Financial Statements

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 2017 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 IFRS 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 2017; the consolidated income statement and statement of comprehensive income, the consolidated cash flow statement, 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 year from 1 January 2017 to 31 December 2017.

Our audit approach

Context

The Group is organised into three operating divisions: Minerals, Oil & Gas and Flow Control, with each having 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 three 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.

Overview

- Overall Group materiality: £12.4m (2016: £8.5m), based on 5% of profit before exceptional items, intangibles amortisation and tax.
- Overall Parent company materiality: £1.5m (2016: £1.5m), based on an allocation of Group materiality.
- We conducted audit work in 20 components in 11 countries, including six components in the UK. We conducted full scope audits on 10 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, China and Italy, covering four components. In addition, members of the Group engagement team performed the audit of the six components based in the UK.
- The 20 components where we performed audit work accounted for approximately 84% of Group revenue and 73% of profit before exceptional items, intangibles amortisation and tax.
- Accounting for asbestos-related claims (Group).
- Carrying value of goodwill and intangibles (Group).
- Accounting for exceptional items (Group).
- Valuation of uncertain tax provisions (Group).

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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that 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 focused on laws and regulations that could give rise to a material misstatement in the Group and Parent company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions

legislation, UK tax legislation and equivalent local laws and regulations applicable to significant component teams. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries of management, review of significant component auditors' work and review of internal audit reports in so far as they related to the financial statements. 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.

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 fraud in revenue recognition, and 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 year 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. All key audit matters are relevant to the Group only. None of them apply to the parent Company.

Key audit matter	How our audit addressed the key audit matter
Accounting for asbestos-related claims Refer to page 88 (Audit Committee Report), page 131 Accounting Policies and page 162 (note 22). Provision has been made for future asbestos-related claims as at 31 December 2017 of £58.0m (2016: £52.7m). This consists of a provision of £53.3m (2016: £47.5m) for the Group's liabilities arising from asbestos-related damages claims in the US and £4.7m in the UK (2016: £5.2m). 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 (£53.3m included in other receivables between non-current and current assets – note 17, page 158). This was also considered in our work.	We have performed procedures on both the UK and US asbestos liabilities. The US provision is the more significant and uncertain and therefore involved more judgement. During the year, management obtained an updated actuarial estimate of the asbestos liability from an independent expert. We involved our PwC actuarial specialists to assess the reasonableness of the methodology used by management's expert. Management used the updated actuarial data to calculate the provision required at 31 December 2017. We evaluated management's underlying assumptions used in their 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 ten 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 Liabilities' and IAS 1 'Presentation of Financial Statements'. 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.

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Independent auditors' report to the members of The Weir Group PLC continued

Key audit matter	How our audit addressed the key audit matter
Carrying value of goodwill and intangibles Refer to page 88 (Audit Committee Report), page 131 Accounting Policies and page 155 (note 14). The Group has £869.5m (2016: £876.0m) of goodwill on the balance sheet. We focused on this area because the assessment of the value in use of each Cash Generating Unit ('CGU') involves judgement. The key assumptions in management's impairment model are the forecast results of the business, long-term growth rates and discount rates applied to future cash flow forecasts. The ongoing uncertainty in the Oil & Gas market and the loss recorded by the Flow Control division could suggest a higher risk of impairment in the carrying value of goodwill.	We performed detailed testing over management's Value in Use model which included: • assessing the integrity and mathematical accuracy of the model; • utilising PwC valuations specialists to assess the key assumptions of growth rate and discount rate. We also assessed the composition of CGUs, ensuring that these accurately reflect the structure and operations of the business and that the CGUs met the requirements of IAS 36 'Impairment of Assets'. We assessed the headroom in each CGU, performing sensitivity analyses for each, focusing in particular on the Flow Control CGU where the headroom is lowest. We tested the disclosures in the Financial Statements and checked compliance with IAS 36 and IAS 1. From the procedures performed, we did not identify any material misstatements.
Accounting for exceptional items Refer to page 88 (Audit Committee Report), page 131 Accounting Policies and page 144 (note 5). The Group incurred £13.3m (2016: £73.5m) of exceptional charges in the year. The accurate presentation of costs and income as exceptional items was considered an area of focus for all reporting units. This was to check the consistency and accuracy of the Group's underlying earnings as reported to shareholders. The Group commenced a significant restructuring plan during 2015 and this continued in 2016 and 2017. Further, there were other non-recurring, material items which were significant in nature and therefore required a higher level of focus.	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 checked 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 assessed the appropriateness of the classification of items as exceptional for compliance with both the Group's accounting policy and IAS 1. We also verified that provisions made in the prior year were appropriately utilised during the year. Finally, 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.
Valuation of uncertain tax provisions Refer to page 88 (Audit Committee Report), page 131 Accounting Policies and page 164 (note 23). 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.	We read the Group's documentation of uncertain tax provisions and tested the more significant provisions for appropriateness by: • confirming the basis of provision; • understanding the movements on the provision during the year; and • reading correspondence with relevant tax authorities in the assessment of management's calculation. 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. In addition, we assessed the adequacy and appropriateness of the disclosure of tax provisions for compliance with IAS 12 'Income Taxes'.

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 three operating divisions: Minerals, Oil & Gas and Flow Control with additional centralised Head Office functions. The Group financial statements are a consolidation of a large number of components which make up the Group's operating businesses within these divisions and centralised functions. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the components either by us, as the Group engagement team, or component auditors from other PwC network firms operating under our instruction.

The Group's components vary significantly in size and we identified ten 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, six were UK based 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 four full scope component audits were performed by other PwC network firms. Other PwC network firms also performed specific scope audits over a further ten 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 20 components in scope, we deemed three to be financially significant to the Group. We visited all three locations in the prior year and have commenced a rotational cycle of visits. The Group engagement leader visited the significant component in the United States twice during the year. 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 84% of revenue and 73% 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
Overall materiality	£12.4m (2016: £8.5m).	£1.5m (2016: £1.5m).
How we determined it	5% of profit before exceptional items, intangibles amortisation and tax.	An allocation of Group materiality.
Rationale for benchmark applied	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.	An allocation of Group materiality.

For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.4m and £9.0m. We applied a specific lower materiality to the audit of exceptional items and amortisation of intangibles. 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 £0.6m (Group audit) (2016: £0.4m) and £0.6m (Parent company audit) (2016: £0.4m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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Independent auditors' report to the members of The Weir Group PLC continued

Going concern
In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
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 twelve 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.
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 2017 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 50 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 50 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 119, 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.
- The section of the Annual Report on pages 88 to 94 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 119, 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/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 period ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the period ended 31 December 2016 and year to 31 December 2017.

Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
28 February 2018

Consolidated Income Statement
for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation (note 5) £m	Total £m	Period ended 31 December 2016 Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation (note 5) £m	Total £m
Continuing operations							
Revenue	3	**2,355.9**	**–**	**2,355.9**	1,844.9	–	1,844.9
Continuing operations							
Operating profit before share of results of joint ventures		**280.9**	**(68.7)**	**212.2**	206.8	(123.7)	83.1
Share of results of joint ventures	15	**10.9**	**–**	**10.9**	7.2	–	7.2
Operating profit		**291.8**	**(68.7)**	**223.1**	214.0	(123.7)	90.3
Finance costs	6	**(43.3)**	**(0.8)**	**(44.1)**	(48.1)	(3.8)	(51.9)
Finance income	6	**1.6**	**–**	**1.6**	4.4	–	4.4
Profit before tax from continuing operations		**250.1**	**(69.5)**	**180.6**	170.3	(127.5)	42.8
Tax (expense) credit	7	**(59.7)**	**40.6**	**(19.1)**	(38.4)	38.8	0.4
Profit for the year from continuing operations		**190.4**	**(28.9)**	**161.5**	131.9	(88.7)	43.2
Profit (loss) for the year from discontinued operations	8	**–**	**–**	**–**	1.1	(6.1)	(5.0)
Profit for the year		**190.4**	**(28.9)**	**161.5**	133.0	(94.8)	38.2
Attributable to:							
Equity holders of the Company		**190.6**	**(28.9)**	**161.7**	133.1	(94.8)	38.3
Non-controlling interests		**(0.2)**	**–**	**(0.2)**	(0.1)	–	(0.1)
		190.4	**(28.9)**	**161.5**	133.0	(94.8)	38.2
Earnings per share	9						
Basic – total operations				**73.5p**			17.8p
Basic – continuing operations		**86.7p**		**73.5p**	61.2p		20.1p
Diluted – total operations				**73.1p**			17.7p
Diluted – continuing operations		**86.1p**		**73.1p**	60.8p		20.0p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £m	Period ended 31 December 2016 £m
Profit for the year		**161.5**	38.2
Other comprehensive income (expense)			
Gains (losses) taken to equity on cash flow hedges		**0.4**	(0.7)
Exchange (losses) gains on translation of foreign operations		**(147.7)**	377.4
Reclassification of foreign currency translation reserve on discontinued operations		**–**	0.8
Exchange gains (losses) on net investment hedges		**54.0**	(142.0)
Reclassification adjustments on cash flow hedges		**(0.3)**	1.9
Tax relating to other comprehensive income (expense) to be reclassified in subsequent years	7	**0.8**	0.2
Items that are or may be reclassified to profit or loss in subsequent years		**(92.8)**	237.6
Remeasurements on defined benefit plans	24	**(5.4)**	(53.0)
Remeasurements on other benefit plans		**(0.8)**	–
Tax relating to other comprehensive income (expense) that will not be reclassified in subsequent years	7	**1.5**	8.6
Items that will not be reclassified to profit or loss in subsequent years		**(4.7)**	(44.4)
Net other comprehensive (expense) income		**(97.5)**	193.2
Total net comprehensive income for the year		**64.0**	231.4
Attributable to:			
Equity holders of the Company		**64.2**	228.9
Non-controlling interests		**(0.2)**	2.5
		64.0	231.4
Total net comprehensive income (expense) for the year attributable to equity holders of the Company			
Continuing operations		**64.2**	233.0
Discontinued operations		**–**	(4.1)
		64.2	228.9

Consolidated Balance Sheet

at 31 December 2017

	Notes	31 December 2017 £m	31 December 2016 £m
ASSETS			
Non-current assets			
Property, plant & equipment	11	**392.3**	402.0
Intangible assets	12	**1,549.9**	1,628.8
Investments in joint ventures	15	**19.2**	40.5
Deferred tax assets	23	**45.3**	42.1
Other receivables	17	**43.0**	39.2
Retirement benefit plan assets	24	**–**	9.8
Derivative financial instruments	30	**0.3**	–
Total non-current assets		**2,050.0**	2,162.4
Current assets			
Inventories	16	**586.8**	551.6
Trade & other receivables	17	**613.3**	481.8
Construction contracts	18	**23.6**	23.8
Derivative financial instruments	30	**16.7**	24.0
Income tax receivable		**18.5**	21.5
Cash & short-term deposits	19	**284.6**	258.6
Total current assets		**1,543.5**	1,361.3
Total assets		**3,593.5**	3,523.7
LIABILITIES			
Current liabilities			
Interest-bearing loans & borrowings	20	**388.4**	144.0
Trade & other payables	21	**613.2**	548.1
Construction contracts	18	**2.6**	4.2
Derivative financial instruments	30	**25.8**	30.2
Income tax payable		**31.1**	43.8
Provisions	22	**52.6**	83.2
Total current liabilities		**1,113.7**	853.5
Non-current liabilities			
Interest-bearing loans & borrowings	20	**739.4**	949.1
Other payables	21	**0.5**	14.9
Derivative financial instruments	30	**0.7**	14.9
Provisions	22	**72.0**	60.2
Deferred tax liabilities	23	**58.4**	100.5
Retirement benefit plan deficits	24	**137.7**	147.0
Total non-current liabilities		**1,008.7**	1,286.6
Total liabilities		**2,122.4**	2,140.1
NET ASSETS		**1,471.1**	1,383.6
CAPITAL & RESERVES			
Share capital	25	**28.1**	27.3
Share premium		**197.9**	86.2
Merger reserve		**9.4**	9.4
Treasury shares		**(5.9)**	(5.9)
Capital redemption reserve		**0.5**	0.5
Foreign currency translation reserve		**98.1**	191.8
Hedge accounting reserve		**0.3**	(0.6)
Retained earnings		**1,141.4**	1,066.4
Shareholders' equity		**1,469.8**	1,375.1
Non-controlling interests		**1.3**	8.5
TOTAL EQUITY		**1,471.1**	1,383.6

The financial statements were approved by the Board of Directors and authorised for issue on 28 February 2018.
The financial statements also comprise the notes on pages 131 to 185.

Jon Stanton
Director

John Heasley
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £m	Period ended 31 December 2016 £m
Cash flows from operating activities	26		
Cash generated from operations		**220.5**	292.6
Additional pension contributions paid		**(3.0)**	(2.8)
Exceptional cash items	22	**(28.6)**	(58.1)
Income tax paid		**(60.5)**	(15.7)
Net cash generated from operating activities		**128.4**	216.0
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	26	**(90.1)**	(10.6)
Investment in joint ventures	15	**(1.4)**	–
Purchases of property, plant & equipment		**(67.8)**	(50.5)
Purchases of intangible assets		**(17.6)**	(15.4)
Other proceeds from sale of property, plant & equipment and intangible assets		**4.6**	3.5
Disposals of discontinued operations, net of cash disposed	26	**3.5**	31.4
Disposals of joint ventures	15	**31.8**	–
Exceptional items included in asset disposal programme		**–**	35.7
Interest received		**1.5**	6.5
Dividends received from joint ventures	15	**8.0**	7.3
Net cash (used in) generated from investing activities		**(127.5)**	7.9
Cash flows from financing activities			
Purchase of non-controlling interest	13	**(37.2)**	(3.4)
Proceeds from borrowings		**964.4**	1,328.1
Repayments of borrowings		**(854.7)**	(1,420.5)
Settlement of derivative financial instruments		**6.6**	(3.7)
Interest paid		**(42.3)**	(46.3)
Dividends paid to equity holders of the Company	10	**(74.2)**	(45.8)
Issue of shares	25	**90.0**	–
Purchase of shares for LTIP & other awards		**–**	(0.1)
Net cash generated from (used in) financing activities		**52.6**	(191.7)
Net increase in cash & cash equivalents		**53.5**	32.2
Cash & cash equivalents at the beginning of the year		**257.0**	179.3
Foreign currency translation differences		**(26.0)**	45.5
Cash & cash equivalents at the end of the year	19	**284.5**	257.0

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 2017

	Share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Capital redemption reserve £m	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 1 January 2016	26.8	38.0	9.4	(5.8)	0.5	(41.8)	(2.0)	1,166.5	1,191.6	6.2	1,197.8
Profit (loss) for the period	–	–	–	–	–	–	–	38.3	38.3	(0.1)	38.2
Losses taken to equity on cash flow hedges	–	–	–	–	–	–	(0.7)	–	(0.7)	–	(0.7)
Exchange gains on translation of foreign operations	–	–	–	–	–	374.8	–	–	374.8	2.6	377.4
Reclassification of foreign currency translation reserve on discontinued operations	–	–	–	–	–	0.8	–	–	0.8	–	0.8
Exchange losses on net investment hedges	–	–	–	–	–	(142.0)	–	–	(142.0)	–	(142.0)
Remeasurements on defined benefit plans	–	–	–	–	–	–	–	(53.0)	(53.0)	–	(53.0)
Reclassification adjustments on cash flow hedges	–	–	–	–	–	–	1.9	–	1.9	–	1.9
Tax relating to other comprehensive income (expense)	–	–	–	–	–	–	0.2	8.6	8.8	–	8.8
Total net comprehensive income (expense) for the period	–	–	–	–	–	233.6	1.4	(6.1)	228.9	2.5	231.4
Acquisition of non-controlling interest	–	–	–	–	–	–	–	(3.8)	(3.8)	(0.2)	(4.0)
Issue of shares	0.5	48.2	–	–	–	–	–	–	48.7	–	48.7
Cost of share-based payments inclusive of tax credit	–	–	–	–	–	–	–	4.3	4.3	–	4.3
Dividends	–	–	–	–	–	–	–	(94.5)	(94.5)	–	(94.5)
Purchase of shares*	–	–	–	(0.1)	–	–	–	–	(0.1)	–	(0.1)
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**
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**161.7**	**161.7**	**(0.2)**	**161.5**
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**
Remeasurements on defined benefit plans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5.4)**	**(5.4)**	**–**	**(5.4)**
Remeasurements on other benefit plans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**	**–**	**(0.8)**
Reclassification adjustments on cash flow hedges	**–**	**–**	**–**	**–**	**–**	**–**	**(0.3)**	**–**	**(0.3)**	**–**	**(0.3)**
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**	**157.0**	**64.2**	**(0.2)**	**64.0**
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	**28.1**	**197.9**	**9.4**	**(5.9)**	**0.5**	**98.1**	**0.3**	**1,141.4**	**1,469.8**	**1.3**	**1,471.1**

* These shares were purchased on the open market and are held by the Estera EBT on behalf of the Group.

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 2017 ('2017') were approved and authorised for issue in accordance with a resolution of the Directors on 28 February 2018. The comparative information is presented for the period commencing 2 January 2016 and ended 31 December 2016 ('2016').

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. The following amendment applies for the first time in 2017:

Disclosure Initiative – Amendments to IAS 7

The amendment requires disclosure of information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from: cash flows, such as drawdowns and repayments of borrowings; and non-cash changes, such as acquisitions, disposals and unrealised exchange differences. Additional disclosure has been included in note 26.

There are no other new standards or interpretations, in addition to the above, which are considered to have a material impact on the annual 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 year 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 year 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 page 202.

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 period 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 periods 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.

Notes to the Group Financial Statements continued

2. Accounting policies continued

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 base 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 90.

The areas where management consider critical judgements and estimates to be required are those in respect of:

i. 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 Group's retirement benefit obligations. Sensitivities to changes in key assumptions are provided in note 24.

ii. Provisions

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 22.

iii. Taxation

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 £26.6m at 31 December 2017.

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.

The risk that the application of management judgements and estimates in tax provisioning in the financial statements fails to present a true and fair view of the tax position is a risk which receives significant focus from management, tax advisers and auditors. Actions to mitigate this risk include the following:

i) The Group has capable people and strong processes and controls in place in order to deliver tax filings and tax payments in compliance with local tax requirements. This includes the recruitment and continued training and development of tax and finance staff with recognised professional qualifications.

ii) Local tax systems and controls are monitored by Group management via a compliance scorecard process and any companies reporting a sub-standard level of performance are required to prepare and execute improvement plans.

iii) Regular training is organised by the Group in our key jurisdictions and encouraged elsewhere to ensure we maintain appropriate standards of technical competence.

iv) All personnel involved in filing tax returns are encouraged to share knowledge and seek input on best practice across the Group.

v) External tax advisers either prepare or review the annual tax provisions and balances and are involved with the identification and management of transfer pricing policies and related documentation and filing requirements.

vi) Standard operating procedures are in place to provide assurance at Group level that tax risks are being adequately managed and issues are escalated to Group level as appropriate.

vii) The Group tax team provides technical support on the progression and completion of tax audits and the resolution of issues raised under audit is handled in an open and collaborative manner.

Detailed tax disclosures are provided in notes 7 and 23.

Joint ventures
The Group has a number of long-term contractual arrangements 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.

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 measured at the fair value of the consideration received or receivable, and to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. 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 significant risks and rewards of ownership have been transferred to the buyer, usually on despatch of goods, and reliable measurement is possible. 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. Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Where the sale of a 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.

Notes to the Group Financial Statements continued

2. Accounting policies continued

ii. Provision of services

Revenue from the rendering of services is generally recognised on completion if the service contract 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 service at the balance sheet date. The stage of completion is assessed by reference to the contractual agreement with each separate customer and the costs incurred on the contract to date in comparison to the total forecast costs of the contract. Revenue recognition commences only when the outcome of the contract can be reliably measured, by reference to individual terms and conditions within each service contract, and it is probable that the economic benefits associated with the contract will flow to the Group.

iii. Construction contracts

Construction contracts usually contain discrete elements separately transferring risks and rewards to the customer. 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 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/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 – 25 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.

Trade receivables
Trade receivables, which are generally of a short-term nature, are recognised and carried at original invoice amount less an allowance for estimated irrecoverable amounts. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

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.

Notes to the Group Financial Statements continued

2. Accounting policies continued

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 IAS 39 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IAS 39 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 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 Consolidated Financial Statements, the accumulated gains and losses recognised in other comprehensive income will be either recycled to the Consolidated 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 in other comprehensive income is kept in other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss is recognised in other comprehensive income, or recognised in the Consolidated Income Statement in the year.

Derivatives embedded in non-derivative host contracts 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 Long Term Incentive Plan (LTIP) and as a consequence of occasional one-off conditional awards.

The fair value of the LTIP or other conditional 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 LTIP which took effect in 2014 are summarised in the Directors' Remuneration Policy which can be found on the Company's website, 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 the consequent reduction in 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.

Notes to the Group Financial Statements continued

2. Accounting policies continued

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.

New standards & interpretations

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 year covered by these financial statements.

International Accounting Standards (IAS/IFRS)	Effective date for periods commencing
IFRS 9: Financial instruments	1 January 2018
IFRS 15: Revenue from contracts with customers (including associated amendments*)	1 January 2018
Amendments to IFRS 2: Share-based payments	1 January 2018*
Annual improvements 2014 – 2016	1 January 2018*
IFRIC 22 Foreign currency transactions and advance consideration	1 January 2018*
IFRS 16: Leases	1 January 2019*
IFRIC 23 Uncertainty over income tax treatments	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. An impact assessment has been performed for each of the standards, amendments and interpretations effective from 1 January 2018, with no significant financial impact being identified. Further details are provided below in relation to the two new standards effective from 2018:

i) IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has carried out an impact assessment which has focused on the areas of classification, measurement and impairment. Internal procedures in these areas have been updated as appropriate in response to the new standard. Implementing IFRS 9 is not expected to have a significant impact on the financial statements of the Group.

ii) IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the full retrospective approach and will restate the 2017 comparative data accordingly in the 2018 Annual Report. The Group has completed an extensive impact assessment which included submissions from each reporting entity. Based on the assessment performed, it is expected that the new standard will have a limited impact on the results of the Group, estimated at less than 1% of Group revenue, with the main change relating to the timing of revenue recognition, either over time or point in time for certain 'Engineer to order' contracts.

Initial planning has commenced for an assessment of the impact of the other standards applicable from 2019.

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 flow from operating activities to FCF is as follows.

	2017 £m	2016 £m
Cash generated from operations	**220.5**	292.6
Income tax paid	**(60.5)**	(15.7)
Net capital expenditure from purchase & disposal of property, plant & equipment and intangibles	**(80.8)**	(62.4)
Net interest paid	**(40.8)**	(39.8)
Dividends paid to equity holders of the Company	**(74.2)**	(45.8)
Dividends received from joint ventures	**8.0**	7.3
Settlement of derivative financial instruments	**6.6**	(3.7)
Purchase of shares for LTIP & other awards	**–**	(0.1)
Additional pension contributions paid	**(3.0)**	(2.8)
	(24.2)	129.6

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.

	2017 £m	2016 £m
Continuing operations		
Operating profit	**223.1**	90.3
Adjusted for:		
Exceptional items (note 5)	**13.3**	73.5
Earnings before interest and tax (EBIT)	**236.4**	163.8
Intangibles amortisation (note 5)	**55.4**	50.2
Depreciation of property, plant & equipment (note 11)	**58.2**	55.9
EBITDA	**350.0**	269.9

Net debt

A reconciliation of net debt to cash & short-term deposits, interest-bearing loans and borrowings is provided in note 26.

Notes to the Group Financial Statements continued

3. Segment information

For management purposes, the Group is organised into three operating divisions: Minerals, Oil & Gas and Flow Control. The 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 Flow Control segment designs and manufactures valves and pumps, and provides specialist support services to the global power generation, industrial and oil and gas sectors.

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 2017 and 2016 is disclosed below.

	Minerals		Oil & Gas		Flow Control		Total continuing operations	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Revenue								
Sales to external customers	**1,286.7**	1,112.0	**703.8**	401.4	**365.4**	331.5	**2,355.9**	1,844.9
Inter-segment sales	**3.9**	6.1	**0.7**	12.8	**15.6**	14.7	**20.2**	33.6
Segment revenue	**1,290.6**	1,118.1	**704.5**	414.2	**381.0**	346.2	**2,376.1**	1,878.5
Eliminations							**(20.2)**	(33.6)
							2,355.9	1,844.9
Sales to external customers – 2016 at 2017 average exchange rates								
Sales to external customers	**1,286.7**	1,200.5	**703.8**	421.4	**365.4**	350.3	**2,355.9**	1,972.2
Segment result								
Segment result before share of results of joint ventures	**227.3**	217.0	**80.6**	(16.2)	**(2.8)**	30.1	**305.1**	230.9
Share of results of joint ventures	**–**	–	**10.9**	7.2	**–**	–	**10.9**	7.2
Segment result	**227.3**	217.0	**91.5**	(9.0)	**(2.8)**	30.1	**316.0**	238.1
Unallocated expenses							**(24.2)**	(24.1)
Operating profit before exceptional items & intangibles amortisation							**291.8**	214.0
Total exceptional items & intangibles amortisation							**(69.5)**	(127.5)
Net finance costs before exceptional items							**(41.7)**	(43.7)
Profit before tax from continuing operations							**180.6**	42.8
Segment result – 2016 at 2017 average exchange rates								
Segment result before share of results of joint ventures	**227.3**	234.2	**80.6**	(17.1)	**(2.8)**	32.2	**305.1**	249.3
Share of results of joint ventures	**–**	–	**10.9**	7.6	**–**	–	**10.9**	7.6
Segment result	**227.3**	234.2	**91.5**	(9.5)	**(2.8)**	32.2	**316.0**	256.9
Unallocated expenses							**(24.2)**	(24.4)
Operating profit before exceptional items & intangibles amortisation							**291.8**	232.5

Revenues do not exceed 10% of Group revenue for any single external customer.

	Minerals		Oil & Gas		Flow Control		Total Group	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Assets & liabilities								
Intangible assets	**603.0**	652.4	**762.3**	815.2	**137.5**	137.5	**1,502.8**	1,605.1
Property, plant & equipment	**221.3**	226.1	**89.3**	90.9	**72.1**	75.4	**382.7**	392.4
Working capital assets	**623.9**	523.0	**379.1**	290.2	**218.8**	248.0	**1,221.8**	1,061.2
	1,448.2	1,401.5	**1,230.7**	1,196.3	**428.4**	460.9	**3,107.3**	3,058.7
Investments in joint ventures	**–**	–	**19.2**	40.5	**–**	–	**19.2**	40.5
Segment assets	**1,448.2**	1,401.5	**1,249.9**	1,236.8	**428.4**	460.9	**3,126.5**	3,099.2
Unallocated assets							**467.0**	424.5
Total assets							**3,593.5**	3,523.7
Working capital liabilities	**352.3**	311.6	**182.2**	150.6	**122.3**	169.4	**656.8**	631.6
Unallocated liabilities							**1,465.6**	1,508.5
Total liabilities							**2,122.4**	2,140.1
Other segment information – total Group								
Segment additions to non-current assets	**43.5**	33.0	**25.0**	10.3	**6.2**	15.6	**74.7**	58.9
Unallocated additions to non-current assets							**11.0**	18.9
Total additions to non-current assets							**85.7**	77.8
Other segment information – total Group								
Segment depreciation & amortisation	**45.0**	42.2	**51.7**	49.1	**11.6**	12.1	**108.3**	103.4
Segment impairment of property, plant & equipment	**0.1**	2.3	**3.6**	4.1	**0.3**	2.0	**4.0**	8.4
Segment impairment of intangible assets	**–**	0.4	**–**	–	**–**	–	**–**	0.4
Discontinued operations							**–**	0.4
Unallocated depreciation & amortisation							**5.3**	2.7
Total depreciation, amortisation & impairment							**117.6**	115.3

Unallocated assets 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 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 2017 and 2016 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 2017	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	**72.5**	**712.7**	**239.9**	**179.7**	**316.0**	**193.8**	**310.7**	**330.6**	**2,355.9**
Non-current assets	**345.4**	**723.0**	**49.0**	**171.2**	**333.5**	**155.7**	**65.1**	**118.5**	**1,961.4**

Period ended 31 December 2016	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	74.9	474.5	180.8	153.9	257.7	178.3	261.2	263.6	1,844.9
Non-current assets	366.5	847.7	44.1	168.1	290.1	157.4	63.8	133.6	2,071.3

The following disclosures are given in relation to continuing operations.

	2017 £m	2016 £m
An analysis of the Group's revenue is as follows:		
Original equipment	**666.9**	523.2
Aftermarket parts	**1,280.5**	982.8
Sales of goods	**1,947.4**	1,506.0
Provision of services	**350.4**	282.1
Construction contracts	**58.1**	56.8
Revenue	**2,355.9**	1,844.9

4. Revenues & expenses

The following disclosures are given in relation to continuing operations and exclude exceptional items & intangibles amortisation.

	2017 £m	2016 £m
A reconciliation of revenue to operating profit is as follows:		
Revenue	**2,355.9**	1,844.9
Cost of sales	**(1,619.2)**	(1,241.7)
Gross profit	**736.7**	603.2
Other operating income	**5.2**	5.6
Selling & distribution costs	**(260.0)**	(221.1)
Administrative expenses	**(201.0)**	(180.9)
Share of results of joint ventures	**10.9**	7.2
Operating profit	**291.8**	214.0

Details of exceptional items and intangibles amortisation are provided in note 5.

	2017 £m	2016 £m
Operating profit from continuing operations is stated after charging (crediting):		
Cost of inventories recognised as an expense	**1,619.2**	1,241.7
Depreciation of property, plant & equipment (note 11)	**58.2**	55.9
Amortisation of intangible assets (note 12)	**55.4**	50.2
Acquisition transaction costs	**1.2**	–
Acquisition integration costs	**0.3**	0.4
Exceptional items (note 5)	**13.3**	73.5
Net foreign exchange (gains) losses	**(0.4)**	6.6
Net impairment charge (credit) of trade receivables excluding additional restructuring action amounts (note 17)	**7.5**	(1.0)

Depreciation of property, plant & equipment (note 11) for discontinued operations was £nil (2016: £0.3m).

Amortisation of intangible assets (note 12) for discontinued operations was £nil (2016: £0.1m).

Research & development costs
Research & development costs amount to £40.4m (2016: £27.4m) of which £30.0m (2016: £25.9m) was charged directly to cost of sales in the income statement and £10.4m (2016: £1.5m) was capitalised (note 12).

Operating leases
Minimum lease payments under operating leases recognised as an expense in the year were £53.1m (2016: £45.3m).

	2017 £m	2016 £m
Employee benefits expense		
Wages & salaries	**551.6**	487.0
Social security costs	**52.2**	46.8
Pension costs		
Defined benefit plans (note 24)	**(3.0)**	0.5
Defined contribution plans	**24.6**	20.3
Share-based payments – equity settled transactions	**7.0**	4.1
	632.4	558.7

Details of Directors' remuneration is disclosed in note 29.

	2017 Number	2016 Number
The average monthly number of people employed by the Company and its subsidiaries is as follows:		
Minerals	**8,213**	7,999
Oil & Gas	**2,931**	2,393
Flow Control	**2,513**	2,725
Group companies	**435**	89
	14,092	13,206

The following disclosures are given in relation to total operations.

At 31 December 2017, the number of people employed by the Group and including those under temporary contracts was 14,906 (2016: 13,687).

Notes to the Group Financial Statements continued

4. Revenues & expenses continued

	2017 £m	2016 £m
Auditors' remuneration		
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	**1.7**	1.6
Fees payable to the Company's auditor for other services		
The audit of the Company's subsidiaries	**0.9**	0.6
Audit-related assurance services	**0.1**	0.1
Other non-audit services	**0.2**	0.3
Fees payable in respect of the Group's pension schemes		
Audit (performed by Ernst & Young LLP)	**0.1**	0.1

5. Exceptional items & intangibles amortisation

	2017 £m	2016 £m
Recognised in arriving at operating profit from continuing operations		
Intangibles amortisation (note 12)	**(55.4)**	(50.2)
Exceptional item – intangibles impairment (note 12)	**–**	(0.4)
Exceptional item – restructuring and rationalisation charges	**(12.5)**	(63.8)
Exceptional item – China operations	**–**	(17.0)
Exceptional item – gain on sale and leaseback of properties	**–**	5.1
Exceptional item – legal claims	**(2.1)**	(1.1)
Exceptional item – gain on sale of EPI joint venture	**10.4**	–
Exceptional item – fair value adjustment to contingent consideration liability	**(9.1)**	3.7
	(68.7)	(123.7)
Recognised in finance costs		
Exceptional item – unwind in respect of contingent consideration liability	**(0.8)**	(3.8)

Restructuring and rationalisation charges represent the committed costs of programmes to right-size operations and discontinue certain activities. The restructuring and rationalisation exceptional cost of £12.5m comprises £13.4m of restructuring costs for programmes commenced in 2016 offset by the release of unutilised restructuring provisions. These relate to headcount reduction and service centre closures and comprise £4.3m net cash restructuring costs, £4.8m inventory write down and a net £3.4m relating to plant & equipment.

An exceptional gain of £10.4m has been recognised on the sale of the 49% stake in the Energy Products LLC (EPI) joint venture sold in November 2017.

An exceptional cost of £2.1m relates to the continuation of a prior period legal claim. A fair value adjustment to contingent consideration liability of £9.6m related to the acquisition of the remaining 40% of Weir International, offset by a £0.5m credit following the settlement of Delta Industrial Valves deferred consideration and £0.8m unwind of contingent consideration liability for Weir International.

6. Finance (costs) income

Finance costs

	2017 £m	2016 £m
Interest payable on bank loans, fixed rate notes & overdrafts	**(38.2)**	(41.7)
Losses on financial assets & liabilities at fair value through profit & loss	**–**	(0.9)
Finance charges related to committed loan facilities	**(1.4)**	(2.5)
Other finance costs – retirement benefits	**(3.7)**	(3.0)
	(43.3)	(48.1)
Unwind of discount in respect of contingent consideration – exceptional item (note 5)	**(0.8)**	(3.8)
	(44.1)	(51.9)

Finance income

	2017 £m	2016 £m
Interest receivable on financial assets	**1.6**	4.4

7. Tax expense

Income tax expense

	2017 £m	2016 £m
Consolidated Income Statement		
Current income tax		
UK corporation tax – continuing operations	**(2.5)**	(0.1)
Adjustments in respect of previous years	**1.1**	(1.4)
UK corporation tax	**(1.4)**	(1.5)
Foreign tax – continuing operations	**(57.8)**	(43.4)
Adjustments in respect of previous years	**6.0**	0.9
Total current income tax	**(53.2)**	(44.0)
Deferred income tax		
Origination & reversal of temporary differences – continuing operations	**14.0**	47.1
Adjustment to estimated recoverable deferred tax assets	**8.8**	0.4
Effect of changes in tax rates	**16.7**	(1.0)
Adjustments in respect of previous years	**(5.4)**	(2.1)
Total deferred tax*	**34.1**	44.4
Total income tax (expense) credit in the Consolidated Income Statement	**(19.1)**	0.4

* Includes £30.3m of deferred tax credit relating to foreign tax (2016: £44.5m credit).

The total income tax (expense) credit is disclosed in the Consolidated Income Statement as follows.

	2017 £m	2016 £m
Tax (expense) credit		
– continuing operations before exceptional items & intangibles amortisation	**(59.7)**	(38.4)
– exceptional items	**22.9**	21.0
– intangibles amortisation and impairment	**17.7**	17.8
Total income tax (expense) credit in the Consolidated Income Statement	**(19.1)**	0.4

The total deferred tax included in the income tax expense is detailed in note 23.

Notes to the Group Financial Statements continued

7. Tax expense continued

Tax relating to items charged or credited to equity

	2017 £m	2016 £m
Consolidated Statement of Comprehensive Income		
Current tax on pension contributions	–	0.2
Deferred tax – origination & reversal of temporary differences	2.3	10.0
Deferred tax – effect of change in tax rates	(0.8)	(1.6)
Tax credit on actuarial losses on retirement benefits	1.5	8.6
Current tax credit on hedge losses	–	0.2
Deferred tax credit on hedge losses	0.8	–
Tax credit in the Consolidated Statement of Comprehensive Income	2.3	8.8
Consolidated Statement of Changes in Equity		
Deferred tax on share-based payments	0.7	0.2
Tax credit in the Consolidated Statement of Changes in Equity	0.7	0.2

Reconciliation of the total tax charge

The tax debit (2016: credit) in the Consolidated Income Statement for the year is lower (2016: lower) than the weighted average of standard rates of corporation tax across the Group of 33.1% (2016: 7.6%). The differences are reconciled below.

	2017 £m	2016 £m
Profit before tax from continuing operations	180.6	42.8
Loss before tax from discontinued operations	(0.1)	(12.7)
Accounting profit before tax	180.5	30.1
At the weighted average of standard rates of corporation tax across the Group of 33.1% (2016: 7.6%)	59.8	2.3
Adjustments in respect of previous years – current tax	(7.1)	(2.6)
– deferred tax	5.4	4.4
Joint ventures	(1.0)	(1.6)
Unrecognised deferred tax assets	6.8	1.9
Overseas tax on unremitted earnings	1.7	2.2
Transitional impact of US Tax Reform	(22.6)	–
Permanent differences	(4.0)	9.5
Tax effect of funding overseas operations	(22.5)	(22.3)
Effect of changes in tax rates	0.5	0.1
Exceptional items ineligible for tax	2.1	(2.0)
At effective tax rate of 10.6% (2016: (26.9)%)	19.1	(8.1)

The decrease in permanent differences from a £9.5m addition in 2016 to a £4.0m deduction in 2017 arises in part from the release of tax risk provisions 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, a debit in relation to provisions for tax risk including transfer pricing and credit for Research & Development incentives.

The United States Tax Cuts and Jobs Act was signed on 22 December 2017 and included a broad range of tax reform including a reduction in the Federal rate of corporate income tax from 35% to 21% (effective 1 January 2018) as well as significant changes to business deductions and other international tax provisions including changes to the rules governing interest deductibility.

US tax reform gives rise to a transitional one-off non-cash tax credit of £22.6m primarily due to the revaluation of the Group's aggregate US deferred tax assets and deferred tax liabilities following the reduction in the US Federal rate from 35% to 21%.

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 this exemption, noting that at this stage the final outcome of any investigation is unclear.

8. Discontinued operations

During the year ended 31 December 2017 there were no disposals of businesses which met the definition of a discontinued operation under IFRS 5.

In 2016, the Group disposed of Ynfiniti Engineering Services (31 May 2016), American Hydro Corporation and the trade and assets of the Montreal business of Weir Canada Inc. (30 June 2016) for a combined consideration of £38.4m of which £3.6m was to be held in escrow for one year. The escrow balance was settled in 2017, with a £0.1m adjustment to deferred consideration recorded in discontinued operations as an exceptional item in the year. Also included in 2016 was a maximum contingent consideration of £1.9m with £0.8m initially recognised on disposal, with the balance being finalised in 2016.

Exceptional items and intangibles amortisation in the prior period related to intangibles amortisation of £0.1m and a charge of £4.0m for reassessment of liabilities related to previous disposals.

Financial performance and cash flow information for discontinued operations

	Year ended 31 December 2017			Period ended 31 December 2016		
	Before exceptional items & intangibles amortisation £m	**Exceptional items & intangibles amortisation £m**	**Total £m**	Before exceptional items & intangibles amortisation £m	Exceptional items & intangibles amortisation £m	Total £m
(Loss) profit before tax from discontinued operations	**–**	**(0.1)**	**(0.1)**	0.3	(4.1)	(3.8)
Tax credit	**–**	**0.1**	**0.1**	0.8	0.8	1.6
Profit (loss) after tax from discontinued operations	**–**	**–**	**–**	1.1	(3.3)	(2.2)
Loss on sale of the subsidiaries after income tax	**–**	**–**	**–**	–	(2.8)	(2.8)
Profit (loss) for the year from discontinued operations	**–**	**–**	**–**	1.1	(6.1)	(5.0)
Reclassification of foreign currency translation reserve	**–**	**–**	**–**	0.8	–	0.8
Other comprehensive income from discontinued operations	**–**	**–**	**–**	0.8	–	0.8

	Year ended 31 December 2017 £m	Period ended 31 December 2016 £m
Cash flows from operating activities	**–**	(4.4)
Cash flows from investing activities	**–**	(0.4)
Net decrease in cash & cash equivalents from discontinued operations	**–**	(4.8)

Loss per share

Loss per share from discontinued operations were as follows.

	2017 pence	2016 pence
Basic	**–**	(2.3)
Diluted	**–**	(2.3)

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.

Notes to the Group Financial Statements continued

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.

	2017	2016
Profit attributable to equity holders of the Company		
Total operations* (£m)	**161.7**	38.3
Continuing operations* (£m)	**161.7**	43.3
Continuing operations before exceptional items & intangibles amortisation* (£m)	**190.6**	132.0
Weighted average share capital		
Basic earnings per share (number of shares, million)	**219.9**	215.6
Diluted earnings per share (number of shares, million)	**221.3**	216.9

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.

	2017 Shares million	2016 Shares million
Weighted average number of ordinary shares for basic earnings per share	**219.9**	215.6
Effect of dilution: LTIP awards	**1.4**	1.3
Adjusted weighted average number of ordinary shares for diluted earnings per share	**221.3**	216.9

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.

	2017 £m	2016 £m
Net profit attributable to equity holders from continuing operations*	**161.7**	43.3
Exceptional items & intangibles amortisation net of tax	**28.9**	88.7
Net profit attributable to equity holders from continuing operations before exceptional items & intangibles amortisation	**190.6**	132.0

	2017 pence	2016 pence
Basic earnings per share:		
Total operations*	**73.5**	17.8
Continuing operations*	**73.5**	20.1
Continuing operations before exceptional items & intangibles amortisation*	**86.7**	61.2
Diluted earnings per share:		
Total operations*	**73.1**	17.7
Continuing operations*	**73.1**	20.0
Continuing operations before exceptional items & intangibles amortisation*	**86.1**	60.8

* Adjusted for a loss of £0.2m (2016: £0.1m) in respect of non-controlling interests.

There have been no share options (2016: nil) exercised between the reporting date and the date of signing of these financial statements.

Earnings per share from discontinued operations are disclosed in note 8.

10. Dividends paid & proposed

	2017 £m	2016 £m
Declared & paid during the year		
Equity dividends on ordinary shares		
Final dividend for 2016: 29.0p (2015: 29.0p)	**63.1**	62.0
Interim dividend for 2017: 15.0p (2016: 15.0p)	**33.6**	32.5
	96.7	94.5
Proposed for approval by shareholders at the Annual General Meeting		
Final dividend for 2017: 29.0p (2016: 29.0p)	**65.0**	63.1

In 2016 and 2017, 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 2016 of £6.4m share issue and a cash dividend of £56.7m (final dividend for 2015: £29.6m share issue; £32.4m cash). The interim dividend for 2017 was split £16.1m share issue and £17.5m cash dividend (interim dividend for 2016: £19.1m share issue; £13.4m cash).

The proposed dividend is based on the number of shares in issue, excluding treasury shares held, at the date 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 1.97 times (2016: 1.39 times) as explained in the Financial Review.

Notes to the Group Financial Statements continued

11. Property, plant & equipment

	Land & buildings £m	Plant & equipment £m	Total property, plant & equipment £m
Cost			
At 1 January 2016	196.3	552.7	749.0
Additions	19.2	35.1	54.3
Disposals	(41.5)	(33.1)	(74.6)
Disposal of business	(10.5)	(16.7)	(27.2)
Reclassifications from (to) intangible assets (note 12)	1.4	(1.6)	(0.2)
Reclassifications	(1.3)	1.3	–
Exchange adjustment	36.0	129.9	165.9
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)**	**–**
Exchange adjustment	**(7.1)**	**(39.3)**	**(46.4)**
At 31 December 2017	**207.5**	**657.3**	**864.8**
Accumulated depreciation & impairment			
At 1 January 2016	49.8	310.9	360.7
Depreciation charge for the period	6.4	49.8	56.2
Impairment during the period	2.2	6.2	8.4
Disposals	(15.6)	(27.0)	(42.6)
Disposal of business	(1.5)	(8.5)	(10.0)
Reclassifications from (to) intangible assets (note 12)	0.1	(2.2)	(2.1)
Reclassifications	(1.0)	1.0	–
Exchange adjustment	10.3	84.3	94.6
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	**53.5**	**419.0**	**472.5**
Net book value at 1 January 2016	146.5	241.8	388.3
Net book value at 31 December 2016	148.9	253.1	402.0
Net book value at 31 December 2017	**154.0**	**238.3**	**392.3**

The carrying value of buildings held under finance leases is £0.8m (2016: £0.9m). The carrying value of plant & equipment held under finance leases is £1.8m (2016: £1.0m). Leased assets are pledged as security for the related finance lease liabilities. The carrying amount of assets under construction included in plant & equipment is £24.6m (2016: £22.7m).

The impairment charges in the year are primarily related to actions undertaken as a result of the restructuring and rationalisation actions as outlined in note 5. Depreciation charge from discontinued operations for the year amounted to £nil (2016: £0.3m).

During 2016, the Group disposed of land & buildings under sale and leaseback agreements in North America for £33.2m. The gain on sale in relation to these disposals amounted to £5.1m. The Group restructuring and rationalisation charge included the proceeds from a further property in North America which was disposed of outright for a consideration of £2.5m, resulting in an exceptional gain on sale of £1.3m. These disposals were part of the Group's 2016 asset disposal programme.

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
Cost								
At 1 January 2016	1,131.2	211.5	573.8	67.1	81.3	11.8	25.6	2,102.3
Additions	–	–	–	20.8	0.6	1.5	0.6	23.5
Disposals	–	–	–	(1.8)	–	–	–	(1.8)
Disposal of business	(37.7)	(4.4)	(8.3)	(0.7)	(6.9)	(0.2)	(3.0)	(61.2)
Reclassifications from (to) property, plant & equipment (note 11)	–	–	–	2.4	(0.9)	–	(1.3)	0.2
Exchange adjustment	217.3	42.6	114.0	10.1	15.6	1.3	4.9	405.8
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)**	**–**
Exchange adjustment	**(99.7)**	**(22.4)**	**(57.8)**	**(2.3)**	**(6.5)**	**–**	**(1.7)**	**(190.4)**
At 31 December 2017	**1,262.7**	**231.7**	**627.1**	**78.6**	**92.8**	**52.9**	**25.7**	**2,371.5**
Accumulated amortisation & impairment								
At 1 January 2016	386.1	7.0	203.7	31.8	37.3	2.5	22.1	690.5
Amortisation charge for the period	–	–	36.8	7.0	4.3	1.2	1.0	50.3
Impairment during the period	–	–	–	–	–	0.4	–	0.4
Disposals	–	–	–	(1.8)	–	–	–	(1.8)
Disposal of business	(27.8)	–	(6.8)	(0.5)	(1.8)	(0.2)	(3.0)	(40.1)
Reclassifications from (to) property, plant & equipment (note 11)	–	–	–	2.2	–	–	(0.1)	2.1
Exchange adjustment	76.5	1.4	42.9	5.1	7.9	0.4	4.4	138.6
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	**393.2**	**8.0**	**290.9**	**42.9**	**48.7**	**14.0**	**23.9**	**821.6**
Net book value at 1 January 2016	745.1	204.5	370.1	35.3	44.0	9.3	3.5	1,411.8
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	**869.5**	**223.7**	**336.2**	**35.7**	**44.1**	**38.9**	**1.8**	**1,549.9**

Notes to the Group Financial Statements continued

12. Intangible assets continued

The impairment charge recorded in 2016 of £0.4m relates to the write down of development costs in Minerals. No impairment was recorded for the current year.

Brand names, with the exception of those acquired during the KOP Surface Products purchase, have been assigned an indefinite useful life and as such are not amortised. The brand names acquired during 2017 will be amortised fully over the next two years. 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 £223.7m (2016: £241.3m).

The brand name value includes the brands of Linatex, BDK, Warman, SPM, Gabbioneta, Multiflo, Mathena and Wales, all of which are considered to be market leaders in their respective markets. The allocation of significant brand names is as follows.

	Brand names	
	2017 £m	2016 £m
Warman	**61.4**	67.9
Linatex	**42.1**	46.6
Seaboard	**28.6**	31.7
SPM	**40.3**	38.8
Trio	**17.6**	19.5
Gabbioneta	**6.0**	5.8
Mathena	**8.8**	9.7
Other	**18.9**	21.3
	223.7	241.3

The allocation of customer and distributor relationships, and the amortisation period of these assets, is as follows.

	Remaining amortisation period		Customer and distributor relationships	
	2017 Years	2016 Years	**2017 £m**	2016 £m
SPM	**14**	15	**74.3**	88.1
Seaboard	**10**	11	**89.2**	106.9
Mathena	**8**	9	**83.3**	104.0
Novatech	**8**	9	**34.4**	43.4
Trio	**7**	8	**16.3**	20.9
Other	**Up to 13**	Up to 14	**38.7**	39.6
			336.2	402.9

Amortisation from discontinued operations for the year amounted to £nil (2016: £0.1m).

13. Business combinations

On 27 July 2017, the Group completed the acquisition of KOP Surface Products (KOP), a South Asian provider of advanced pressure control wellhead technologies, systems and services for a consideration of $118.0m less cash acquired of $3.9m. The acquisition was funded by the issue of shares totalling £90.0m. The provisional fair values, which are subject to finalisation during the first half of 2018, are disclosed in the table below.

There are certain intangible assets included in the £51.6m 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.

KOP provisional fair values	2017 £m
Property, plant & equipment	7.9
Inventories	3.4
Intangible assets	
– customer relationships	5.4
– brand name	4.4
– intellectual property	12.4
Trade & other receivables	10.4
Cash & cash equivalents	3.2
Trade & other payables	(7.0)
Provisions	(4.1)
Current tax	1.4
Deferred tax	3.5
Fair value of net assets	40.9
Goodwill arising on acquisition	51.6
Total consideration	92.5
The total net cash outflow on current year acquisitions was as follows	
– cash paid	(92.5)
– cash & cash equivalents acquired	3.2
Total cash outflow (note 26)	(89.3)

The gross amount and fair value of KOP trade receivables amounts to £10.4m. It is expected that virtually all the contractual amounts will be collected.

KOP contributed £13.3m to revenue and an operating loss of £4.3m (including exceptional items and intangibles amortisation) in the period from acquisition to 31 December 2017. If the acquisition had occurred at the start of 2017, the revenue and profit for the year from acquired operations, after exceptional items and intangibles amortisation, would not have been materially different from the results disclosed in the Consolidated Income Statement. Acquisition costs totalled £1.5m in the year (note 4).

Notes to the Group Financial Statements continued

13. Business combinations continued
Contingent consideration

	Asset		Liability	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Opening balance	**3.9**	–	**(31.0)**	(35.9)
Liability arising on business combinations	**–**	–	**–**	(0.6)
Asset arising on business disposal	**0.4**	4.6	**–**	–
Fair value changes in profit or loss (note 8 and note 5)	**(0.1)**	(0.4)	**(9.1)**	3.7
Contingent consideration (received) paid (note 8 and note 26)	**(3.5)**	(0.6)	**38.0**	10.6
Unwind of discount (note 5)	**–**	–	**(0.8)**	(3.8)
Exchange movements in the year	**(0.3)**	0.3	**(0.5)**	(5.0)
Closing balance	**0.4**	3.9	**(3.4)**	(31.0)

Any contingent consideration is recognised at the date of acquisition or disposal of a subsidiary.

i) Contingent consideration receivable
The disposal of American Hydro Corporation in 2016 included a final escrow payment of £3.6m due for settlement in 2017. This balance was settled during the year with £3.5m cash received and a £0.1m adjustment recorded in discontinued operations.

An escrow receivable of £0.4m was booked in the year relating to the sale of the joint venture entity, Energy Products LLC (EPI). The balance is to be received early 2018.

ii) Contingent consideration payable
The deferred consideration payable in relation to the acquisition of Weir International in 2011 has been settled in the year following an agreement being reached to complete the purchase of the remaining minority interest. In 2017 a fair value adjustment of £9.6m and an unwind of £0.8m was recorded with payment of the closing deferred consideration in December 2017 to complete the purchase of the remaining minority interest for payment proceeds of £36.6m.

The remaining deferred consideration of £1.3m for the 2015 acquisition of Delta Valves was settled in the year. Based on final negotiations, £0.8m was paid in cash with the remainder of the balance written off as a fair value adjustment.

The deferred consideration of £0.6m relating to the 2016 purchase of the remaining shareholding of Shengli Oilfield Weir Highland Pump Company Ltd (Shengli) was paid during the year.

There is contingent consideration payable of £3.4m remaining in relation to the 2014 Weir Trio acquisition. This relates to working capital balances and is now expected to be finalised in 2018. A reconciliation of fair value measurement of the contingent consideration asset and liability is provided above.

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 they might be impaired.

KOP Surface Products, acquired during 2017 as described in note 13, has been allocated to the Oil & Gas International (formerly Oil & Gas EMEA) CGU.

The carrying amounts of goodwill and intangible assets with indefinite lives have been allocated as per the table below.

	Goodwill 2017 £m	**Intangibles 2017 £m**	Goodwill 2016 £m	Intangibles 2016 £m
Flow Control	**101.5**	**12.1**	98.7	12.1
Minerals	**372.9**	**130.0**	396.0	143.2
Oil & Gas International	**57.1**	**–**	6.6	–
Oil & Gas North America	**338.0**	**77.7**	374.7	86.0
	869.5	**219.8**	876.0	241.3

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.

Flow Control

Flow Control 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. 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 2017.

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 2017.

Oil & Gas International

Oil & Gas International comprises multiple service centre locations within the Middle East and Europe and the recently acquired 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 location supplies 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 2017.

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 during the final quarter of 2017 to derive revenue growth assumptions.

Notes to the Group Financial Statements continued

14. Impairment testing of goodwill & intangible assets with indefinite lives continued

Impairment testing assumptions

The basis of the impairment tests for the four primary CGUs including key assumptions are set out in the table below.

CGU	Basis of valuation	Period of forecast	Discount rate[1]	Real growth[2]	Key assumptions	Source
Flow Control	Value in use	5 years	13.6% (2016: 13.5%)	1.2% (2016: 1.2%)	Revenue growth EBITA margins	External forecast Historical experience
Minerals	Value in use	5 years	14.8% (2016: 16.3%)	1.2% (2016: 1.2%)	Revenue growth EBITA margins	External forecast Historical experience
Oil & Gas International	Value in use	5 years	12.0% (2016: 13.7%)	1.2% (2016: 1.2%)	Revenue growth EBITA margins	External forecast Historical experience
Oil & Gas North America	Value in use	5 years	15.1% (2016: 15.3%)	1.2% (2016: 1.2%)	Revenue growth EBITA margins	External forecast Historical experience

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 have led to a decrease 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% (2016: 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 historical 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 CGUs show significant headroom above carrying value. No sensitivity analysis has been undertaken as there is no reasonable possible change in key assumptions that would cause the carrying values to exceed recoverable amounts.

15. Investments in joint ventures

The investments in joint ventures are as follows.

	£m
At 1 January 2016	33.4
Share of results	7.2
Share of dividends	(7.3)
Exchange adjustment	7.2
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	**19.2**

Details of the Group's share of the balance sheet, revenue and profit of each of its joint ventures are given below.

	2017 £m	2016 £m
Share of joint ventures' balance sheets		
Goodwill	**3.9**	15.9
Current assets	**18.3**	33.2
Non-current assets	**2.9**	4.7
Current liabilities	**(4.5)**	(11.4)
Non-current liabilities	**(1.4)**	(1.9)
Net assets	**19.2**	40.5
Share of joint ventures' revenue & profits		
Revenue	**65.7**	47.3
Cost of sales	**(48.0)**	(31.9)
Selling & distribution costs	**(4.3)**	(5.6)
Administrative expenses	**(1.5)**	(1.0)
Income tax expense	**(1.0)**	(1.6)
Profit after tax	**10.9**	7.2

The addition in the year 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 year (note 5). The Group's investments in joint ventures are included in Subsidiary Undertakings on page 202.

16. Inventories

	2017 £m	2016 £m
Raw materials	**142.1**	125.8
Work in progress	**129.4**	137.5
Finished goods	**315.3**	288.3
	586.8	551.6

In 2017, the cost of inventories recognised as an expense within cost of sales amounted to £1,619.2m (2016: £1,241.7m). In 2017, the write-down of inventories to net realisable value amounted to £5.7m (2016: £20.1m), which included £4.8m (2016: £7.9m) in relation to Group restructuring actions, as disclosed in note 5. Write-downs in both years relate to assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

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 £43.0m (2016: £39.2m) are in respect of insurance contracts relating to asbestos-related claims in the US. Further detail is presented in note 22.

Current trade & other receivables are analysed in the following table.

	2017 £m	2016 £m
Trade receivables	**516.5**	387.8
Allowance for doubtful debts	**(23.6)**	(17.7)
	492.9	370.1
Other debtors	**45.5**	48.3
Sales tax receivable	**14.7**	14.2
Accrued income	**30.3**	24.2
Prepayments	**29.5**	21.1
Contingent consideration receivable	**0.4**	3.9
	613.3	481.8

The average credit period on sales of goods is 76 days (2016: 73 days). Other debtors includes £2.4m (2016: £9.3m) in respect of amounts due from joint ventures, and £10.3m (2016: £8.3m) in respect of insurance contracts relating to asbestos-related claims made in the US (note 22).

Analysis of trade receivables

	2017 £m	2016 £m
Neither impaired nor past due	**322.4**	262.7
Past due but not impaired	**170.5**	107.4
Impaired	**23.6**	17.7
	516.5	387.8

Ageing of past due but not impaired trade receivables

	2017 £m	2016 £m
Up to 3 months	**122.0**	76.1
Between 3 & 6 months	**25.6**	9.0
More than 6 months	**22.9**	22.3
	170.5	107.4

Movement in the allowance for doubtful debts

	2017 £m	2016 £m
Balance at the beginning of the year	**(17.7)**	(18.3)
Impairment losses recognised on receivables	**(8.6)**	(3.1)
Arising on disposal of business	**–**	0.1
Amounts written off as uncollectable	**0.5**	4.1
Amounts recovered during the year	**0.5**	0.9
Impairment losses reversed	**1.1**	1.0
Exchange adjustment	**0.6**	(2.4)
Balance at the end of the year	**(23.6)**	(17.7)

Impairment losses recognised in 2016 include £3.1m as part of Group restructuring actions.

Ageing of impaired trade receivables

	2017 £m	2016 £m
Up to 3 months	**0.6**	0.8
Between 3 & 6 months	**0.5**	2.2
More than 6 months	**22.5**	14.7
	23.6	17.7

18. Construction contracts

	2017 £m	2016 £m
Gross amount due from customers for contract work (included in current assets)	**23.6**	23.8
Gross amount due to customers for contract work (included in current liabilities)	**(2.6)**	(4.2)
	21.0	19.6
Contract costs incurred plus recognised profits less recognised losses to date	**92.1**	76.5
Less: progress billings	**(71.1)**	(56.9)
	21.0	19.6

The amount of retentions held by customers for contract work was £nil in both periods. The amount of advances received from customers for contract work was £2.4m (2016: £1.3m).

19. Cash & short-term deposits

	2017 £m	2016 £m
Cash at bank & in hand	**155.1**	148.2
Government securities & short-term deposits	**129.5**	110.4
	284.6	258.6
For the purposes of the Consolidated Cash Flow Statement, cash & cash equivalents comprise the following:		
Cash & short-term deposits	**284.6**	258.6
Bank overdrafts & short-term borrowings (note 20)	**(0.1)**	(1.6)
	284.5	257.0

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 earn interest at the respective short-term deposit rates.

Notes to the Group Financial Statements continued

20. Interest-bearing loans & borrowings

	2017 £m	2016 £m
Current		
Bank overdrafts	**0.1**	1.2
Short-term borrowings	**–**	0.4
	0.1	1.6
Fixed-rate notes	**94.0**	–
Bank loans	**0.6**	–
Commercial paper	**293.4**	142.1
Obligations under finance leases (note 27)	**0.3**	0.3
	388.4	144.0
Non-current		
Bank loans	**–**	31.1
Fixed-rate notes	**738.7**	917.5
Obligations under finance leases (note 27)	**0.7**	0.5
	739.4	949.1

			Weighted average interest rate			
Bank loans	Maturity	Interest basis	2017 %	2016 %	2017 £m	2016 £m
Revolving credit facility						
United States Dollar variable rate loans	2021	US$ LIBOR	**1.09**	1.09	**–**	31.0
Other						
Argentinian Peso fixed-rate loan facilities	2019	FIXED	**18.18**	18.18	**–**	0.1
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**	–
					0.6	31.1
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)**	–
Non-current bank loans					**–**	31.1

			Weighted average interest rate			
Commercial paper	Maturity	Interest basis	2017 %	2016 %	2017 £m	2016 £m
Commercial paper						
Euro variable rate commercial paper	2018	EUR LIBOR	**0.06**	0.17	**293.4**	142.1
					293.4	142.1
Less: current instalments due on commercial paper						
Euro variable rate commercial paper	2018	EUR LIBOR			**(293.4)**	(142.1)
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 2017 %	Fixed interest rate 2016 %	2017 £m	2016 £m
Private placement						
Sterling fixed-rate notes	2018	FIXED	**5.36**	5.36	**43.0**	43.0
United States Dollar fixed-rate notes	2018	FIXED	**5.03**	5.03	**51.0**	57.2
United States Dollar fixed-rate notes	2019	FIXED	**3.69**	3.69	**155.0**	171.7
United States Dollar fixed-rate notes	2022	FIXED	**4.27**	4.27	**435.9**	482.1
United States Dollar fixed-rate notes	2023	FIXED	**4.34**	4.34	**147.8**	163.5
					832.7	917.5
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)**	–
Non-current fixed-rate notes					**738.7**	917.5

The disclosures above represent the interest profile and currency profile of financial liabilities before the impact of derivative financial instruments.

At 31 December 2017, a total of £293.4m equivalent (2016: £142.1m equivalent) was outstanding under the Group's US$1bn commercial paper programme.

At 31 December 2017, US$nil (2016: US$40.0m) was drawn under the revolving credit facility. The US$800m multi-currency revolving credit facility matures in two tranches between September 2020 and September 2021.

Total unamortised issue costs at 31 December 2017 were £1.5m (2016: £2.5m).

21. Trade & other payables

	2017 £m	2016 £m
Current		
Trade payables	**341.7**	268.2
Other creditors	**9.2**	9.4
Other taxes & social security costs	**16.0**	16.5
Accruals	**177.5**	165.0
Contingent consideration payable	**3.4**	17.3
Deferred income	**65.4**	71.7
	613.2	548.1
Non-current		
Other payables	**0.5**	1.2
Contingent consideration payable	**–**	13.7
	0.5	14.9

Notes to the Group Financial Statements continued

22. Provisions

	Warranties & onerous sales contracts £m	Asbestos-related £m	Employee-related £m	Exceptional rationalisation £m	Other £m	Total £m
At 31 December 2016	**23.5**	**52.7**	**16.7**	**47.1**	**3.4**	**143.4**
Additions	**21.8**	**15.6**	**4.1**	**7.3**	**3.6**	**52.4**
Acquisitions	**1.8**	**–**	**2.0**	**–**	**0.3**	**4.1**
Utilised	**(17.4)**	**(6.4)**	**(3.4)**	**(32.8)**	**(1.7)**	**(61.7)**
Unwind	**–**	**0.7**	**–**	**–**	**–**	**0.7**
Unutilised	**(4.3)**	**–**	**(0.3)**	**(0.9)**	**(0.3)**	**(5.8)**
Transfers	**5.2**	**–**	**–**	**(5.2)**	**–**	**–**
Exchange adjustment	**(1.0)**	**(4.6)**	**(0.6)**	**(1.9)**	**(0.4)**	**(8.5)**
At 31 December 2017	**29.6**	**58.0**	**18.5**	**13.6**	**4.9**	**124.6**
Current 2017	**21.2**	**10.7**	**5.3**	**10.7**	**4.7**	**52.6**
Non-current 2017	**8.4**	**47.3**	**13.2**	**2.9**	**0.2**	**72.0**
At 31 December 2017	**29.6**	**58.0**	**18.5**	**13.6**	**4.9**	**124.6**
Current 2016	18.2	13.6	6.2	42.5	2.7	83.2
Non-current 2016	5.3	39.1	10.5	4.6	0.7	60.2
At 31 December 2016	23.5	52.7	16.7	47.1	3.4	143.4

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. 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 United States 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 exposure. 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. The exercise was originally completed in 2014 and has been repeated 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 Weir'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 (2016: 10 years) of projected claims to provide a reliable estimate of the future liability. A provision of £53.3m represents the Directors' best estimate of the future liability, although these estimates and the period over which they are assessed will continue to be refined as the claims history develops. Confirmation was also received from external advisers that the insurance asset remains sufficient to match the Directors' best estimate of the future liability and therefore a corresponding asset continues to be recognised for insurance proceeds (note 17).

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 has been conducted which 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 two 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 employers 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 (FSCS). 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 £4.7m (2016: £5.2m).

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 led to additions of £7.3m (2016: £63.0m) during the year which related to continued costs from 2016 restructuring projects and additional costs of £2.1m as a result of an extension of a prior period legal claim.

During 2017, a transfer has been made from exceptional rationalisation to the warranties and onerous sales contract provision. Included in the utilisation of the exceptional rationalisation provision in the year is non-cash utilisation items of £4.2m which led to a cash outflow of £28.6m.

Other
Other provisions relate to penalties, duties due, legal claims and other exposures across the Group.

Notes to the Group Financial Statements continued

23. Deferred tax

	2017 £m	2016 £m
Deferred income tax assets		
Post-employment benefits	**24.3**	26.4
Decelerated depreciation for tax purposes	**6.2**	2.9
Intangible assets	**1.4**	5.1
Untaxed reserves	**109.3**	131.8
Offset against liabilities	**(95.9)**	(124.1)
Deferred income tax assets	**45.3**	42.1
Deferred income tax liabilities		
Accelerated depreciation for tax purposes	**(16.3)**	(20.9)
Overseas tax on unremitted earnings	**(15.1)**	(23.1)
Intangible assets	**(108.7)**	(190.9)
Other temporary differences	**(14.2)**	10.3
Offset against assets	**95.9**	124.1
Deferred income tax liabilities	**(58.4)**	(100.5)
Net deferred income tax liabilities	**(13.1)**	(58.4)

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 2016	17.3	(15.0)	(20.5)	(159.8)	82.9	(95.1)
Prior year adjustments	1.7	(3.0)	–	–	2.1	0.8
(Charged) credited to the Income Statement (note 7)	(2.0)	3.0	1.6	5.4	36.4	44.4
Credited to equity (note 7)	8.4	–	–	–	0.2	8.6
Exchange adjustment	1.0	(3.0)	(4.2)	(31.4)	20.5	(17.1)
At 31 December 2016	**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**	**(39.0)**	**34.1**
Credited to equity (note 7)	**1.5**	**–**	**–**	**–**	**0.8**	**2.3**
Exchange adjustment	**(0.4)**	**1.3**	**0.9**	**13.2**	**(9.6)**	**5.4**
At 31 December 2017	**24.3**	**(10.1)**	**(15.1)**	**(107.3)**	**95.1**	**(13.1)**

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. In relation to the untaxed reserves, £34.7m relates to carried forward interest deductions in the US. The Tax Cuts and Jobs Act enacted in the US on 22 December 2017 maintained the rule which allows surplus interest expenses to be carried forward indefinitely to be used against future earnings. Forecasts have been prepared which indicate that this interest will be able to be substantially offset by 2022; therefore, it is considered appropriate to continue to recognise a deferred tax asset in respect of this amount.

Deferred tax asset balances for unused tax losses of £18.2m (2016: £11.5m) 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 (2016: £4.2m) 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 £15.1m (2016: £23.1m) has been recognised in respect of taxes on the unremitted earnings of the South American and Canadian subsidiaries and the unremitted earnings of the Canadian subsidiary of the US subgroup. As at 31 December 2017, 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 £1,971.9m (2016: £1,986.6m).

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 has been 19% since April 2017 and will be 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. As a result, deferred tax has been provided on UK temporary differences at 17.8% (2016: 17.8%).

24. Pensions & other post-employment benefit plans
The Group has four main defined benefit pension plans in the UK and North America. All defined benefit plans are closed to new members. The most significant of the defined benefit plans are the two funded UK plans.

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 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 two funded defined benefit pension plans in the US and Canada and certain unfunded post-employment healthcare benefits for senior employees in the US.

These plans combined make up 3% of the Group's pension and other post-employment benefit plan commitments and 2% of the Group's total associated assets.

The weighted average duration of these plans is around 10 years.

Notes to the Group Financial Statements continued

24. 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		North American post-retirement healthcare	
	2017	2016	**2017**	2016	**2017**	2016
Significant actuarial assumptions						
Discount rate (% pa)	**2.4**	2.6	**3.4**	3.9	**3.4**	3.9
Retail Prices Inflation assumption (% pa)	**3.2**	3.3	**n/a**	n/a	**n/a**	n/a
Post-retirement mortality (life expectancies in years)						
Current pensioners at 65 – male	**22.1**	22.2	**20.6**	20.8	**20.6**	20.8
Current pensioners at 65 – female	**24.0**	24.3	**22.6**	22.8	**22.6**	22.8
Future pensioners at 65 – male	**23.5**	24.0	**22.2**	22.4	**22.2**	22.4
Future pensioners at 65 – female	**25.5**	26.2	**24.2**	24.9	**24.2**	24.9
Other related actuarial assumptions						
Rate of increases for pensions in payment (% pa)						
Pre 6 April 2006 service	**3.1**	3.1	**n/a**	n/a	**n/a**	n/a
Post 5 April 2006 service	**2.1**	2.1	**n/a**	n/a	**n/a**	n/a
Consumer Prices Inflation assumption (% pa)	**2.1**	2.2	**n/a**	n/a	**n/a**	n/a
Rate of increase in healthcare costs	**n/a**	n/a	**n/a**	n/a	*****	**

* Between 6.2% and 8.7% per annum decreasing to 4.5% per annum and remaining static at that level from 2028 onwards.

** 7.2% 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 2038 (in 20 years' time).

The assets and liabilities of the plans are as follows.

	Total	
	2017 £m	2016 £m
Plan assets at fair value		
Equities (quoted)	**196.7**	216.7
Diversified Growth Funds (primarily quoted)	**56.8**	51.5
Corporate bonds (quoted)	**82.1**	85.6
Government bonds (quoted)	**74.7**	97.2
Insurance policies (unquoted)	**414.1**	379.2
Cash (quoted)	**0.8**	2.0
Fair value of plan assets	**825.2**	832.2
Present value of funded obligations	**(955.6)**	(960.9)
Net funded obligations	**(130.4)**	(128.7)
Present value of unfunded obligations	**(7.3)**	(8.5)
Net liability	**(137.7)**	(137.2)
Plans in surplus	**–**	9.8
Plans in deficit	**(137.7)**	(147.0)

The government bonds held at 31 December 2017 are all index-linked (2016: included 7% fixed interest government bonds). 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.

	2017 £m	2016 £m
Opening net liabilities	**(137.2)**	(81.8)
Expense charged to profit & loss	**(0.7)**	(3.5)
Amount recognised in Consolidated Statement of Comprehensive Income	**(5.4)**	(53.0)
Employer contributions	**4.2**	3.9
Currency adjustment	**1.4**	(2.8)
Closing net liabilities	**(137.7)**	(137.2)

Notes to the Group Financial Statements continued

24. Pensions & other post-employment benefit plans continued

The amounts recognised in the Consolidated Income Statement and in the Consolidated Statement of Comprehensive Income for the year are analysed as follows.

	2017 £m	2016 £m
Recognised in the Consolidated Income Statement		
Past service credit	**3.5**	–
Administrative expenses	**(0.5)**	(0.5)
Included in operating profit	**3.0**	(0.5)
Interest on net pension liability (note 6)	**(3.7)**	(3.0)
Total expense charged to profit & loss	**(0.7)**	(3.5)
Recognised in the Consolidated Statement of Comprehensive Income		
Actual return on plan assets	**36.3**	134.7
Less: interest on plan assets	**(21.2)**	(26.5)
	15.1	108.2
Other actuarial (losses) gains due to		
Changes in financial assumptions	**(35.1)**	(172.3)
Changes in demographic assumptions	**17.3**	11.1
Experience on benefit obligations	**(2.7)**	–
Actuarial losses recognised in the Consolidated Statement of Comprehensive Income	**(5.4)**	(53.0)

Current service cost and administration expenses are recognised in operating costs and interest on net pension liability is recognised in finance costs.

A past service credit of £3.5m arose in 2017 in relation to certain members opting for a different benefit structure in one of the Group's US post-retirement medical arrangements.

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 £3.0m in 2017 (2016: £2.8m) in addition to the Group's regular contributions.

The most recent actuarial funding valuation of the Main Plan was as at 31 December 2014 when the funding shortfall was £65.0m. Under the recovery plan agreed with the Trustees, 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.

The Executive Plan actuarial valuation as at 31 December 2013 included a funding shortfall of £10.6m with agreed recovery contributions of £2.4m per annum to 31 December 2017. The Trustees of the UK Executive Scheme entered into a full buy-in transaction in the third quarter of 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 (estimated to be £1.2m), which is expected to be paid in 2018 following a data cleanse process to finalise the insurance policy. The IAS 19 Balance Sheet at the 2017 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 and the current exposure draft of the revised IFRIC 14 with regard to recognition of a surplus in 2016 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 surplus in 2016 was 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. Amendments to the current version of IFRIC 14 are currently being considered.

The total Group contributions for 2018 (including those expected from the SLP in the UK) are expected to be £6.2m.

Sensitivity analysis

Changes in key assumptions can have a significant effect on the reported retirement benefit obligation and the Consolidated Income Statement expense for 2018. The effects of changes in those assumptions on the reported retirement benefit obligation are set out in the table below.

	Increase 2017 £m	**Decrease 2017 £m**	Increase 2016 £m	Decrease 2016 £m
Discount rate				
Effect on defined benefit obligation of a 1.0% change	**146.7**	**(178.7)**	146.1	(177.4)
Effect on net liability of a 1.0% change	**105.3**	**(132.1)**	109.4	(136.5)
RPI inflation (and associated assumptions)				
Effect on defined benefit obligation of a 1.0% change	**(95.8)**	**87.3**	(90.3)	82.8
Effect on net liability of a 1.0% change	**(62.2)**	**56.0**	(64.2)	58.1
Life expectancy				
Effect on defined benefit obligation of a 1 year change	**(29.2)**	**29.2**	(29.5)	29.5
Effect on net liability of a 1 year change	**(14.0)**	**14.0**	(15.5)	15.5

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.

	2017 £m	2016 £m
Opening defined benefit obligations	**(969.4)**	(809.2)
Past service credit	**3.5**	–
Interest on benefit obligations	**(24.9)**	(29.5)
Benefits paid	**45.8**	35.7
Actuarial gains (losses) due to		
Changes in financial assumptions	**(35.1)**	(172.3)
Changes in demographic assumptions	**17.3**	11.1
Experience on benefit obligations	**(2.7)**	–
Exchange rate adjustment	**2.6**	(5.2)
Closing defined benefit obligations	**(962.9)**	(969.4)

Changes in the fair value of plan assets are analysed as follows.

	2017 £m	2016 £m
Opening plan assets	**832.2**	727.4
Interest on plan assets	**21.2**	26.5
Employer contributions	**4.2**	3.9
Administrative expenses	**(0.5)**	(0.5)
Benefits paid	**(45.8)**	(35.7)
Actual return on plan assets less interest on plan assets	**15.1**	108.2
Exchange rate adjustment	**(1.2)**	2.4
Closing plan assets	**825.2**	832.2

Notes to the Group Financial Statements continued

25. Share capital & reserves

	2017 Number million	2016 Number million
Issued & fully paid share capital		
At the beginning of the year	**218.4**	214.7
Issued during the year in respect of scrip dividends	**1.2**	3.7
Issued during the year in respect of KOP acquisition (note 13)	**5.1**	–
At the end of the year	**224.7**	218.4
Treasury shares		
At the beginning of the year	**0.7**	0.7
Utilised during the year in respect of LTIP awards	**(0.2)**	–
At the end of the year	**0.5**	0.7

The Company has one class of ordinary share with a par value of 12.5p which carries no rights to fixed income.

5,060,237 ordinary shares of 12.5p each were issued on 19 July 2017, raising cash proceeds of £90m which were used to fund the acquisition of KOP Surface Products.

As at 31 December 2017, 3,803 shares (2016: 5,590) were held by the Kleinwort Employee Benefit Trust (EBT) with a market value of £0.1m (2016: £0.1m).

As at 31 December 2017, 28,181 shares (2016: 44,917) 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 £0.6m (2016: £0.8m).

As at 31 December 2017, 42,875 shares (2016: 28,871) were held by the Estera Employee Benefit Trust for the bonus shares awarded under the LTIP. These shares have a market value of £0.9m (2016: £0.5m).

Reserves
The period movements on the below reserves are summarised in the Consolidated Statement of Changes in Equity.

Merger reserve
The merger reserve was 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.

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.

	2017 £m	2016 £m
Revenue	**(1.8)**	0.1
Cost of sales	**2.1**	(1.7)
Administrative expenses	**–**	(0.3)
	0.3	(1.9)

26. Additional cash flow information

	Notes	2017 £m	2016 £m
Total operations			
Net cash generated from operations			
Operating profit – continuing operations		**223.1**	90.3
Operating loss – discontinued operations		**(0.1)**	(3.8)
Operating profit – total operations		**223.0**	86.5
Exceptional items	5, 8	**23.8**	77.5
Amortisation of intangible assets	12	**55.4**	50.3
Share of results of joint ventures	15	**(10.9)**	(7.2)
Depreciation of property, plant & equipment	11	**58.2**	56.2
Impairment of property, plant & equipment		**0.1**	–
Grants received		**(1.2)**	–
Gains on disposal of property, plant & equipment		**(0.1)**	(1.1)
Gains on disposal of joint ventures	5, 15	**(10.4)**	–
Funding of pension & post-retirement costs		**(4.8)**	(0.6)
Employee share schemes		**7.0**	4.1
Transactional foreign exchange		**(0.4)**	6.6
Decrease in provisions		**(0.5)**	(11.3)
Cash generated from operations before working capital cash flows		**339.2**	261.0
(Increase) decrease in inventories		**(64.2)**	7.1
(Increase) decrease in trade & other receivables and construction contracts		**(117.8)**	57.5
Increase (decrease) in trade & other payables and construction contracts		**63.3**	(33.0)
Cash generated from operations		**220.5**	292.6
Additional pension contributions paid		**(3.0)**	(2.8)
Exceptional cash items	22	**(28.6)**	(58.1)
Income tax paid		**(60.5)**	(15.7)
Net cash generated from operating activities		**128.4**	216.0

Exceptional items are detailed in note 5.

The provision and associated insurance asset in relation to US asbestos-related claims disclosed in note 22 will not result in any cash flows either to or from the Group and therefore they have been excluded from the table above.

The cash flows from discontinued operations included above are disclosed separately in note 8.

Notes to the Group Financial Statements continued

26. Additional cash flow information continued

The following tables summarise the cash flows arising on acquisitions and disposals.

	2017 £m	2016 £m
Acquisitions of subsidiaries		
Current year acquisitions (see below)	**(89.3)**	–
Prior year acquisitions contingent consideration paid	**(0.8)**	(10.6)
	(90.1)	(10.6)
Acquisition of subsidiaries – cash paid	**(92.5)**	–
Cash & cash equivalents acquired	**3.2**	–
Acquisition of subsidiaries – current year acquisitions	**(89.3)**	–
Total cash outflow on current year acquisitions	**(89.3)**	–
Prior period acquisitions contingent consideration paid	**(0.8)**	(10.6)
Total cash outflow relating to acquisitions	**(90.1)**	(10.6)
Net cash inflow arising on prior period disposals		
Consideration received in cash & cash equivalents	**–**	35.4
Less: cash & cash equivalents disposed of	**–**	(4.0)
Prior period disposals completion adjustment	**3.5**	–
Total cash inflow relating to prior period disposals	**3.5**	31.4

	2017 £m	2016 £m
Net debt comprises the following		
Cash & short-term deposits (note 19)	**284.6**	258.6
Current interest-bearing loans & borrowings (note 20)	**(388.4)**	(144.0)
Non-current interest-bearing loans & borrowings (note 20)	**(739.4)**	(949.1)
	(843.2)	(834.5)

Reconciliation of financing cash flows to movement in net debt

	Opening balance £m	Cash movements £m	Additions £m	FX £m	Non-cash movements £m	Total £m
Third party loans	(1,093.2)	**(110.1)**	**–**	**75.1**	**–**	**(1,128.2)**
Leases	(0.8)	**0.4**	**(0.6)**	**–**	**–**	**(1.0)**
Unamortised issue costs	2.5	**–**	**–**	**–**	**(1.0)**	**1.5**
Amounts included in gross debt	(1,091.5)	**(109.7)**	**(0.6)**	**75.1**	**(1.0)**	**(1,127.7)**
Cash & cash equivalents	257.0	**53.5**	**–**	**(26.0)**	**–**	**284.5**
Amounts included in net debt	(834.5)	**(56.2)**	**(0.6)**	**49.1**	**(1.0)**	**(843.2)**
Financing derivatives	(21.4)	**6.6**	**–**	**–**	**5.6**	**(9.2)**
Contingent consideration	(31.0)	**38.0**	**–**	**(0.5)**	**(9.9)**	**(3.4)**
Other liabilities relating to financing activities	(52.4)	**44.6**	**–**	**(0.5)**	**(4.3)**	**(12.6)**
Total financing liabilities*	(1,143.9)	**(65.1)**	**(0.6)**	**74.6**	**(5.3)**	**(1,140.3)**

*Total financing liabilities comprise gross debt plus other liabilities relating to financing activities.

27. 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.

	2017 £m	2016 £m
Less than 1 year	**34.6**	32.8
After 1 year but not more than 5 years	**94.2**	82.3
More than 5 years	**57.8**	65.5
	186.6	180.6

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 2017 £m	**Present value of payments 2017 £m**	Minimum payments 2016 £m	Present value of payments 2016 £m
Less than 1 year	**0.3**	**0.3**	0.4	0.3
After 1 year but not more than 5 years	**0.6**	**0.5**	0.4	0.5
After five years	**0.2**	**0.2**	–	–
Total minimum lease payments	**1.1**		0.8	
Less amounts representing finance charges	**(0.1)**		–	
Present value of minimum lease payments	**1.0**	**1.0**	0.8	0.8

The weighted average outstanding lease term is 5.54 years (2016: 2.42 years). For the year ended 31 December 2017, the weighted average effective borrowing rate was 5.98% (2016: 7.28%).

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Capital commitments

	2017 £m	2016 £m
Outstanding capital commitments contracted but not provided for – property, plant & equipment	**14.6**	13.3
Outstanding capital commitments contracted but not provided for – intangible assets	**2.8**	1.6

The Group's share of the capital commitments of its joint ventures amounted to £1.5m (2016: £nil).

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.

Notes to the Group Financial Statements continued

28. Equity settled share-based payments

Employee share plans

Under the Group's LTIP 2014 Rules the types of awards which may be granted under this Plan to employees include: Performance shares, Restricted shares and Bonus shares. Details of each award are outlined in the Remuneration Report on pages 95 to 115.

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 LTIP.

The following tables illustrate the number and weighted average share prices (WASP) of shares awarded.

Performance shares

	2017 Number million	**2017 WASP**	2016 Number million	2016 WASP
Outstanding at the beginning of the year	**1.7**	**£18.06**	1.5	£22.14
Awarded during the year	**0.3**	**£18.58**	0.6	£12.13
Forfeited during the year	**(0.9)**	**£24.91**	(0.4)	£23.74
Outstanding at the end of the year	**1.1**	**£16.34**	1.7	£18.06

Restricted shares

	2017 Number million	**2017 WASP**	2016 Number million	2016 WASP
Outstanding at the beginning of the year	**0.8**	**£12.91**	0.2	£19.94
Awarded during the year	**0.4**	**£18.59**	0.7	£11.16
Exercised during the year	**(0.2)**	**£14.75**	–	–
Forfeited during the year	**(0.2)**	**£13.84**	(0.1)	£14.15
Outstanding at the end of the year	**0.8**	**£14.89**	0.8	£12.91

An amount of £7.0m has been charged (2016: £4.0m) 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 year are as follows.

Year of award	**2017 Number million**	**2017 Remaining contractual life**	2016 Number million	2016 Remaining contractual life
2014	**–**	**–**	0.5	3 months
2015	**0.5**	**3 months**	0.7	15 months
2016	**0.8**	**15 months**	1.3	27 months
2017	**0.6**	**27 months**	–	–

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.

ii) Performance shares

The grant date fair value of the performance share awards subject to the EPS and ROCE performance targets is 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 is performed using a Monte Carlo simulation model. The following table gives the assumptions made during the periods ended 31 December 2017 and 31 December 2016 in the calculation of the fair value of awards subject to the TSR-related performance targets made in those years.

	2017	2016
Weighted average expected volatility (%)	**37.00**	37.00
Weighted average expected life (years)	**3.00**	3.00
Weighted average risk free rate (%)	**0.30**	0.70
Weighted average share price (£)	**18.58**	12.13
Weighted average fair value (£)	**8.17**	5.84

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 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 2017, 15,242 shares were awarded (2016: 9,338).

The fair value of the rights at grant date was estimated using the market price of the Company's shares on that date.

Notes to the Group Financial Statements continued

29. Related party disclosure

The following table provides the total amount of significant transactions which have been entered into with related parties for the relevant financial year and outstanding balances at the 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	Amounts owed to related parties £m
Joint ventures	**2017**	**48.7**	**0.5**	**0.2**	**0.3**	**–**
	2016	26.0	0.1	0.2	0.4	–
Group pension plans	**2017**	**–**	**–**	**–**	**–**	**4.3**
	2016	–	–	–	–	4.1

Contributions to the Group pension plans are disclosed in note 24.

Terms & conditions of transactions with related parties

Sales to and from related parties are made at normal market prices. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party balances. For 2017, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2016: £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.

Compensation of key management personnel	**2017 £m**	2016 £m
Short-term employee benefits	**6.9**	6.1
Share-based payments	**0.2**	–
Post-employment benefits	**0.2**	0.2
	7.3	6.3

Emoluments paid to the Directors of The Weir Group PLC	**2017 £m**	2016 £m
Remuneration	**3.0**	3.3
Gains made on the exercise of Long Term Incentive Plan awards	**0.1**	–
	3.1	3.3

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 115.

30. 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 IAS 39 compliant hedge relationships.

The table below summarises the types of derivative financial instrument included within each Balance Sheet category.

	2017 £m	2016 £m
Included in non-current assets		
Other forward foreign currency contracts	**0.3**	–
	0.3	–
Included in current assets		
Forward foreign currency contracts designated as cash flow hedges	**0.3**	–
Forward foreign currency contracts designated as net investment hedges	**7.5**	–
Other forward foreign currency contracts	**8.9**	24.0
	16.7	24.0
Included in current liabilities		
Forward foreign currency contracts designated as cash flow hedges	**(0.1)**	(1.2)
Forward foreign currency contracts designated as net investment hedges	**(1.6)**	(15.2)
Cross currency swaps designated as net investment hedges	**(8.9)**	(6.3)
Other forward foreign currency contracts	**(15.2)**	(7.5)
	(25.8)	(30.2)
Included in non-current liabilities		
Cross currency swaps designated as net investment hedges	**(0.7)**	(14.7)
Other forward foreign currency contracts	**–**	(0.2)
	(0.7)	(14.9)
Net derivative financial liabilities	**(9.5)**	(21.1)

Notes to the Group Financial Statements continued

30. 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.

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.

			Fair value measurement using		
	Carrying amount 2017 £m	**Fair value 2017 £m**	Level 1 Quoted prices in active markets £m	Level 2 Significant observable inputs £m	Level 3 Significant unobservable inputs £m
Financial assets					
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*	**611.7**	**611.7**			
Cash & short-term deposits*	**284.6**	**284.6**			
	913.7	**913.7**			
Financial liabilities					
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**			
Trade & other payables excluding statutory liabilities & deferred income*	**528.9**	**528.9**			
	1,686.6	**1,750.3**			

	Carrying amount 2016 £m	Fair value 2016 £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
Financial assets					
Derivative financial instruments recognised at fair value through profit or loss	24.0	24.0	–	24.0	–
Contingent consideration receivable	3.9	3.9	–	–	3.9
Trade & other receivables excluding statutory assets & prepayments*	481.8	481.8			
Cash & short-term deposits*	258.6	258.6			
	768.3	768.3			
Financial liabilities					
Derivative financial instruments recognised at fair value through profit or loss	7.7	7.7	–	7.7	–
Derivative financial instruments in designated hedge accounting relationships	37.4	37.4	–	37.4	–
Contingent consideration payable	31.0	31.0	–	–	31.0
Amortised cost					
Fixed rate borrowings	917.5	1,012.7	–	1,012.7	–
Floating rate borrowings	173.2	173.2	–	173.2	–
Obligations under finance leases	0.8	0.8	–	0.8	–
Bank overdrafts & short-term borrowings*	1.6	1.6			
Trade & other payables excluding statutory liabilities & deferred income*	443.8	443.8			
	1,613.0	1,708.2			

* The fair value of cash & short-term deposits, trade & other receivables and trade & other payables approximates their carrying amount due to the short-term maturities of these instruments. As such, disclosure of the fair value hierarchy for these items is not required.

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 2017 and 31 December 2016 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 2017 and 31 December 2016, 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.

Notes to the Group Financial Statements continued

30. Financial instruments continued

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 2017, cash & short-term deposits of £284.6m (2016: £258.6m) and current interest bearing loans & borrowings of £388.4m (2016: £144.0m) were presented after elimination of debit and credit balances within individual pools of £1.3m (2016: £2.3m).

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 2017, the Group had derivative financial instruments of £10.2m which were subject to master netting arrangements but not offset.

C. Hedging activities

The Group designates certain derivative financial instruments in either cash flow hedging or net investment hedging relationships in accordance with IAS 39.

	Cash flow hedge	Net investment hedge
Hedge relationship	Cash flow hedge of highly probable forecast foreign currency purchases and sales	Net investment hedge of foreign operations
Hedged risk	Transactional foreign exchange risk	Translational foreign exchange risk
Hedging instruments	Forward foreign currency contracts	Foreign currency debt Cross currency swaps Forward foreign currency contracts

For each type of derivative financial instrument, the net carrying amount, maturity dates and the amounts recognised for the year in profit or loss and equity are set out in the table below. In the Consolidated Financial Statements, these amounts are offset by the retranslation of foreign currency denominated receivables and payables.

Year ended 31 December 2017	**Net carrying amount £m**	**Maturity dates**	**Gain (loss) recognised in profit or loss £m**	**Gain recognised in equity £m**	**Loss recognised in inventory £m**
Forward foreign currency contracts designated as cash flow hedges	**0.2**	**2018**	**0.3**	**0.4**	**(0.6)**
Forward foreign currency contracts designated as net investment hedges	**5.9**	**2018**	**–**	**22.4**	**–**
Cross currency swaps designated as net investment hedges	**(9.6)**	**2018 to 2021**	**–**	**6.5**	**–**
Other forward foreign currency contracts at fair value through profit or loss	**(6.0)**	**2018 to 2019**	**(12.1)**	**–**	**–**
	(9.5)		**(11.8)**	**29.3**	**(0.6)**

Period ended 31 December 2016	Net carrying amount £m	Maturity dates	Gain recognised in profit or loss £m	Loss recognised in equity £m	Loss recognised in inventory £m
Forward foreign currency contracts designated as cash flow hedges	(1.2)	2017 to 2018	1.9	(0.7)	(0.4)
Forward foreign currency contracts designated as net investment hedges	(15.2)	2017	–	(53.6)	–
Cross currency swaps designated as net investment hedges	(21.0)	2017 to 2018	–	(26.6)	–
Other forward foreign currency contracts at fair value through profit or loss	16.3	2017 to 2019	40.6	–	–
	(21.1)		42.5	(80.9)	(0.4)

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 IAS 39. 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 Consolidated Income Statement, these amounts are offset by the retranslation of foreign currency denominated receivables and payables.

Transactional foreign exchange	Increase in currency rate	Effect on profit gain (loss) £m	Effect on equity gain £m
2017			
Australian Dollar	**+25%**	**11.1**	**19.5**
Euro	**+25%**	**32.4**	**20.9**
US Dollar	**+25%**	**0.7**	**130.1**
2016			
Australian Dollar	+25%	6.2	18.5
Euro	+25%	8.0	12.8
US Dollar	+25%	(1.1)	124.6

Notes to the Group Financial Statements continued

30. Financial instruments continued

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.

	2017 £m	2016 £m
US Dollar	**176.4**	70.0
Australian Dollar	**29.0**	33.8
Euro	**6.8**	26.2
Canadian Dollar	**33.9**	36.6
United Arab Emirates Dirham	**3.2**	5.8
Chilean Peso	**39.0**	35.6
South African Rand	**11.1**	4.9
Brazilian Real	**4.9**	3.6
Russian Rouble	**5.2**	6.9
UK Sterling	**(21.6)**	(11.2)
Other	**3.9**	1.8
Operating profit from continuing operations before exceptional items & intangibles amortisation	**291.8**	214.0

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.

The earnings of the Group are sensitive to changes in interest rates in respect of floating rate borrowings. As at 31 December 2017, 26% of the Group's borrowings were at floating interest rates. The interest rate profile of the Group's interest bearing borrowings was as follows.

	2017			2016		
	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m	Total £m
US Dollar	**(0.4)**	**(791.2)**	**(791.6)**	(32.7)	(875.2)	(907.9)
Euro	**(293.4)**	**–**	**(293.4)**	(142.1)	–	(142.1)
UK Sterling	**–**	**(43.0)**	**(43.0)**	–	(43.0)	(43.0)
Other	**–**	**(0.2)**	**(0.2)**	–	–	–

Sensitivity to interest rates

Based on borrowings at 31 December 2017, a 1% increase in interest rates would have a £2.9m 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 year and that all other variables are constant throughout the year.

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 20.

The tables below show only the financial liabilities of the 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 2017	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total £m
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)
Cash flows relating to derivative financial liabilities	(12.1)	(1.1)	1.9	–	(11.3)
Trade & other payables excluding statutory liabilities & deferred income	(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)
Cash flows relating to non-derivative financial liabilities	(952.7)	(183.9)	(502.3)	(151.3)	(1,790.2)
	(964.8)	(185.0)	(500.4)	(151.3)	(1,801.5)

Period ended 31 December 2016	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total £m
Cross currency swaps – outflow	(97.2)	(58.7)	–	–	(155.9)
Cross currency swaps – inflow	88.5	44.2	–	–	132.7
Forward foreign currency contracts – net outflow	(0.9)	(0.1)	(0.1)	–	(1.1)
Cash flows relating to derivative financial liabilities	(9.6)	(14.6)	(0.1)	–	(24.3)
Trade & other payables excluding statutory liabilities & deferred income	(461.3)	(13.7)	–	–	(475.0)
Obligations under finance leases	(0.3)	(0.3)	(0.2)	–	(0.8)
Bank overdrafts & short-term borrowings	(1.6)	–	–	–	(1.6)
Bank loans	(0.4)	(0.4)	(33.8)	–	(34.6)
Commercial paper	(142.1)	–	–	–	(142.1)
Fixed rate notes	(39.2)	(134.5)	(255.7)	(657.0)	(1,086.4)
Cash flows relating to non-derivative financial liabilities	(644.9)	(148.9)	(289.7)	(657.0)	(1,740.5)
	(654.5)	(163.5)	(289.8)	(657.0)	(1,764.8)

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 creditworthiness 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 Consolidated Balance Sheet are net of allowance for doubtful debts. An allowance for impairment is made where there is an identifiable loss event which, based on previous experience, is evidence of a reduction in the recoverability of amounts due to the Group.

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.

Notes to the Group Financial Statements continued

31. 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 monitors capital using the following indicators.

Net debt to EBITDA cover

Net debt to EBITDA comprises net debt divided by operating profit from continuing operations before exceptional items, intangibles amortisation and depreciation.

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). 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 2.5 times but is on a downward trajectory and remains actively managed.

	2017	2016
Net debt at average exchange rates (£m)	**873.7**	758.3
Operating profit (£m)	**218.2**	90.3
Exceptional items included in operating profit (note 5) (£m)	**13.3**	73.1
Depreciation and intangibles amortisation (£m)	**115.4**	106.5
EBITDA (£m)	**346.9**	269.9
Net debt to EBITDA cover (ratio)	**2.5**	2.8

Interest cover

Interest cover comprises operating profit from continuing operations before exceptional items and intangibles amortisation divided by net finance costs (excluding exceptional items and other finance costs).

	2017	2016
Operating profit before exceptional items & intangibles amortisation (£m)	**286.9**	214.0
Net finance costs (excluding exceptional items and other finance costs) (£m)	**38.0**	40.7
Interest cover (ratio)	**7.6**	5.3

Gearing ratio

Gearing comprises net debt divided by total equity. Net debt comprises cash & short-term deposits and interest-bearing loans & borrowings (note 26).

	2017	2016
Net debt (£m)	**843.2**	834.5
Total equity (£m)	**1,471.1**	1,383.6
Gearing ratio (%)	**57.3**	60.3

32. Exchange rates

The principal exchange rates applied in the preparation of these financial statements were as follows.

	2017	2016
Average rate (per £)		
US Dollar	**1.29**	1.36
Australian Dollar	**1.68**	1.83
Euro	**1.14**	1.22
Canadian Dollar	**1.67**	1.80
United Arab Emirates Dirham	**4.73**	4.98
Chilean Peso	**835.52**	918.59
South African Rand	**17.15**	20.00
Brazilian Real	**4.11**	4.75
Russian Rouble	**75.17**	91.20
Closing rate (per £)		
US Dollar	**1.35**	1.22
Australian Dollar	**1.73**	1.70
Euro	**1.13**	1.17
Canadian Dollar	**1.69**	1.65
United Arab Emirates Dirham	**4.97**	4.49
Chilean Peso	**832.26**	813.76
South African Rand	**16.76**	16.63
Brazilian Real	**4.48**	3.97
Russian Rouble	**77.86**	73.89

Company Balance Sheet

At 31 December 2017

	Notes	31 December 2017 £m	31 December 2016 £m
ASSETS			
Non-current assets			
Intangible assets	3	**0.2**	0.2
Property, plant & equipment	4	**4.0**	4.2
Investments in subsidiaries	5	**3,271.0**	3,101.6
Deferred tax assets	6	**21.3**	20.6
Trade & other receivables	7	**42.6**	42.5
Retirement benefit plan assets	8	**–**	9.8
Derivative financial instruments	9	**0.4**	0.1
Total non-current assets		**3,339.5**	3,179.0
Current assets			
Trade & other receivables	7	**178.0**	145.5
Derivative financial instruments	9	**28.0**	69.3
Cash & short-term deposits		**40.8**	14.6
Total current assets		**246.8**	229.4
Total assets		**3,586.3**	3,408.4
LIABILITIES			
Current liabilities			
Trade & other payables	10	**1,865.3**	1,282.9
Derivative financial instruments	9	**45.6**	43.1
Total current liabilities		**1,910.9**	1,326.0
Non-current liabilities			
Interest-bearing loans & borrowings	11	**905.5**	1,398.4
Derivative financial instruments	9	**1.1**	14.8
Provisions	12	**–**	0.2
Deferred tax liabilities	6	**2.4**	3.4
Retirement benefit plan deficits	8	**125.1**	131.1
Total non-current liabilities		**1,034.1**	1,547.9
Total liabilities		**2,945.0**	2,873.9
NET ASSETS		**641.3**	534.5
CAPITAL & RESERVES			
Share capital	13	**28.1**	27.3
Share premium		**197.9**	86.2
Merger reserve		**9.4**	9.4
Treasury shares		**(5.9)**	(5.9)
Capital redemption reserve		**0.5**	0.5
Special reserve		**1.8**	1.8
Retained earnings		**409.5**	415.2
TOTAL EQUITY		**641.3**	534.5

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 have not been separately presented in these financial statements. The profit of the Company was £85.0m (2016: loss of £13.5m).

The financial statements on pages 186 to 201 were approved by the Board of Directors on 28 February 2018.

Jon Stanton
Director

John Heasley
Director

Company Statement of Changes in Equity

for the year ended 31 December 2017

	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 1 January 2016	26.8	38.0	9.4	(5.8)	0.5	1.8	563.5	634.2
Loss for the period	–	–	–	–	–	–	(13.5)	(13.5)
Remeasurements on defined benefit plans	–	–	–	–	–	–	(53.2)	(53.2)
Tax relating to other comprehensive expense	–	–	–	–	–	–	8.6	8.6
Total net comprehensive expense for the period	–	–	–	–	–	–	(58.1)	(58.1)
Issue of shares	0.5	48.2	–	–	–	–	–	48.7
Cost of share-based payments inclusive of tax charge	–	–	–	–	–	–	4.3	4.3
Dividends (note 2)	–	–	–	–	–	–	(94.5)	(94.5)
Purchase of shares*	–	–	–	(0.1)	–	–	–	(0.1)
At 31 December 2016	**27.3**	**86.2**	**9.4**	**(5.9)**	**0.5**	**1.8**	**415.2**	**534.5**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**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 year	**–**	**–**	**–**	**–**	**–**	**–**	**83.3**	**83.3**
Issue of shares	**0.8**	**111.7**	**–**	**–**	**–**	**–**	**–**	**112.5**
Cost of share-based payments inclusive of tax charge	**–**	**–**	**–**	**–**	**–**	**–**	**7.7**	**7.7**
Dividends (note 2)	**–**	**–**	**–**	**–**	**–**	**–**	**(96.7)**	**(96.7)**
At 31 December 2017	**28.1**	**197.9**	**9.4**	**(5.9)**	**0.5**	**1.8**	**409.5**	**641.3**

* These shares were purchased on the open market and are held by the Estera EBT on behalf of the Group.

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 2017 ('2017') were approved and authorised for issue in accordance with a resolution of the Directors on 28 February 2018. The comparative information is presented for the period commencing 2 January 2016 and ended 31 December 2016 ('2016').

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.

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 base 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 consider the more complex judgements and 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.

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.

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

Investments
Investments in subsidiaries are held at cost less accumulated impairment losses. Loans and receivables 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 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 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 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 year in which they fall due.

Share-based payments
Equity settled share-based incentives are provided to employees under the Group's Long Term Incentive Plan (LTIP) and as a consequence of occasional one-off conditional awards made to employees.

The fair value of the LTIP 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.

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.

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.

Notes to the Company Financial Statements continued

1. Accounting policies continued

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 year.

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 £85.0m (2016: loss of £13.5m). The corporate tax credit dealt with in the accounts of the Company was £11.0m (2016: £12.4m).

Dividends paid & proposed	2017 £m	2016 £m
Declared & paid during the year		
Equity dividends on ordinary shares		
Final dividend for 2016: 29.0p (2015: 29.0p)	**63.1**	62.0
Interim dividend for 2017: 15.0p (2016: 15.0p)	**33.6**	32.5
	96.7	94.5
Proposed for approval by shareholders at the Annual General Meeting		
Final dividend for 2017: 29.0p (2016: 29.0p)	**65.0**	63.1

In 2016 and 2017, 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 2016 of £6.4m share issue and a cash dividend of £56.7m (final dividend for 2015: £29.6m share issue; £32.4m cash). The interim dividend for 2017 was split £16.1m share issue and £17.5m cash dividend (interim dividend for 2016: £19.1m share issue; £13.4m cash).

The proposed dividend is based on the number of shares in issue, excluding treasury shares held, at the date 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.

	2017 £m	2016 £m
Employee benefits expense		
Wages & salaries	**13.3**	14.5
Social security costs	**2.5**	2.3
Pension costs		
Defined benefit plans (note 8)	**0.1**	0.2
Defined contribution plans	**0.4**	0.4
Share-based payments – equity settled transactions	**7.0**	4.1
	23.3	21.5

At 31 December 2017, the average number of people employed by the Company was 102 (2016: 89).

Directors

Details of Directors' remuneration, benefits and LTIP awards are included in the Remuneration report on pages 95 to 115, and in note 29 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 £20,000 (2016: £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.

Notes to the Company Financial Statements continued

3. Intangible assets

	Purchased software total £m
Cost	
At beginning and end of the year	**1.1**
Aggregate amortisation	
At beginning and end of the year	**0.9**
Net book value at 31 December 2016	0.2
Net book value at 31 December 2017	**0.2**

Outstanding commitments entered into on behalf of a subsidiary contracted but not provided for relating to intangible assets amounted to £nil (2016: £0.9m).

4. Property, plant & equipment

	Long leasehold land & buildings £m	Office & computer equipment £m	Total £m
Cost			
At 31 December 2016	**4.2**	**1.7**	**5.9**
Additions	**0.1**	**–**	**0.1**
At 31 December 2017	**4.3**	**1.7**	**6.0**
Aggregate depreciation			
At 31 December 2016	**0.3**	**1.4**	**1.7**
Charge for year	**0.2**	**0.1**	**0.3**
At 31 December 2017	**0.5**	**1.5**	**2.0**
Net book value at 31 December 2016	3.9	0.3	4.2
Net book value at 31 December 2017	**3.8**	**0.2**	**4.0**

Outstanding capital commitments entered into on behalf of a subsidiary contracted but not provided for relating to property, plant & equipment amounted to £nil (2016: £2.0m).

5. Investments in subsidiaries

	Subsidiaries shares	Loans £m	Total £m
Cost			
At 31 December 2016	**1,738.9**	**1,369.4**	**3,108.3**
Additions	**–**	**420.6**	**420.6**
Settlement	**–**	**(187.9)**	**(187.9)**
Exchange	**–**	**(63.3)**	**(63.3)**
At 31 December 2017	**1,738.9**	**1,538.8**	**3,277.7**
Impairment			
At 31 December 2017 and 31 December 2016	**1.3**	**5.4**	**6.7**
Net book value at 31 December 2016	**1,737.6**	**1,364.0**	**3,101.6**
Net book value at 31 December 2017	**1,737.6**	**1,533.4**	**3,271.0**

The subsidiaries and joint ventures of the Company are listed on pages 202 to 209.

6. Deferred tax

	2017 £m	2016 £m
Deferred income tax assets		
Retirement benefits	**21.3**	20.6
Deferred income tax assets	**21.3**	20.6
Deferred income tax liabilities	**(2.4)**	(3.4)
Other timing differences	**(2.4)**	(3.4)
Retirement benefits	**21.3**	20.6
	18.9	17.2

7. Trade & other receivables

Trade & other receivables presented as non-current on the face of the Company balance sheet of £42.6m (2016: £42.5m) 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.

	2017 £m	2016 £m
Amounts recoverable within one year		
Amounts owed by subsidiaries	**158.8**	128.6
Tax receivable	**15.3**	12.9
Other debtors	**3.6**	3.8
Prepayments & accrued income	**0.3**	0.2
	178.0	145.5

Notes to the Company Financial Statements continued

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 for the Main Plan through the insurance policies held by the Plan.

Assumptions

The significant actuarial assumptions used for accounting purposes reflect prevailing market conditions and are as follows:

	2017	2016
Significant actuarial assumptions:		
Discount rate (% pa)	**2.4**	2.6
Retail Prices Inflation assumption (% pa)	**3.2**	3.3
Post-retirement mortality (life expectancies in years):		
Current pensioners at 65 – male	**22.1**	22.2
Current pensioners at 65 – female	**24.0**	24.3
Future pensioners at 65 – male	**23.5**	24.0
Future pensioners at 65 – female	**25.5**	26.2
Other related actuarial assumptions:		
Rate of increases for pensions in payment (% pa)		
Pre 6 April 2006 service	**3.1**	3.1
Post 5 April 2006 service	**2.1**	2.1
Consumer Prices Inflation assumption (% pa)	**2.1**	2.2

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year'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 2038 (in 20 years' time).

The assets and liabilities of the plans are as follows.

	2017 £m	2016 £m
Plan assets at fair value		
Equities (quoted)	**190.3**	206.9
Diversified Growth Funds (primarily quoted)	**56.8**	51.5
Corporate bonds (quoted)	**75.4**	82.3
Government bonds (quoted)	**74.7**	97.2
Insurance policies (unquoted)	**414.1**	379.2
Cash (quoted)	**0.4**	1.6
Fair value of plan assets	**811.7**	818.7
Present value of funded obligations	**(935.3)**	(938.4)
Net funded obligations	**(123.6)**	(119.7)
Present value of unfunded obligations	**(1.5)**	(1.6)
Net liability	**(125.1)**	(121.3)
Plan in surplus	**–**	9.8
Plan in deficit	**(125.1)**	(131.1)

The government bonds held in 2017 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.

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.

	2017 £m	2016 £m
Opening net liabilities	**(121.3)**	(68.1)
Expense charged to profit & loss	**(3.3)**	(2.6)
Amount recognised in Statement of Comprehensive Income	**(2.6)**	(53.1)
Employer contributions	**2.1**	2.5
Closing net liabilities	**(125.1)**	(121.3)

Notes to the Company Financial Statements continued

8. Retirement benefits continued

The amounts recognised in the income statement and in the statement of comprehensive income for the year are analysed as follows.

	2017 £m	2016 £m
Recognised in the Income Statement		
Administrative expenses	**(0.1)**	(0.2)
Included in operating profit (loss)	**(0.1)**	(0.2)
Interest on net pension liability	**(3.2)**	(2.4)
Total expense charged to profit & loss	**(3.3)**	(2.6)
Recognised in the Statement of Comprehensive Income		
Actual return on plan assets	**33.8**	133.7
Less: interest on plan assets	**(20.7)**	(25.9)
	13.1	107.8
Other actuarial (losses) gains due to		
Changes in financial assumptions	**(32.9)**	(171.6)
Changes in demographic assumptions	**17.2**	10.7
Actuarial losses recognised in the Statement of Comprehensive Income	**(2.6)**	(53.1)

Current service cost and administration expenses are recognised in operating costs and interest on net pension liability is recognised in other finance costs.

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 £2.0m in 2017 (2016: £2.4m) in addition to the Company's regular contributions.

The most recent actuarial funding valuation of the Main Plan was as at 31 December 2014 when the funding shortfall was £65.0m. Under the recovery plan agreed with the Trustees, the Company entered into a pension funding partnership structure under which it contributed 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 a FRS 101 accounting basis as the investments held do not qualify as assets for FRS 101 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. The profits to be shared with the Plan will be reflected in the Company's financial statements as a pension contribution.

The Executive Plan actuarial valuation at 31 December 2013 included a funding shortfall of £10.6m with agreed recovery contributions of £2.4m per annum to 31 December 2017. The Trustees of the UK Executive Scheme entered into a full buy-in transaction in the third quarter of 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 (estimated to be £1.2m), which is expected to be paid in 2018 following a data cleanse process to finalise the insurance policy. The FRS 101 Balance Sheet at the 2017 year end reflects this expected payment due.

The Company has taken legal advice regarding its UK arrangements to confirm the accounting treatment under IFRIC 14 and the current exposure draft of the revised 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 total Company contributions for 2018 (including those expected from the SLP) are expected to be £4.3m.

Sensitivity analysis

Changes in key assumptions can have a significant effect on the reported net retirement benefit obligation and the income statement expense for 2018. The effects of changes in those assumptions are set out in the table below.

	Increase 2017 £m	**Decrease 2017 £m**	Increase 2016 £m	Decrease 2016 £m
Discount rate				
Effect on defined benefit obligation of a 1.0% change	**144.5**	**(176.2)**	143.3	(174.3)
Effect on net liability of a 1.0% change	**103.0**	**(129.5)**	106.6	(133.3)
RPI inflation (and associated assumptions)				
Effect on defined benefit obligation of a 1.0% change	**(95.8)**	**87.3**	(90.3)	82.8
Effect on net liability of a 1.0% change	**(62.2)**	**56.0**	(64.2)	58.1
Life expectancy				
Effect on defined benefit obligation of a 1 year change	**(28.0)**	**28.0**	(28.1)	28.1
Effect on net liability of a 1 year change	**(12.8)**	**12.8**	(14.1)	14.1

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.

	2017 £m	2016 £m
Opening defined benefit obligations	**(940.0)**	(783.2)
Interest on benefit obligations	**(23.9)**	(28.3)
Benefits paid	**42.8**	32.4
Actuarial (losses) gains due to		
Changes in financial assumptions	**(32.9)**	(171.6)
Changes in demographic assumptions	**17.2**	10.7
Closing defined benefit obligations	**(936.8)**	(940.0)

Changes in the fair value of plan assets are analysed as follows.

	2017 £m	2016 £m
Opening plan assets	**818.7**	715.1
Interest on plan assets	**20.7**	25.9
Employer contributions	**2.1**	2.5
Administrative expenses	**(0.1)**	(0.2)
Benefits paid	**(42.8)**	(32.4)
Actual return on plan assets less interest on plan assets	**13.1**	107.8
Closing plan assets	**811.7**	818.7

Notes to the Company Financial Statements continued

9. Derivative financial instruments

	2017 £m	2016 £m
Non-current assets		
Forward foreign currency contracts	**0.4**	0.1
	0.4	0.1
Current assets		
Forward foreign currency contracts	**28.0**	69.3
	28.0	69.3
Current liabilities		
Cross currency swaps	**(8.9)**	(6.3)
Forward foreign currency contracts	**(36.7)**	(36.8)
	(45.6)	(43.1)
Non-current liabilities		
Cross currency swaps	**(0.7)**	(14.7)
Forward foreign currency contracts	**(0.4)**	(0.1)
	(1.1)	(14.8)

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

	2017 £m	2016 £m
Bank overdrafts & short-term borrowings	**387.7**	142.3
Loans from subsidiaries (note 11)	**1,421.2**	1,078.3
Amounts owed to subsidiaries	**25.4**	28.5
Other taxes & social security costs	**1.3**	1.1
Other creditors	**1.7**	3.9
Accruals & deferred income	**28.0**	28.8
	1,865.3	1,282.9

11. Interest-bearing loans & borrowings

	2017 £m	2016 £m
Amounts due are repayable as follows		
Less than one year		
– fixed rate notes	**94.4**	–
– commercial paper	**293.3**	142.1
– loans from subsidiaries	**1,421.2**	1,078.3
More than one year but not more than two years		
– fixed rate notes	**155.0**	100.2
– loans from subsidiaries	**4.4**	340.6
More than two years but not more than five years		
– bank loans	**–**	31.4
– fixed rate notes	**435.8**	171.7
– loans from subsidiaries	**162.5**	108.9
More than five years		
– fixed rate notes	**147.8**	645.6
	2,714.4	2,618.8
Less current instalments due on		
– fixed rate notes	**(94.4)**	–
– commercial paper	**(293.3)**	(142.1)
– loans from subsidiaries	**(1,421.2)**	(1,078.3)
	905.5	1,398.4

The loans from subsidiaries with a maturity date greater than one year and less than two years are repayable in 2018 and have an interest rate of 10.25%. The loans from subsidiaries with a maturity date greater than two years and less than five years are repayable in 2020 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 20 to the Group Financial Statements.

12. Provisions

	Exceptional rationalisation £m
At 31 December 2016	**0.2**
Released – unutilised	**(0.2)**
At 31 December 2017	**–**

As at 31 December 2017, a provision of £nil (2016: £0.2m) has been made in respect of an onerous contract for leased premises over one year.

Notes to the Company Financial Statements continued

13. Share capital & reserves

	2017 £m	2016 £m
Allotted, called up & fully paid		
Ordinary shares of 12.5p each	**28.1**	27.3

The value of treasury shares is £0.1m, being 473,912 shares at 12.5p.

	2017 Number million	2016 Number million
Shares allotted		
Issued during the year in respect of KOP acquisition	**5.1**	–
Issued during the year in respect of scrip dividends	**1.2**	3.7
Treasury shares		
At the beginning of the year	**0.7**	0.7
Utilised during the year in respect of LTIP awards	**(0.2)**	–
At the end of the year	**0.5**	0.7
Equity settled share-based payments		
LTIP awards outstanding at the end of the year	**1.9**	2.5

Further details of the equity settled share-based payments and the associated cost for the year can be found in note 28 to the Group Financial Statements.

Merger reserve
The merger reserve was 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 20 years. Future minimum rentals payable under non-cancellable operating leases are shown in the table below.

	2017 £m	2016 £m
Less than 1 year	**0.1**	–
After 1 year but not more than 5 years	**3.0**	2.4
More than 5 years	**9.3**	10.0
	12.4	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 £628.7m (2016: £616.6m). 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 year end.

Related party		Group charges £m	Amounts due £m
Weir ABF LP	**2017**	**–**	**55.9**
	2016	–	56.3
Weir Minerals (India) Private Ltd	**2017**	**–**	**0.2**
	2016	0.1	0.1
Vulco SA	**2017**	**1.0**	**1.4**
	2016	–	0.1

17. Financial risk management objectives and policies

The description of the Group's financial risk management objectives and policies is provided in note 30 to the Group financial statements.

These financial risk management objectives and policies also apply to the Company.