

CHAIRMAN'S STATEMENT

"We remain a strong business with excellent positions in markets with good, fundamental, long-term growth prospects and I am confident that we will be ready to benefit from the economic recovery when it comes."

Robert Beeston Chairman



The past year has seen the most dramatic changes in the global economy and in our end-markets in living memory.

Over the first nine months of 2008, our main end-markets - of steel production, electronics and automotive - continued to see reasonable growth and the Group's trading results in the period showed a strong improvement over 2007.

In April, we completed the strategically significant acquisition of Foseco, a ceramics business operating in the foundry castings market which represents an excellent complement to our existing ceramics business, Vesuvius. Foseco's results exceeded our expectations in 2008 and the integration is proceeding very well.

As the global financial crisis spread to affect the broader global economy, our end-markets and trading performance deteriorated rapidly through the last quarter. By December, activity levels in our main end-markets showed an unprecedented decline of some one quarter on 2007 levels. Many steel producers, electronics and automotive manufacturers announced prolonged production shutdowns through December and into the first quarter of 2009.

Financial performance

Notwithstanding this sharp deterioration in the fourth quarter, our results for the year as a whole were an improvement over 2007. Trading profit (at constant exchange rates) increased 11%, with the benefit of nine months' contribution from Foseco. Headline profit before tax increased 18% to £176 million and headline earnings per share improved 9% to 8.9 pence (as restated for the rights issue).

Looking to 2009, we expect to see little to no improvement in market conditions through the first quarter and then, hopefully, a slow improvement through the second quarter and into the second half of the year. This is a view shared by almost all commentators on the global steel industry, to which over 40% of Group trading profit is linked. We hope to see the improving trend continuing in 2010, as the various governmental economic stimulus initiatives take effect, but we do not expect end-markets to recover to levels equivalent to the first nine months of 2008 until 2011 at the earliest.

Against this background, we have moved quickly and decisively to reduce our cost base to adapt to the lower level of prevailing economic activity, and to strengthen our financial position in order to create a capital structure more suited to the current environment.

Management action

Starting last September and continuing into the current year, we have implemented a series of actions aimed at reducing costs and further improving cash and working capital management. These are described more fully in the Chief Executive's Review. I regret that substantial job losses are an unavoidable consequence of the restructuring actions, but it is essential that we act swiftly to adapt to the current global economic reality.

Rights issue

On 29 January 2009, we announced a fully underwritten 12 for 1 rights issue to raise £241 million, net of expenses. Shareholder approval was obtained at an Extraordinary General Meeting held on 17 February and dealings in the new shares commenced on 5 March.

We have been very pleased by the support shown by shareholders for this initiative. By raising these funds at an early stage we have not only enhanced the covenant and longer-term liquidity headroom under our existing attractive bank facilities, but we have also created a position of greater strength and flexibility from which to move forward.

Dividend and dividend policy

Against this background and in the expectation of continued challenging trading conditions, the Board has reviewed its near-term dividend policy and has decided not to recommend a final dividend payment in respect of 2008 (an interim dividend of 0.88 pence per share (as restated for the rights issue) was paid in October 2008). A decision to resume dividend payments will be made once we can see a clear recovery in our end-markets and trading performance, and in the context of the Group's cash requirements at that time.

Board and corporate governance

The Board is responsible for overseeing the Group's strategy and monitoring its performance. Through its own actions and those of the Board committees, the Board continues to comply with the highest standards of corporate governance.

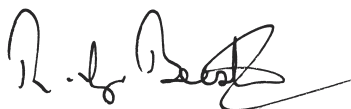
Both the Board and the Executive Committee have remained unchanged since my last report. I am confident that this continuity, together with the blend of skills and experience that the team brings to the Group, has played and will play an important part in our successful navigation of the current challenging economic environment.

Employees

I would like to offer my sincere thanks to all of our employees worldwide for their contribution over the past year, in the face of often very difficult circumstances. More than ever, their delivery of the highest standards of customer service remains a key factor in the Group's success.

Outlook

In recent months we have experienced an unprecedented downturn in our end-markets, to which we have responded promptly and decisively. This downturn, and the dramatic deterioration of the overall economic environment, has inevitably had a significant impact on our share price and we are resolutely focused on the need to rebuild shareholder value over time. We remain a strong business with excellent positions in markets with good, fundamental, long-term growth prospects and I am confident that we will be ready to benefit from the economic recovery when it comes.



Robert Beeston Chairman
9 March 2009