments Three Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	<b>100</b>	<b>Weir Minerals Colombia SAS</b>	Colombia	Carrera 43 B # 16 41 Office 904 Building Staff Medellin Antioquia Colombia	Ordinary	<b>100</b>
<b>Weir Investments Two Limited</b>	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary, Preference	<b>100^</b>	<b>Weir Minerals Czech &amp; Slovak, s.r.o.</b>	Czech Republic	Hlinky 118 603 00 Brno Czech Rep. Brno Czech Republic	Ordinary	<b>100</b>
<b>Weir Malaysia Sdn. Bhd.</b>	Malaysia	2nd Floor No 2-4 Jalan Manau 50460 Kuala Lumpur Wilayah Persekutuan Malaysia	Ordinary, Preference	<b>100</b>	<b>Weir Minerals East Africa Limited</b>	United Republic of Tanzania	Plot No. 137 Capri Point Mwanza United Republic of Tanzania	Ordinary	<b>100</b>
<b>Weir Minerals (India) Private Limited</b>	India	Office Unit No 912 and 914 9th Floor DLF Tower-A Plot No 10 Jasola District Centre New Delhi 110025 India	Ordinary	<b>97.25</b>	<b>Weir Minerals Europe Limited</b>	England and Wales	Halifax Road Todmorden Lancashire OL14 5RT	Ordinary	<b>100</b>
					<b>Weir Minerals Finland Oy</b>	Finland	Askonkatu 9F Lahti FIN-15100 Finland	Ordinary	<b>100</b>
					<b>Weir Minerals France SAS</b>	France	10 rue Jacquard Chassieu 69680 France	Ordinary	<b>100</b>

## Subsidiary Undertakings continued

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>Weir Minerals Germany GmbH</b>	Germany	Lise-Meitner-Straße 12 74074 Heilbronn Germany	Ordinary	<b>100</b>	<b>Weir Minerals RFW LLC (OOO)</b>	Russian Federation	Entrance 2 Floor 3 Business Center TRIO Building 1 House 12 8 Marta Street 127083 Moscow Russian Federation	N/A	<b>100</b>
<b>Weir Minerals Hungary Kft</b>	Hungary	Teleki László utca 11 1/3 Tatabánya 2800-HU Hungary	Ordinary	<b>100</b>					
<b>Weir Minerals Italy S.r.l.</b>	Italy	Via F.Illi Cervi 1/D Cernusco sul Naviglio 20063 Milan Italy	Ordinary	<b>100</b>	<b>Weir Minerals Sweden AB</b>	Sweden	Metallvägen 6 982 38 Gällivare Sweden	Ordinary A, B	<b>100</b>
<b>Weir Minerals Kazakhstan LLP</b>	Kazakhstan	134 Karagandinskoye Shosse Str. Temirtau 101403 Kazakhstan	N/A	<b>100</b>	<b>Weir Minerals Taiwan Corp. Ltd</b>	Taiwan	4F No 433 Ruiguang Road Neihu Dist TAIPEI Taiwan	Ordinary	<b>90</b>
<b>Weir Minerals Mexico Servicios, S.A. de C.V.</b>	Mexico	Av. Nafta No. 775 Col. Parque Industrial Stiva Aeropuerto Mexico	Ordinary	<b>100</b>	<b>Weir Minerals Ukraine LLC</b>	Ukraine	Blagoyeva 31 Str Dnipro Dnepropetrovsk Reg 49054 Ukraine	Ordinary	<b>100</b>
<b>Weir Minerals México, SA de CV</b>	Mexico	Av. Nafta No. 775 Col. Parque Industrial Stiva Aeropuerto Mexico	Ordinary	<b>100</b>	<b>Weir Minerals West Africa Limited</b>	Ghana	No.4 3rd Close Airport Residential Area Accra Post Box CT3170 Accra Ghana	Ordinary	<b>100</b>
<b>Weir Minerals Mongolia LLC</b>	Mongolia	205 2nd Khoroo Bayangol District Ulaanbaatar Mongolia	Ordinary	<b>100</b>	<b>Weir Oil &amp; Gas Australia Pty Limited</b>	Australia	1-5 Marden Street Artarmon NSW 2064 Australia	Ordinary	<b>100</b>
<b>Weir Minerals Mozambique Ltd</b>	Mozambique	Mozambique Maputo Cidade Distrito urbano1 Bairro Central AV. Zedequias Manganhela Mozambique	Ordinary	<b>100</b>	<b>Weir Oil and Gas Colombia S.A.S</b>	Colombia	CRA 25 A N° 11-64 Bogota D.C. 111411221 (no lo exigen colocar en camara de comercio) Colombia	Common	<b>100</b>
<b>Weir Minerals Netherlands B.V.</b>	Netherlands	PO Box 249 5900 AE Venlo Netherlands	Ordinary	<b>100</b>	<b>Weir Oil &amp; Gas Malaysia Sdn Bhd</b>	Malaysia	Level 16 Integra Tower The Intermark 348 Jalan Tun Razak Kuala Lumpur Malaysia	Ordinary	<b>100</b>
<b>Weir Minerals North Africa SARL</b>	Morocco	BOULEVARD SIDI MOHAMED BEN ABDELLAH IM B 1ER ETAGE N 29. CASABLANCA 20160 Morocco	Ordinary	<b>100</b>	<b>Weir Oil &amp; Gas Singapore (Services) Pte Ltd</b>	Singapore	77 Science Park Drive #04-01/08 Cintech III Building 118256 Singapore	Ordinary	<b>100</b>
<b>Weir Minerals Panama S.A.</b>	Panama	Ciudad de Panama Panama	Ordinary	<b>100</b>	<b>Weir Oil &amp; Gas Technical Service (Tianjin) Limited</b>	China	Room 312 Rongke Building No. 8 Zhaofa Xincun Tianjin Economic- Technological Development Area China	N/A	<b>100</b>
<b>Weir Minerals Poland Sp. z.o.o.</b>	Poland	Ul. Ignacego Domeyki 2 30-066 Krakow Poland	Ordinary	<b>100</b>	<b>Weir P.S.L. International Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>
<b>Weir Minerals Pump &amp; Mining Solutions Namibia (Proprietary) Limited</b>	Namibia	54 Hidipo Hamutenya Avenue Swakopmund Namibia	Ordinary	<b>100</b>					

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held	Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
Weir Power & Industrial France SAS	France	106 Boulevard Paul Raphel 13730 Saint-Victoret France	Ordinary	100	Weir SPM do Brasil Comércio, Locação e Instalação de Bombas e Equipamentos Geradores de Pressão Ltda.	Brazil	Rua Internacional s/n Granja dos Cavaleiros CEP 27933-420 Brazil	Nominal	100
Weir Power & Industrial Singapore Private Limited	Singapore	77 Science Park Drive #04-01/08 Cintech III Building 118256 Singapore	Ordinary	100	Weir SPM Singapore Pte. Ltd.	Singapore	77 Science Park Drive #04-01/08 Cintech III Building 118256 Singapore	Ordinary	100
Weir Pump and Valve Solutions, Inc	United States	The Corporation Company 40600 Ann Arbor Road Este 201 Plymouth Mi 48170 4675 United States	Common	100	Weir Sudamerica S.A.	Chile	San José N° 815 San Bernardo Santiago de Chile Chile	Ordinary	99.99
Weir Pumps Limited	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	100	Weir Support Services Limited	Scotland	10th Floor 1 West Regent Street Glasgow G2 1RW	Ordinary	100^
Weir Services Australia Pty Ltd	Australia	1-5 Marden Street Artarmon NSW 2064 Australia	Ordinary	100	Weir Turkey Mineralleri Limited Sirketi	Turkey	Istanbul Tuzla Organize Sanayi Bölgesi 2 Cadde No. 12 Tepenören Tuzla Istanbul 34959 Turkey	Bearer	100
Weir Services Tanzania (Pty) Limited.	United Republic of Tanzania	Plot No. 137 Capri Point Mwanza United Republic of Tanzania	Ordinary	100	Weir US Holdings Inc.	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Common	100
Weir Slurry Group, Inc.	United States	CT Corporation System 8020 Excelsior Drive Suite 200 Madison WI 53717 United States	Common, Preferred	100	Weir USA Holdings, LLC	United States	Weir Valves & Controls USA Inc. 29 Old Right Road Ipswich MA 01938 United States	Units	100
Weir Solutions Caspian LLC	Azerbaijan	29 Zarifa Aliyeva Street Apt 77/77A Sabayil District Baku AZ1095 Azerbaijan	Ordinary	99	Weir Valves & Controls UK Limited	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	100^
Weir Solutions FZE	United Arab Emirates	Office no. W 312 West Side 1 Dubai Airport Free Zone Dubai United Arab Emirates	Ordinary	100	Weir Valves & Controls USA Inc.	United States	155 Federal Street Suite 700 Boston MA 02110 United States	Common, Preferred	100
Weir Solutions LLC	Oman	PO Box 168 Postal Code 102 Muscat Oman	Ordinary	100	Weir Vulco Argentina S.A.	Argentina	Sarmiento 511 Sur 1ºPiso A San Juan CP 5400 Argentina	Ordinary	100
Weir SOS Limited	Bahamas	Ocean Centre Montagu Foreshore East Bay Street Nassau New Providence Bahamas	Ordinary	100	Weir Vulco Venezuela S.A.	Bolivarian Republic of Venezuela	Zona Industrial UD321 Calle 6 instersección Transversal E Parcela 12-01 Puerto Ordaz Bolivarian Republic of Venezuela	Ordinary	100
					Weir Warman (U.K.) Limited	England and Wales	Halifax Road Todmorden Lancashire OL14 5RT	Ordinary	100^

Name	Country of Incorporation	Registered address	Class of Shares	Percentage held
<b>Weir YES Africa (Pty) Ltd</b>	South Africa	5 Clarke Street Alrode Alberton Gauteng 1449 South Africa	Ordinary	<b>100</b>
<b>Wesco LLC</b>	United Arab Emirates	Bin Hamoodah Towers Floor 13 Khalifa Street Abu Dhabi United Arab Emirates	Ordinary	<b>49</b>
<b>WHW Group Inc.</b>	United States	Corporation Trust Center 1209 Orange Street Wilmington DE 19801 United States	Common	<b>100</b>
<b>Wilkinmark Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100</b>
<b>Wokingham Finance Company Limited</b>	England and Wales	Britannia House Huddersfield Road Elland West Yorkshire HX5 9JR	Ordinary	<b>100<sup>A</sup></b>
<b>Wuxi Weir Minerals Equipments Co., Ltd.</b>	China	Lot 265 Wuxi-Singapore Industrial Park Wuxi City Jiangsu Province China	N/A	<b>100</b>

# Shareholder Information

## Company Secretary & Registered Office

Mr Graham Vanhegan  
The Weir Group PLC  
1 West Regent Street  
Glasgow  
G2 1RW

Registered in Scotland. Company No. SC002934.

## Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZZ

Website: [www.investorcentre.co.uk](http://www.investorcentre.co.uk)

Telephone: 0370 707 1402

Shareholder enquiries relating to shareholding, dividend payments, change of name or address, lost share certificates or dividend cheques, transfer of shares etc. should be addressed to Computershare.

## Shareholder communications

### Online Communications

Shareholders are encouraged to visit the Company's corporate website ([www.global.weir](http://www.global.weir)), which contains a wealth of information about the Weir Group. The website includes information

about the markets in which we operate, our strategy and business performance, recent news from the Group and product information. The investor section is a key source of information for Shareholders, containing details on the share price, our financial results, Shareholder meetings and dividends, as well as a 'Shareholders FAQ' section.

### E-Communications

We are encouraging our shareholders to receive their information by email and via our website. Not only is this quick, it helps to reduce paper, printing and costs.

To register for e-communications, log on to [www.investorcentre.co.uk/elangs](http://www.investorcentre.co.uk/elangs)

### Follow us



### Annual and Interim Reports

Our Annual Report is available online. You can view or download the full Annual Report and Interim Report from our website at [www.global.weir/investors/reporting-centre](http://www.global.weir/investors/reporting-centre). Current and past Annual and Interim Reports are also available to view and download.

Managing your shareholding online with Investor Centre Investor Centre is a free, secure online service run by Computershare, giving you convenient access to information on your shareholdings. Manage your shareholding online and take advantage of all these features and more:

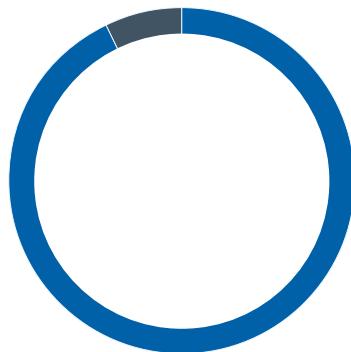
- View share balances and market values for all of your Computershare-managed holdings
- Update dividend mandate bank instructions including global payments and view dividend payment history
- Register to receive company communications online
- Cast your Proxy Vote online for forthcoming General Meetings
- Update personal details, such as your address

Registration is quick and easy. Just visit [www.investorcentre.co.uk](http://www.investorcentre.co.uk) with your Shareholder Reference Number (SRN) to hand.

After registering, you may be sent an activation code in the post, used to validate your account. Once activated, you will have full access to Investor Centre services.

## Ordinary shareholder analysis at 31 December 2018

### By country



### By holding size

Range	No. of Shareholders	%	No. of Shares	%
1 – 1,000	2,877	57.37	1,137,891	0.44
1,001 – 5,000	1,284	25.61	2,798,627	1.07
5,001 – 10,000	232	4.63	1,676,356	0.65
10,001 – 100,000	362	7.22	12,431,742	4.78
100,001 – 500,000	169	3.37	38,696,046	14.91
500,001 – 1,000,000	41	0.82	28,913,784	11.14
1,000,001 – 999,999,999	49	0.98	173,959,071	67.01
<b>Total</b>	<b>5,014</b>	<b>100.00</b>	<b>259,613,517</b>	<b>100.00</b>

Includes Treasury Share of 181,465

### By shareholder category

	Holdings	%	Shares	%
Individuals	3,273	65.27	11,777,242	4.54
Bank or Nominees	1656	33.03	244,380,325	94.13
Investment Trust	12	0.24	31,971	0.01
Insurance Company	1	0.02	57,901	0.02
Other Company	55	1.10	1,073,715	0.41
Pension Trust	1	0.02	1	0.00
Other Corporate Body	16	0.32	2,292,362	0.89
<b>Total</b>	<b>5,014</b>	<b>100.00</b>	<b>259,613,517</b>	<b>100.00</b>

\*\* The above includes Treasury Shares of 181,465\*\*

## Shareholder Information continued

### Annual General Meeting 2019

Our Annual General Meeting will be held at our Head Office, 1 West Regent Street, Glasgow, at 2.30 pm on Tuesday 30 April 2019. Further details are contained in the Notice of Annual General Meeting 2019 which is available to download from our website at [www.global.weir/shareholder-information/agm](http://www.global.weir/shareholder-information/agm)

### Voting

Information on how you can vote electronically on the resolutions which will be put forward at our 2019 AGM can be obtained through our Registrar by visiting [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy). You will need details of the Control Number, your SRN and PIN which can be found on the Form of Proxy or email, if you have asked to be sent email communications.

### Dividends

#### 2018 final dividend

The Directors have recommended a final dividend of 30.45 pence per share, for the year ended 31 December 2018. Payment of this dividend is subject to approval at the 2019 Annual General Meeting. Key dates relating to this dividend are given below.

<b>Annual General Meeting</b>	<b>30 April 2019</b>
<b>Ex-dividend date</b>	<b>25 April 2019</b>
<b>Record date</b>	<b>26 April 2019</b>
<b>Payment date</b>	<b>6 June 2019</b>

### Dividend history – (pence per share)

	2013	2014	2015	2016	2017	2018
Interim	8.8	15.0	15.0	15.0	15.0	<b>15.75</b>
Final	33.2	29.0	29.0	29.0	29.0	<b>30.45</b>
Total	42.0	44.0	44.0	44.0	44.0	<b>46.20</b>

### IMPORTANT – Future Payment of Dividends –

#### Mandatory Direct Credit

From 2019, the Company is simplifying the way in which it pays dividends to shareholders by only paying cash dividends directly into a shareholder's nominated bank account. This is known as Mandatory Direct Credit. The Company will no longer be issuing dividend cheques. Shareholders recorded on the register of members as receiving dividend payments by cheque will be contacted by Computershare. Those shareholders will need to take the required action by selecting the appropriate option as set out in the Computershare notification.

Shareholders on the register of members who already have their dividends paid by any of the options set out below are not required to take any action.

#### Direct payment to your bank

The best way to ensure that dividends are received as quickly as possible is to have your dividends paid directly to a UK bank or building society account. To switch to this method of payment you can register online or download a Dividend Mandate Form by selecting Downloadable Forms at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). The form can also be accessed via the FAQ section on the Company's website at [www.global.weir/investors/shareholder-information/shareholders-faq](http://www.global.weir/investors/shareholder-information/shareholders-faq).

Alternatively, you can contact Computershare, who will also be able to assist with any questions you may have.

An Annual Dividend Confirmation detailing all payments made throughout the tax year will then be sent to you once a year either electronically or to your registered address. In 2019, the Dividend Confirmation will be dispatched with the November 2019 dividend payment and contain the payment information for dividends paid during the 2019/2020 tax year.

#### Global Payment Service

If you live overseas, Computershare offers a Global Payment Service which is available in certain countries. This may make it possible to receive dividends direct into your bank account in your local currency. Please note that the fees applied for this service will be automatically deducted from the proceeds before it is paid to you. For further details go to [www.investorcentre.co.uk](http://www.investorcentre.co.uk) then select the information tab followed by FAQs then select the Dividends and Payments tab and the Global Payment Service tab.

#### American Depository Receipt (ADR) programme

The Company has a sponsored level 1 ADR programme in the United States. Each ADR represents 2 ordinary shares of 12.5 pence each, in the Company. The Company's ADR programme is administered by Citibank, who were appointed in February 2016.

#### ADR investor contact

Telephone: +1 781 575 4555 Citibank representatives are available from 8.30am to 6.00pm US Eastern Standard Time (EST) Monday to Friday. Email:[citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)

#### In writing

Citibank Shareholder Services  
P.O. Box 43077  
Providence,  
Rhode Island 029403077

#### ADR broker contact

Telephone: +1 212 723 5435 /  
+44 207 500 2030  
E-mail: [citiadr@citi.com](mailto:citiadr@citi.com)

#### Dividend tax allowance

With effect from April 2018, the annual tax free allowance on dividend income was reduced from £5,000 to £2,000.

Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. We will continue to provide registered shareholders with confirmation of the dividends paid and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is a shareholder's responsibility to include all dividend income when calculating any tax liability.

This provision is enshrined in the Finance Act 2016. If you have any tax queries, please contact a financial advisor.

### **United Kingdom capital gains tax**

For the purpose of capital gains tax, the market value of an ordinary share of The Weir Group PLC as at 31 March 1982 was 29.75p. This market value has been adjusted to take account of the sub-division of the share capital whereby each ordinary share of 25p was sub-divided into two ordinary shares of 12.5p each on 28 June 1993. Rights issues of ordinary shares took place in April 1987 at 157p per share on the basis of one new ordinary share for every seven ordinary shares held, in July 1990 at 250p per share on the basis of one new ordinary share for every five ordinary shares held and in September 1994 at 252p per share on the basis of one new ordinary share for every four ordinary shares held.

### **Share dealing services**

Shareholders have the opportunity to buy or sell The Weir Group PLC shares using a share dealing facility operated by our Registrar, Computershare. You will need to register for this service prior to using it. To access this service, go to [www.computershare.trade](http://www.computershare.trade).

**Internet share dealing** – commission is 1% of the value of each sale or purchase of shares, subject to a minimum charge of £30. In addition, stamp duty, currently 0.5%, is payable on purchases. There is no need to open a trading account in order to deal. Real time dealing is available during market hours (08:00 to 16:30 Monday to Friday excluding bank holidays). In addition, there is a convenient facility to place your order outside of market hours. Up to 90 day limit orders are available for sales. To access the service, go to [www.computershare.trade](http://www.computershare.trade). Shareholders should have their SRN available. The SRN appears on share certificates and dividend documentation.

Please note that, at present, this service is only available to shareholders in certain jurisdictions. Please refer to the Computershare website for an up-to-date list of these countries.

**Telephone share dealing** – commission is 1% of the value of each sale or purchase of shares, plus £35. In addition, stamp duty, currently 0.5%, is payable on purchases. You can contact Computershare on **0370 703 0084**. Shareholders should have their SRN ready when making the call. The SRN appears on share certificates and dividend documentation. Detailed terms and conditions are available at [www.investorcentre.co.uk](http://www.investorcentre.co.uk) or by contacting Computershare. Please note this service is, at present, only available to shareholders resident in certain jurisdictions. Please refer to the Computershare website for an up-to-date list of these countries.

These services are offered on an execution only basis and subject to the applicable terms and conditions. Computershare Investor Services PLC is authorised and regulated by the Financial Conduct Authority.

This is not a recommendation to buy, sell or hold shares in The Weir Group PLC. Shareholders who are unsure of what action to take should obtain independent financial advice. Share values may go down as well as up which may result in a shareholder receiving less than he/she originally invested.

### **Shareholder warning alert**

#### **Unsolicited investment advice and fraud**

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares.

These callers can be very persistent and extremely persuasive and their activities have resulted in considerable losses for some investors. Whilst usually by telephone, the high-pressure sales tactics can also come by email, post, word of mouth or at a seminar. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or offers of free company reports.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation and take a note of any other details they provide, such as a telephone number or address.
- Check that the caller is properly authorised by the Financial Conduct Authority (FCA) by visiting [www.fca.org.uk](http://www.fca.org.uk).
- Report any approach from such organisations to the FCA using the share fraud reporting form at [www.fca.org.uk/consumers/report-scam-unauthorised-firm](http://www.fca.org.uk/consumers/report-scam-unauthorised-firm), where you can also find out about the latest investment scams. You can also call the Consumer Helpline on **0800 111 6768**.
- If calls persist, hang up.

## Glossary

<b>Additive manufacturing</b>	The process of joining materials to make objects from 3D model data (3D printing)
<b>AGM</b>	Annual General Meeting
<b>Board</b>	The Board of Directors of The Weir Group PLC
<b>bps</b>	Basis points
<b>brownfield</b>	A term used to describe current and expanding mine sites
<b>capex</b>	Capital expenditure
<b>CGU</b>	Cash generating unit
<b>Comminution</b>	Crushing, screening and grinding of materials in mining and sand and aggregates markets
<b>Company</b>	The Weir Group PLC
<b>DBP</b>	Deferred Bonus Plan
<b>Director</b>	A Director of The Weir Group PLC
<b>EBIT</b>	Earnings before interest and tax
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>emerging markets</b>	Asia-Pacific, South America, Africa and the Middle East
<b>EPCMs</b>	Engineering, Procurement and Construction Management companies
<b>EPS</b>	Earnings per share
<b>Estera EBT</b>	Employee benefit trust (Estera Trust (Jersey) Limited)
<b>Excellence Committees</b>	Weir Group Management Committees ensuring best practice
<b>External auditors</b>	PricewaterhouseCoopers LLP
<b>free cash flow</b>	Cash flow from operating activities adjusted for income taxes, net capital expenditures, net interest payments, dividends paid, settlement of derivatives, purchase of shares for employee share plans and pension contributions
<b>GAAP</b>	Generally Accepted Accounting Practice
<b>greenfield</b>	A term used to describe new mine developments
<b>Group</b>	The Company together with its subsidiaries
<b>HR</b>	Human resources
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards
<b>Input</b>	Orders received from customers
<b>Internet of Things (IoT)</b>	The network of physical objects (devices, vehicles, buildings and other items) that are embedded with electronics, software, sensors and network connectivity, which enables these objects to collect and exchange data
<b>ISO</b>	International Organisation for Standardisation
<b>KPI</b>	Key performance indicator
<b>Kleinwort EBT</b>	Employee benefit trust (SG Kleinwort Hambros Trust Company (CI) Ltd)
<b>Like-for-like</b>	On a consistent basis, excluding the impact of acquisitions
<b>LTIP</b>	Long Term Incentive Plan
<b>NPBTA</b>	Normalised profit before tax and amortisation
<b>operating margin</b>	Operating profit including our share of results of joint ventures divided by revenue
<b>ordinary shares</b>	The ordinary shares in the capital of the Company of 12.5p each
<b>PILON</b>	Payment in lieu of notice
<b>Registrar</b>	Computershare Investor Services plc
<b>R&amp;D</b>	Research and development
<b>RPI</b>	UK Retail Prices Index
<b>SHE</b>	Safety, Health and Environment
<b>SME</b>	Small and medium-sized enterprises
<b>subsidiary</b>	An entity that is controlled, either directly or indirectly, by the Company
<b>tCO2e</b>	Tonnes of carbon dioxide equivalent
<b>TIR</b>	Total Incident Rate (rate of any Incident that causes an employee, visitor, contractor or anyone working on behalf of Weir to require off site medical treatment per 200,000 hours worked)
<b>TSR</b>	Total Shareholder Return comprising dividends paid on ordinary shares and the increase or decrease in the market price of ordinary shares
<b>WACC</b>	Weighted average cost of capital
<b>WTI</b>	West Texas Intermediate

### Cautionary statement

This Annual Report contains forward-looking statements with respect to the financial condition, operations and performance of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

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