

Electronics

The Electronics division is a world leading supplier of advanced surface treatment and plating chemicals and comprises two product lines; the Assembly Materials product line is a supplier of solder and related products and the Chemistry product line is a supplier of electro-plating chemicals.

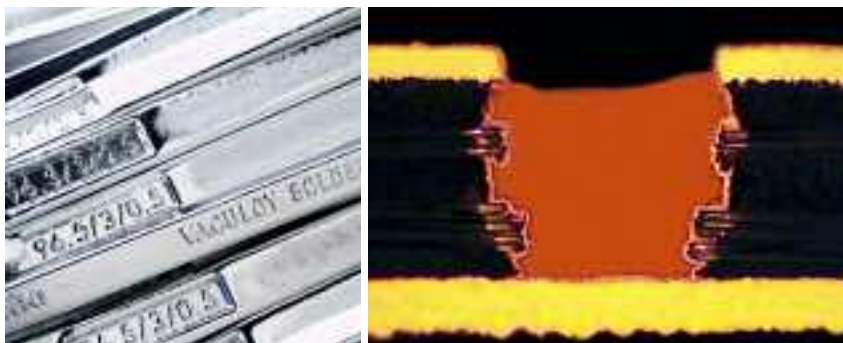
Revenue for 2008 was £620 million, 1% lower at constant exchange rates compared to 2007 (11% higher at reported exchange rates). Revenue in 2008 reflected the 'pass through' to customers in the Assembly Materials product line of higher metal prices and, excluding both this impact and precious metal sales in Chemistry, underlying revenue for the division was 9% lower than last year (on a constant currency basis).

The reduction in underlying revenue reflected a significant slowdown in the production of electronic equipment (the end-market for just under two-thirds of the division's revenue) in the fourth quarter of 2008 due to a marked 'de-stocking' by equipment manufacturers exacerbated by weakening end-user demand. Electronic equipment production worldwide, which experienced high single digit growth over the last few years, was broadly unchanged between full year 2008 and 2007, but was down 10% in the fourth quarter compared to the corresponding period last year. A similar trend was evident for two of the key products within the consumer electronics market, namely mobile phone handsets and PCs. Mobile phone handset volumes were up 4% in 2008 compared to prior year, but were 12% down in the fourth quarter of 2008. PC volumes, including laptops, were up 10% in 2008, but were unchanged in the fourth quarter. The automotive sector, which represents around 19% of the division's end-markets, was also very weak in the fourth quarter, particularly in the US and Europe.

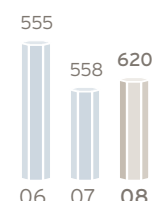
Trading profit of £51.7 million was 22% lower than 2007 at constant exchange rates and 11% lower at reported exchange rates. The reduction in trading profit reflected the impact of the deterioration in trading in the fourth quarter of 2008 more than offsetting the full year benefits of a number of restructuring initiatives enacted in 2007, the successful launch of new products and the continued growth of Assembly Materials' reclaim business. In response to the deterioration in trading towards the end of 2008, a number of cost reduction initiatives were launched including permanent headcount reductions of 70 in the fourth quarter of 2008 with a further 170 headcount reduction expected in the first quarter of 2009.

Return on sales for the division at reported exchange rates decreased from 10.4% to 8.3% - a reduction of 2.1 percentage points - due to the reduction in underlying volumes and the impact of higher metal prices. If metals prices in 2008 had remained at similar levels to those in 2007, the return on sales would have decreased by only 1.3 percentage points to 9.1%.

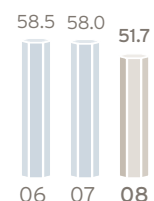
Asia-Pacific, the division's largest region, accounted for 45% of revenue in 2008 (by location of customer), a higher level than for 2007 reflecting the continuing migration of consumer electronics production to this region, a trend that has been matched through our investment in capacity in the region over the last few years.



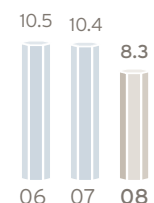
Revenue
£m



Trading Profit
£m



Return on Sales
%



Assembly Materials

Assembly Materials is a leading global supplier of materials to assemblers of printed circuit boards ("PCBs"), the semi-conductor packaging industry and to certain non-electronics markets such as plumbing, automotive and water treatment under the trade names of Alpha and Fry. In PCB assembly, its products include solder (which is available in bar, paste, powder and sphere form and in no-clean, water-soluble and lead-free options), fluxes, adhesives, cleaning chemistries and stencils.

The PCB and semi-conductor packaging segments of the electronics market account for approximately 65% of Assembly Materials' revenue, with the remaining 35% going into a variety of industrial applications.

Revenue for the year at £382 million was 5% higher than 2007 at constant exchange rates (17% higher at reported exchange rates). The higher revenue reflected the 'pass through' to customers of higher metal prices, in particular for tin and silver. In 2008, the average prices of tin and silver - Assembly Materials' major raw materials - were respectively 31% and 14% higher than 2007, such that approximately £54 million of the change in the division's revenue was as a result of these higher metal prices. Excluding the impact of higher metal prices, underlying revenue was 10% lower than last year (at constant exchange rates) reflecting the significant slowdown in the production of electronic equipment in the fourth quarter of 2008 combined with the continuation of the strategy to focus resources on higher margin, more value-added products. These products include solder paste (for which volumes were up 4% by weight due to the continuing shift from wave soldering to surface mount technology) and low-silver SACX™ solder (for which volumes were only marginally down by 3% by weight). At the same time, sales of some more commoditised products, such as leaded bar solder (for which volumes were down 21% by weight), have been selectively reduced.

A number of new products have been launched during the year including a 1% silver lead-free solder alloy, SACX™ solder paste and an expanded range of environmentally friendly Greenline™ products, which are halogen-free and contain low, or no, volatile organic compounds. The business has also benefited from the continued growth - stimulated by high metal prices - in the reclaim business in the US, in which scrap solder generated by our customers' production processes is reclaimed for processing back into solder alloys for sale to third parties or for reuse within the business. A similar reclaim business has been set up in Guangxi Province, China, which became operational at the end of 2008.

Trading profit for 2008 was lower than 2007 at constant exchange rates, but marginally higher at reported exchange rates. The return on sales margin in 2008 was slightly higher than for 2007 (assuming metal prices in 2008 had remained at similar levels to those in 2007).

In February 2008, the transfer of solder paste production from Ashford, UK to Hungary was announced for completion in the first half of 2009. This initiative will result in annualised savings of £1 million from the middle of 2009. 2008 also benefited from the full year effect of the transfer of Assembly Materials' manufacturing operations within NAFTA from the US to Mexico, which was completed towards the end of 2007.

Chemistry

The Chemistry product line manufactures speciality electro-plating chemicals for the electronics, automotive and surface metal finishing industries under the trade name Enthone.

End-markets for the Chemistry product lines' plating chemical products (excluding precious metal sales) are split between the electronics industry (42%) and other industrial and automotive applications (58%).

Revenue for the year at £238 million was 8% lower than 2007 at constant exchange rates (3% higher at reported exchange rates). The lower revenue reflected the sharp deterioration in electronic and automotive markets in the fourth quarter of 2008 combined with the selective reduction in sales of non-proprietary electro-plating chemicals (revenue down from £18 million to £10 million). Sales of plating-on-plastics and corrosion and wear-resistant coating products for industrial and automotive markets were down 3%, whilst sales of surface coating products serving the PCB fabrication market within electronics were down 7%, both reflecting the difficult trading environment in these markets towards the end of the year.

Trading profit for 2008 fell substantially compared to 2007 at both constant and reported exchange rates, with a corresponding reduction in the return on sales margin.

Ormecon GmbH, a speciality surface finishing technology development company, was acquired on 3 September 2008 for a cash consideration of €13.5 million. This acquisition further strengthens Chemistry's market leading position in PCB surface coating products and the business has now been fully integrated within the existing German operations.

2008 Revenue by product line

