Chairman's Statement

Generating value for all our stakeholders

Charles Berry
Chairman

Dear Shareholder,
2017 saw the Group take full advantage of the improvement in our main markets by leveraging our business model and effectively delivering our strategy to produce increased value for our stakeholders.

Corporate Governance

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

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While 2017's market trends provided a welcome tailwind, they were anticipated by the Group and Weir was well positioned to act quickly and take full advantage of the upturn in both North American oil and gas and global mining markets.

This led the Group to outperform these markets and in doing so reaffirmed the strength of its business model, the clarity of its strategy and quality of our near 15,000 people around the world. The Board experienced this directly on a visit to South Africa, where the benefits of Weir's culture and commitment to being an active partner in local communities was a real highlight.

You can read more about the Board's visit on page 81.

On behalf of the Board, I wish to record our gratitude to all Weir employees for their efforts throughout the year in delivering for our shareholders, customers and communities.

Financial results

I am pleased to report a strong year of growth for your Company. Reported revenues increased to £2,356m, up 28%. On a constant currency basis, revenues were 19% higher year-on-year. Pre-tax profits from continuing operations, before exceptional items and intangibles amortisation, of £250m represent a 47% increase on the previous year. Reported profit after tax of £162m was up 274% from 2016.

You can read more in the Financial Review on page 24.

Shareholder returns

We are proposing a final dividend payment of 29.0p per share, making 44.0p for the full year.

Sustainable growth

By definition, Weir, with its heritage stretching back to 1871, has proven itself to be a sustainable business. This has been achieved, amongst other things, by aligning the interests of the Group with those of the communities in which we operate.

Our culture and values

Everything we do as a company stems from our core values:

Think 'safety first'

Delight our customers

Deliver quality

Do the right thing

Explore and innovate

The Board recognises that the business will be more successful if it partners with stakeholders and makes a positive contribution to society. The Group does this in a variety of ways from supporting local employment and suppliers to working with governments and local communities to help educate the next generation of engineers.

In the UK, this includes the Primary Engineer programme that aims to encourage young pupils from all backgrounds to consider a career in science, technology, engineering or mathematics.

The Group is also promoting greater diversity and inclusion in a sector that has traditionally been male-dominated. The best ideas come from a variety of perspectives and, as a company that relies on the innovation and ingenuity of all our people, we need to be a workplace that allows everyone's talent to flourish.

The Board will reach its aim of ensuring that at least a third of its members are female following the 2018 Annual General Meeting (AGM), two years ahead of our original 2020 target.

While this is welcome progress, we must increase diversity throughout the organisation, from those starting out in their careers to senior leaders, and each business has plans in place to help them achieve this aim.

Governance and Board changes

As previously announced, there were some significant changes to the composition of your Board in 2017.

On 30 September, Melanie Gee stood down as a Non-Executive Director and Chair of the Remuneration Committee, having served for six years. John Mogford and Alan Ferguson also announced during the year that they would not be seeking re-election at the 2018 AGM, having served ten and seven years respectively.

I would like to formally record the Group's thanks to Melanie, John and Alan for their exceptional service to Weir during their terms.

Clare Chapman and Barbara Jeremiah joined the Board as Non-Executive Directors in August of 2017. Clare is the former Group People Director of BT Group plc and succeeded Melanie Gee as the Chair of the Remuneration Committee. Barbara, who is a former Executive Vice-President of Alcoa, joined the Audit and Remuneration Committees. In January 2018, Stephen Young, former CEO of Meggitt plc, joined the Board and he will succeed Alan Ferguson as Audit Committee Chairman from 28 April 2018.

Looking ahead to the rest of 2018, the Board will focus on continuing to support CEO Jon Stanton as he executes our strategy and builds an even more sustainable business.

Charles Berry
Chairman
28 February 2018

> "The Board recognises that the business will be more successful if it partners with stakeholders and makes a positive contribution to society."

Members of the Board visited customers as part of its meeting in South Africa.

You can read more in Governance in Action on page 81.

Chief Executive Officer's Review

Delivering sustainable long-term performance

Jon Stanton
Chief Executive Officer

2017 saw the Group deliver strong growth and strategic progress by being proactive and leveraging our leadership positions in increasingly attractive markets.

This time last year I set out our new 'We are Weir' strategic framework. It gave the Group a clear future direction and articulated the distinctive competencies – People, Customers, Technology, and Performance – that will help Weir achieve our vision of being the most admired engineering business in our markets.

As 2017 progressed, 'We are Weir' gained real traction across the business with teams from all over the world contributing to a vibrant debate about how best to execute our new strategy and deliver strong returns for all our stakeholders.

That passion and shared sense of purpose is extremely important and powerful. As we look to the future, we have a good sense of where we want to go as a business and how we are going to get there. That includes agreeing new key performance indicators to be delivered over the medium term, starting in 2018. They are:

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

These indicators will guide our short- to medium-term progress and will require excellent execution of our strategy, building on the good progress delivered in 2017.

Strategic progress

People

Safety is our number one priority and I am pleased to report excellent progress in the past year. The Group's total incident rate (TIR), our primary measure of safety performance, reduced from 0.66 to 0.53, a 20% improvement. This has been achieved by a clear commitment from the top of the organisation through the Chief Executive's Safety Committee and other initiatives, but more importantly by the widespread adoption of a bottom-up behavioural safety culture that focuses on reducing harm and ensuring our people have a safe start, safe finish and safe journey home. There are parts of the Group that consistently achieve zero harm, but we won't be satisfied until that is consistent across all our businesses.

In addition to improving safety, we have also re-invested in our people development programmes. This was an area where the business cut back during the downturn and it was important to rebuild in order to maintain our strong record of execution. Having leaders who can mentor and develop the potential of their teams is vital. The quality and passion of our people is a real differentiator for Weir and ensuring we have a highly skilled and fully engaged workforce is critical to our future success.

Going forward, safety will continue to be our number one priority. We have also developed a new people strategy aimed at strengthening our culture and inspiring our people to reach their potential and build a personal legacy. It includes a new approach to strategic workforce planning and reviewing the employee experience to ensure it aligns with our culture and allows us to recruit and retain a diverse and vibrant workforce.

To help ensure our performance is fully aligned to the interests of our investors we'll introduce an all-employee share ownership plan in 2019. The success of the Group depends on the efforts of all our people and it is right that we give them a real stake in our future. You can read further details of our proposed plan in our Remuneration Committee report from page 95.

Customers

Our customers are the reason we exist and thrive. Every Weir colleague should wake up each day thinking how we can do more to help our customers do better.

Traditionally, we have taken a product-led approach, but as part of the We are Weir strategic framework, we are moving to an integrated solutions mindset in which our people spend more time on site, listening to customers' operational challenges and then designing a package of solutions to help them achieve their goals.

This approach helps embed Weir even further into the operations of our customers and differentiates us more clearly from competitors. In Minerals, it helped increase orders ahead of global mining and sustaining capital spending. Oil & Gas also outperformed North American rig count growth, leveraging their key account management programme to build even closer relationships with leading oilfield services companies. Flow Control grew aftermarket orders in tough markets and reshaped its sales and marketing structure to increase its customer intimacy.

We will continue to build even closer customer relationships in the future, building on the competitive advantage provided by our comprehensive service network and seeking to continue to take early advantage of market trends. We will also work closely with customers to jointly develop new technologies that help them achieve their objectives and further embed Weir at the heart of their operations.

You can read more in our divisional operational reviews beginning on page 28.

Technology

The Group delivered revenues of £168m from new solutions in 2017, a 53% increase, as we continued to benefit from our commitment to research and development (R&D) during the downturns that affected both mining and oil and gas markets. We also made progress towards our aim of investing 2% of revenues in R&D with 2017 expenditure of £40m (2016: £27m) representing 1.7% of sales, up from 1.5% in 2016. Our next generation frac pump, the SPM® QEM 3000, is on trial with a number of the larger oilfield services companies, positioning the Group to benefit from any capital replacement cycle as frac fleets are upgraded in the future.

A CEO 'Town Hall' meeting in Jiading, China.

The Group's Internet of Things (IoT) technology, Synertrex®, was also successfully trialled in a number of regions, allowing customers to easily monitor the performance of their equipment and giving Weir valuable data to support future innovation.

Alongside our established process of product development, the Group has developed a new technology strategy that will ensure we continue to lead the change in our markets and build on our legacy of innovative engineering. It includes increasing the digitisation of our solutions and operations, integrating advanced manufacturing into our factories, reinforcing our materials science leadership and developing ways to reduce our customers' energy and water consumption; helping underpin the sustainability of our end markets.

Performance

Operational excellence has been a traditional strength of the Group and in 2017 we took important steps to reinvigorate our Value Chain Excellence (VCE) initiatives across the business. Reviews were conducted to assess the potential of every business unit to make improvements.

More than 80 VCE projects were initiated, supported by extensive training programmes, and targeted at increasing on time delivery and reducing inventory turns. While overall working capital increased during the year as the business grew quickly, there was progress on increasing inventory turns.

In 2018, we expect that progress to accelerate as we see some of the benefits of our renewed focus on operational excellence come through. In the longer term, we aim to significantly improve working capital performance supporting the Group's ability to invest in further growth opportunities.

Capital allocation

In July, the Group acquired leading South East Asian wellhead manufacturer KOP Surface Products for an equivalent enterprise value of US$114m to support growth of our pressure control offering in the eastern hemisphere. KOP's technology complements Weir's existing Oil & Gas portfolio and will help accelerate progress in attractive Middle East and Asian markets.

2017 markets and business review

The Group's financial performance in 2017 reflects the proactive approach taken by the business to act early and invest in extending our competitive advantages. This, coupled with rapid improvement in market conditions in North American oil and gas and increased investment by miners on brownfield assets, contributed to a 20% increase in constant currency orders.

Chief Executive Officer's Review continued

Strong order growth

£2,395m

+20%

Revenues from new products

£168m

+53%

The performance of the Oil & Gas division in particular was excellent. It moved from a £9m operating loss in 2016 to an operating profit of £92m in 2017. As the oil price and North American rig count recovered through the year, the division's main manufacturing facility in Fort Worth, Texas, flexed its operations and significantly increased capacity, moving from one shift to three. As a result of previous reductions in fixed costs, the facility delivered excellent operating leverage that contributed to its overall performance.

Minerals delivered double-digit order growth as it captured opportunities in global mining markets. Alongside its integrated solutions strategy that delivered £67m in revenues, the division invested in additional sales and project engineers to support future growth, as confidence and quotation activity in mining markets increased.

As orders grew there were some limited operational issues in the division as a result of plant and supply chain reconfigurations. While these were short-term, they, alongside the additional investment and some project delays, had an impact on the division's operating margin, but it remained within its normal long-term range.

Flow Control turned a corner in the second half of the year after its first half performance was impacted by tough market conditions in power and downstream oil and gas, while the division also recorded a one-off charge of £13m resulting from legacy contract challenges in its Gabbioneta business. This resulted in the division recording a small operating loss of £3m for the full year. As 2017 progressed, there were early signs of recovery in mid and downstream oil and gas markets while nuclear activity in China and South Korea continued to progress, with the division delivering good growth in its valves aftermarket business. After a restructuring of its sales and marketing capability, the division is now clearly focused on capturing future growth opportunities.

Outlook for 2018

Customers in our main markets are expected to increase investment in 2018 with global mining expenditure expected to increase after a prolonged downturn. Investment by exploration and production companies in upstream North American markets is also expected to increase, supported by commodity prices and increased efficiencies in the industry. Power, mid and downstream oil and gas markets are showing initial indications of improvement.

To fully benefit from these trends, the Group will leverage the four distinctive competencies at the heart of our strategic framework; People, Customers, Technology and Performance.

Looking to 2018, assuming market conditions remain supportive, we expect to deliver strong constant currency revenue and profit growth and further balance sheet deleveraging.

Jon Stanton
Chief Executive Officer
28 February 2018

My Team

See biographies on page 70.

Team priorities

The Group Executive was strengthened in 2017 with the appointment of Geetha Dabir as Chief Technology Officer and Rosemary McGinness as Chief People Officer. Our medium-term key performance indicators are shown below:

People

Improved sustainable engagement score and increased organisational effectiveness

Customers

Increased market share

Technology

Improved percentage of revenues from new solutions

Performance

Sustainably higher margins through cycle

Chief Executive Officer's Q&A

Building a stronger legacy

Jon Stanton
Chief Executive Officer

Q What are your reflections on your first full year as Weir CEO?

The main highlight for me was the adoption of the We are Weir strategy. I've spoken to hundreds of our people in the past year and there has been great enthusiasm from across our global operations. This is a Group with a strong culture, great optimism and a clear view of the role we all have to play in building a stronger legacy for future generations.

Another highlight is the decisiveness we showed in responding to the rapid improvement in our core markets. We were aggressive during the downturn and we were determined to be equally proactive in the upturn. I think we've done that well, particularly in Oil & Gas, where the recovery was steepest. We did that while at the same time making good strategic progress that will deliver value over the long term.

In terms of improvements, I think we still have work to do to optimise our operations. 2017 was about identifying opportunities and the years ahead will be about seizing those opportunities to become more efficient and better serve our customers.

Q How has the Group's strategy developed in the past year?

We've made good progress in defining our technology strategy during the year. The appointment of our new Chief Technology Officer, Geetha Dabir, whose career has been spent in Silicon Valley, has brought a new perspective and focus to the business, as we increasingly digitise our offering. We're also developing a new people strategy led by our new Chief People Officer, Rosemary McGinness, to ensure we promote a high-performance culture and have the capabilities we will need to succeed in the years ahead. We'll do more work to refine that strategy throughout 2018. We are also further integrating sustainability throughout the business and we'll establish baselines in the next year in terms of our own performance, in addition to helping our customers operate more sustainably.

Q The Group operates in cyclical markets, how sustainable are current conditions?

Industry expectations are also for a multi-year upturn in the mining capital cycle supported by anticipated demand for commodities like copper as the world invests more in infrastructure and the move towards electric vehicles.

In oil and gas we've clearly seen a structural change with shale oil and gas becoming very competitive and maturing into a dependable source of global energy supply. North America and the Middle East are the most attractive oil and gas markets in the world and they also happen to be where most of our activity in this industry takes place. So I think we are in the right places, with good market positions.

Finally, conditions in mid and downstream oil and gas and power – both served by Flow Control – are showing some green shoots of recovery after a prolonged downturn.

Overall, our markets are increasingly attractive and we are well positioned to take advantage of those improved conditions.

Q What are the other main trends you see impacting the Group in the future?

As a truly global business that serves natural resources and energy customers, there are many issues we look at. Firstly, the health of the global economy, which improved in 2017 as growth picked up in advanced and emerging economies, driving demand for commodities.

Secondly, tackling climate change is clearly a priority and we are investigating how we can help customers reduce their energy and water usage as well as reducing our own environmental impact. And thirdly, technology is changing rapidly, with 'big data' and advanced manufacturing increasingly important in the markets we serve.

That is why we have a new technology strategy to take advantage of these changes. There are many more issues I could highlight, but uniting them all is the importance of being proactive and agile as a business so that we can respond to changes quickly and capture opportunities wherever they are.

Q And how does this impact your view on allocating capital?

We have some really strong market positions and we are focused on using those as a platform to grow in what are increasingly attractive markets.

Take comminution (crushing, grinding and screening), where we increased capability with the acquisition of Trio Engineered Products in 2014. This allowed us to offer our mining customers a wider portfolio of products while also giving us access to sand and aggregates markets.

Since the acquisition, the Minerals division has applied its materials science knowledge to develop new crusher technologies and leveraged its comprehensive service network to globalise the Trio brand in both mining and sand, and aggregates, markets. To give a sense of the progress, in 2017, comminution revenues for original equipment increased by a third.

So where there are opportunities to accelerate our strategy through disciplined mergers and acquisition activity, we'll take them.

> "This is a Group with a strong culture, great optimism and a clear view of the role we all have to play in building a stronger legacy for future generations."

Financial Review

Delivering strong growth while investing to fully capture market opportunities

John Heasley
Chief Financial Officer

Overview

Having delivered strong revenue and profit growth in 2017, the positive outlook for our Minerals and Oil & Gas markets, together with our disciplined investment in strategic priorities and improving leverage ratios, mean that we look forward with confidence.

Revenue growth

28%

as reported

PBT growth

47%

as reported (excluding exceptionals and amortisation)

You can read more in the Financial Statements section on page 126.

2017 has been a year of significant turnaround driven by our Oil & Gas division which, against an improving market backdrop, demonstrated great execution to deliver a 67% increase in revenues and a £101m increase in operating profit without faltering on customer commitments. With Minerals markets at the beginning of a positive upcycle, after a tough few years, we took the opportunity to invest in people and facilities to ensure that our Minerals division is optimally placed to build upon its market leading position and maximise the opportunities for growth through the upcoming market cycle.

Financial highlights

Order input and revenue (on a constant currency basis) increased by 20% and 19% respectively, primarily as a result of the significant upturn in North American oil and gas markets together with a strong Minerals performance. Aftermarket input growth was 22% and original equipment orders grew by 16%. On a reported basis, revenues grew by 28%, supported by a £127m foreign exchange translation benefit.

Profit before tax, amortisation and exceptional items of £250m was up by 47%, primarily driven by our Oil & Gas division. Operating exceptional charges of £13m were incurred, mainly in right-sizing operations in later cycle markets. The reported profit before tax from continuing operations of £181m compares to £43m in 2016. A £119m investment in working capital to support current and future year growth resulted in a free cash outflow of £24m, leaving net debt £8m higher than 2016 at £843m with net debt to EBITDA improving to 2.5 times.

Excellent Oil & Gas performance

Oil & Gas showed great operational execution to respond to the improving market conditions in North America by delivering a 67% increase in constant currency revenues and a 36% flow through to profits, which resulted in operating margins of 13% compared to a small loss in 2016. This was achieved by leveraging a significantly reduced overhead base compared to the previous cycle which, along with other industry players, is contributing to the establishment of shale as a highly cost-competitive source of oil and gas for global markets.

Results summary

Continuing operations[1] £m	2017	2016	As reported	Constant currency[2]
Orders[2]	**2,395**	1,989	n/a	20%
Revenue	**2,356**	1,845	28%	19%
Operating profit[3]	**292**	214	36%	25%
Operating margin[3]	**12.4%**	11.6%	+80bps	+60bps
Net finance costs[3]	**(42)**	(44)	5%	2%
Profit before tax[3]	**250**	170	47%	32%
Reported profit after tax	**162**	43	274%	n/a
Cash from operations[4]	**221**	293	-25%	n/a
Net debt	**843**	835	-£8m	n/a
Net debt / EBITDA[5]	**2.5**	2.8	11%	n/a
Effective tax rate	**23.9%**	22.5%	+140bps	n/a
Earnings per share[3]	**86.7p**	61.2p	42%	n/a
Dividend per share	**44.0p**	44.0p	–	n/a
ROCE[6]	**10.4%**	7.5%	+290bps	n/a

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

1. Continuing operations excludes American Hydro Corporation and Ynfiniti Engineering Services, which were disposed of during H1 2016 and are reported as discontinued operations.
2. 2016 restated at 2017 average exchange rates.
3. Adjusted to exclude exceptional items and intangibles amortisation. Reported operating profit and profit before tax from continuing operations were £223m (2016: £90m) and £181m (2016: £43m) respectively. Reported earnings per share from total operations were 73.5p (2016: 17.8p).
4. Cash from operations includes both continuing and discontinued operations.
5. Calculation is at covenant basis with net debt at average rates.
6. Continuing operations EBIT before exceptional items (excluding KOP EBIT) divided by average net assets (excluding KOP net assets) excluding net debt and pension deficit (net of deferred tax asset).

Order input

Order input at £2,395m increased 20% on a constant currency basis. Original equipment orders were £722m. Aftermarket orders were £1,673m.

Minerals order input increased by 11% to £1,347m (2016: £1,215m). Improved commodity prices continued to support the industry's drive to increase production and improve efficiency of current mining operations. Original equipment orders were up 14% year-on-year reflecting increased brownfield wins driven by our strong service and engineering network in close proximity to mine sites as well as a small number of initial greenfield and major expansion projects. Aftermarket orders, at 70% of total input (2016: 71%), increased by 9%. The division showed positive book to bill of 1.05 for the full year.

Oil & Gas input at £732m (2016: £438m) was 67% higher (64% on a like for like basis) reflecting the recovery in North American upstream activity as oil prices and technological advances supported increased activity. These factors resulted in an improving oil price throughout the year and saw a 74% increase in North American rig count, principally through the first part of the year before stabilising. International markets were more subdued although showed some initial signs of increased quotation activity towards the end of the year, especially in the Middle East. A positive book-to-bill ratio for the division of 1.04 for the full year demonstrates the momentum that we carry into 2018.

Flow Control order input decreased by 6% to £316m (2016: £336m), principally driven by continued weakness in mid and downstream oil and gas markets, with input across the Power sector broadly stable and Industrial markets showing initial growth. Original equipment orders were down 16% driven by lower project activity while aftermarket input improved by 6% due to increased focus and the end of destocking activities by a number of customers.

Group revenue

Revenue of £2,356m showed growth of 19% on a constant currency basis mainly reflecting the improvement in orders in the Oil & Gas division and continued strong input performance in Minerals. Aftermarket accounted for 69% of revenues, remaining consistent with prior year. Reported revenues increased 28%, supported by a foreign exchange translation benefit of £127m.

Minerals revenue was 7% higher on a constant currency basis at £1,287m (2016: £1,201m). Both original equipment and aftermarket revenues were 7% higher with strong growth across South America, Africa and Asia Pacific. Reported revenues increased by 16% (2016: £1,112m), supported by a foreign exchange translation benefit of £89m.

Oil & Gas revenue increased by 67% to £704m on a constant currency basis (2016: £421m) and 64% on a like-for-like basis, reflecting order input trends. Reported revenues increased by 75%, after a £20m foreign exchange translation benefit. North American revenues increased sequentially throughout the year, reflecting input trends while International revenues stabilised during the second half of the year.

Flow Control revenue increased by 4% on a constant currency basis to £365m (2016: £350m), with aftermarket revenues unchanged from the prior year and original equipment revenues up 7% driven by delivery of a large part of the legacy order book for downstream oil

Financial Review continued

and gas projects. Reported revenues rose by 10% reflecting an £18m foreign exchange translation benefit.

Operating profit

Operating profit from continuing operations (before exceptional items and intangibles amortisation) increased by £78m (36%) to £292m on a reported basis. Excluding an £18m foreign currency translation benefit, the constant currency increase was £60m.

Oil & Gas delivered an excellent operating performance, increasing operating profits by £101m through successfully leveraging workforce and supply chain requirements to meet increased North American demand. The Minerals constant currency operating profit reduction of £7m reflects strong underlying growth offset by a £25m investment in growth initiatives including one-off costs of £10m associated with reconfiguring operational capacity as volumes increase. Flow Control saw a £35m year-on-year constant currency reduction primarily due to £13m of one-off costs related to legacy contracts in downstream oil and gas and associated under-recoveries in that business. Second half operating margins in Flow Control returned to mid-single digits following the one-off charges incurred in the first half of the year.

Unallocated costs were unchanged from the prior year at £24m.

Operating profit (including exceptional items and intangibles amortisation) for the year of £223m was £133m higher than the prior year due to the £78m increase in underlying operating profit and a £55m reduction in exceptional items and intangibles amortisation.

Net finance costs

Total net finance costs, including exceptional items, were £43m (2016: £48m). There were four components of this net charge, the most significant being the interest cost of £38m (2016: £41m) on the Group's borrowings (including amounts in relation to derivative financial instruments). The other elements were a charge of £4m (2016: £3m) in relation to the Group's defined benefit pension plans and an exceptional cost of £1m (2016: £4m) being the unwind of the discount on contingent consideration liabilities. The overall decrease of £3m compared to 2016 was principally due to the favourable impact of foreign exchange on US$-denominated interest payments.

Net finance costs (excluding retirement benefit related amounts and exceptional items) were covered 7.7 times (2016: 5.3 times) by operating profit from continuing operations, before exceptional items and intangibles amortisation.

Profit before tax

Profit before tax from continuing operations (before exceptional items and intangibles amortisation) increased by 47% to £250m (2016: £170m). The reported profit before tax from continuing operations of £181m compares to £43m in 2016.

Exceptional items and intangibles amortisation

Exceptional items resulted in a reduced charge of £13m (2016: £74m) with intangibles amortisation at £55m (2016: £50m).

Restructuring and rationalisation charges of £13m in the current year predominantly represent the continuation of programmes to right-size operations and realign certain activities, including the later cycle international markets in Oil & Gas and the downstream oil and gas pump business in Flow Control.

The remaining elements of the exceptional charge in the year are £2m of costs associated with the finalisation of historical legal claims, a £10m gain on sale of our 49% share in the Energy Products LLC joint venture and a fair value adjustment of £9m to contingent consideration, reflecting the final settlement for the acquisition of the remaining 40% of Weir International, our Korean valves business.

The exceptional tax credit of £41m includes £17m of tax on the exceptional operating items and amortisation described above. In addition it includes a one-off £24m credit in respect of the impact of US tax reform following the signing into law on 22 December 2017 of the Tax Cuts and Jobs Act. The one-off credit arises from revaluing US deferred tax assets and liabilities at the reduced US federal corporate income tax rate of 21% (previously 35%) and from the release of previously held tax provisions for US tax on unremitted overseas earnings which will no longer be required.

Taxation

The tax charge for the year of £60m (2016: £38m) on profit before tax from continuing operations (before exceptional items and intangibles amortisation) of £250m (2016: £170m) represents an underlying effective tax rate (ETR) of 23.9% (2016: 22.5%). Our ETR is principally driven by the geographical mix of profits arising in our business and, to a lesser extent, by the impact of Group financing and transfer pricing arrangements.

Operating profit to EBITDA

	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 4)	58.2	55.9
EBITDA	**350.0**	**269.9**

The Group has a robust framework to mitigate tax risks, together with a prudent and consistent approach to tax provisioning. This is discussed further in note 2.

In terms of cash tax, the Group paid income tax of £61m in 2017 across all of its jurisdictions compared to £16m in 2016, the increase principally driven by the non-repeat of cash tax refunds received in the prior period in respect of tax losses in the US.

Capital expenditure

We were able to increase investment in our strategic priorities with net capital expenditure increasing from £62m to £81m, reflecting a return to previous expenditure levels.

Cashflow and net debt

Free cash flow from continuing operations was an outflow of £24m (2016: inflow £130m), before cash exceptional items of £29m. Cash from operating activities reduced by £72m from £293m in 2016 to £221m in the current year which mainly reflected the upturn in Oil & Gas operating profit, offset by a £119m investment in working capital in the year mainly across Oil & Gas and Minerals to support increased activity levels in current and future years.

The reduction in free cash flow is further explained by a £45m increase in cash tax as noted above and a £28m increase in cash dividends paid as a result of lower uptake for the scrip dividend compared to the prior year.

Our working capital efficiency was demonstrated by working capital as a percentage of sales reducing from 27.1% to 25.7% and inventory turns improving from 2.2 to 2.7.

Exceptional cash items include a restructuring and rationalisation cash outflow of £29m (2016: £58m outflow offset by £36m proceeds relating to the 2016 asset disposal programme). Cash proceeds of £32m from the disposal of our 49% share in Energy Products LLC, our non-core North American Oil & Gas distribution joint venture, were offset by our £37m purchase of the remaining 40% of Weir International, our Korean valves business. Our acquisition of KOP Surface Products was financed via the issue of share capital totalling £90m during the year.

The above movements resulted in closing net debt of £843m (2016: £835m), which includes a favourable foreign exchange movement of £49m. On a lender covenant basis, the ratio of net debt to EBITDA was 2.5 times (2016: 2.8 times) compared to a covenant level of 3.5 times.

Pension

The Group has four defined benefit pension plans, the largest of which are the two UK plans. During the course of the year, the Trustees of the UK Executive Scheme entered into a full buy-in transaction with Scottish Widows, with all of the benefit payments due from that scheme now covered by an insurance policy. As a result, insurance policy assets held now cover 43% (2016: 40%) of the Group's total funding obligation across all schemes, reducing the Group's exposure to actuarial movements.

The net deficit in the plans of £138m represents a minor increase from £137m in 2016. The increase in deficit is mainly due to actuarial losses of £35m (following a reduction in the UK discount rate to 2.4% from 2.6%), offset by actuarial gains of £17m due to updated life expectancy assumptions, gains of £15m on pension scheme assets and £4m of Group contributions. The remaining balance of £2m comes primarily from experience adjustments on liabilities.

Asbestos provision

Certain of the Group's US-based subsidiaries are co-defendants in lawsuits pending in the United States in which plaintiffs are claiming damages arising from alleged exposure to products previously manufactured which contained asbestos. At the end of 2017, there were 1,657 asbestos-related claims outstanding in the US (2016: 1,477).

During the year, and with the assistance of external advisers, we completed our triennial review of estimated future indemnity and defence costs. As a result of this review a US asbestos provision of £53m (2016: £48m) has been recognised. The Group has comprehensive insurance cover for these cases and as a result recognises a corresponding insurance asset.

In the UK, there are 16 (2016: 18) outstanding asbestos-related claims which are not the subject of insurance cover. The expected settlement costs of these and anticipated future claims in the UK are fully provided for.

Full details of the US and UK provisions, plus related insurance receivable, are provided in note 22.

The key accounting and policy judgements are contained within note 2 to the Group financial statements on page 131.

Earnings per share

Earnings per share from continuing operations (before exceptional items and intangibles amortisation) increased by 42% to 86.7p (2016: 61.2p). Reported earnings per share including exceptional items, intangibles amortisation and profit from discontinued operations was 73.5p (2016: 17.8p). The weighted average number of shares in issue increased to 219.9m (2016: 215.6m) following the issue of 6.2m shares during the year in respect of the KOP acquisition and scrip dividends.

Dividend

The Board is recommending a final dividend of 29.0p resulting in a total dividend of 44.0p for the year, in line with 2016. Dividend cover (being the ratio of earnings per share from continuing operations before exceptional items and intangibles amortisation, to dividend per share) is 2 times. If approved at the Annual General Meeting, on 26 April 2018, the final dividend will be paid on 4 June 2018 to shareholders on the register as at 27 April 2018 with a scrip dividend alternative continuing to be offered.

John Heasley

John Heasley
Chief Financial Officer
28 February 2018

The Strategic Report, covering pages 1 to 67 of the Annual Report and Financial Statements 2017, has been approved by the Board of Directors in accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

On behalf of the Board of Directors

Christopher Morgan
Company Secretary and General Counsel
28 February 2018