NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Cookson Group plc is a public limited company registered in England and Wales and listed on the London Stock Exchange. Its registered address is shown on page 126. The nature of the Group's operations and its principal activities are set out in the Operating Review on pages 12 to 21.

The financial statements, which were authorised by the Directors for issue on 9 March 2009, are presented in millions of pounds sterling, which is the functional currency of the Company. Foreign operations are included in accordance with the policies set out in note 3.6.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"). The financial statements of the Company-only have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), as disclosed in note 1 to the Company financial statements.

2.1 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

IFRS 8, *Operating Segments*, which is effective for accounting periods beginning on or after 1 January 2009, has been adopted early by the Group. IFRS 8 sets out requirements for disclosure of financial information about the Group's operating segments and replaces International Accounting Standard ("IAS") 14, *Segment Reporting*. IFRS 8 requires segment information to be disclosed based upon the Group's internal reporting to management. This change in accounting policy has no impact upon the Group's previously reported net cash flows, financial position, total recognised income and expense or earnings per share. The Group's segment information is disclosed in note 6.

The following amendments to standards and interpretations have all been endorsed by the EU, are all effective for accounting periods beginning on or after 1 January 2008 and have been adopted by the Group in these consolidated financial statements. None of these amendments and interpretations has a material impact upon the results or net assets of the Group.

- Amendments to IAS 39 and IFRS 7 – *Reclassification of Financial Instruments*;
- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions*; and
- IFRIC 14, IAS 19 – *The limit of Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following revised and amended standards and interpretations, which have all been endorsed by the EU and are available for early adoption, have not been early adopted by the Group in these consolidated financial statements.

- IAS 1 (Revised), *Presentation of Financial Statements*, is effective for accounting periods beginning on or after 1 January 2009 and will be adopted by the Group in its 2009 annual report. IAS 1 (Revised) introduces the term "total comprehensive income", a measure that includes all components of profit or loss as currently reported in the Group Income Statement, together with all items of income and expense not recognised in profit or loss, as currently reported in the Group Statement of Recognised Income and Expense. In future, the Company's consolidated financial statements must include a Group Statement of Comprehensive Income and a Group Statement of Changes in Equity. The adoption of IAS 1 (Revised) will have no impact upon the Group's net cash flows, financial position, total recognised income and expense or earnings per share.
- IAS 23 (Revised), *Borrowing Costs*, is effective for accounting periods beginning on or after 1 January 2009 and will be adopted by the Group in its 2009 annual report. The main change introduced by IAS 23 (Revised) is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group's current policy in relation to borrowing costs, shown in note 3.10 below, is to recognise them in the income statement using the effective interest rate method. The adoption of IAS 23 (Revised) is not expected to have a significant impact upon the Group's net cash flows, financial position, total recognised income and expense or earnings per share.
- Amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, Presentation of Financial Statements, relating to puttable financial instruments and obligations arising on liquidation are effective for accounting periods beginning on or after 1 January 2009 and will be adopted by the Group in its 2009 annual report. The adoption of these amendments will have no impact upon the Group's net cash flows, financial position, total recognised income and expense or earnings per share.
- Amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and IAS 27, *Consolidated and Separate Financial Statements*, are effective for accounting periods beginning on or after 1 January 2009 and will be adopted by the Group in its 2009 annual report. The adoption of these amendments, which relate to the measurement of the initial cost of investment in subsidiaries in the financial statements of the Company-only, will have no impact upon the Group's net cash flows, financial position, total recognised income and expense or earnings per share.
- Amendment to IFRS 2, *Share-based Payment*, is effective for accounting periods beginning on or after 1 January 2009 and will be adopted by the Group in its 2009 annual report. The amendment to IFRS 2 clarifies that vesting conditions are service conditions and performance conditions only; other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of the amendment to IFRS 2 is not expected to have a significant impact upon the Group's net cash flows, financial position, total recognised income and expense or earnings per share.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE (CONTINUED)

- IFRIC 13, *Customer Loyalty Programmes*, is effective for accounting periods beginning on or after 1 July 2008 and will be adopted by the Group in its 2009 annual report. IFRIC 13, which addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services, will have no impact upon the Group's net cash flows, financial position, total recognised income and expense or earnings per share.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF ACCOUNTING

With the exception of certain items noted below, which are carried at fair value, the consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements for the year ended 31 December 2008 have been prepared in accordance with the Companies Act 1985 and IFRS, having been prepared in accordance with IFRS for the first time in 2005.

3.2 BASIS FOR PREPARATION OF FINANCIAL STATEMENTS ON A GOING CONCERN BASIS

Information on the business environment in which the Group operates, including the factors that are likely to impact the future prospects of the Group, are included in the Chief Executive's Review on pages 10 and 11 and the Operating Review on pages 12 to 21. The principal risks and uncertainties that the Group faces throughout its global operations are included in the Corporate Governance Report on pages 32 to 39. The financial position of the Group, its cash flows, liquidity position and debt facilities are described in the Financial Review on pages 22 to 27. In addition, notes 4 and 37 to the consolidated financial statements set out the Group's objectives, policies and processes for managing its capital; financial risks; financial instruments and hedging activities; and its exposures to credit, market (both currency and interest rate-related) and liquidity risk. Further details of the Group's cash balances and borrowings are included in notes 20 and 36 to the consolidated financial statements.

The Group has two committed debt facilities, approximately £680m of syndicated bank facilities and approximately £250m of US Private Placement loan notes. These facilities, which together total approximately £930m, have no significant debt maturities in 2009, with the principal maturities due in 2011 and 2012, and contain a number of financial covenants with which the Group is required to comply. In March 2009, the Group completed a rights issue which raised proceeds (net of expenses) of £241m which were used to repay gross borrowings. This rights issue significantly strengthens the Group's financial position.

The Directors have prepared cash flow forecasts for the Group for a period in excess of twelve months from the date of approval of these consolidated financial statements. These forecasts reflect an assessment of current end-market conditions, their impact on the Group's future trading performance and the actions taken by management in response to the difficult market conditions. The forecasts completed on this basis show that the Group will be able to operate within the current committed debt facilities and show continued compliance with the financial covenants. In addition, management has considered various mitigating actions that could be taken in the event that end-market conditions are worse than their current assessment. Such measures include further reductions in costs, further reductions in capital expenditure and further reductions in those items of working capital within management's control.

On the basis of the exercise as described above and the available committed debt facilities, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing the financial statements of the Group and the Company.

3.3 DISCLOSURE OF EXCEPTIONAL ITEMS

IAS 1, *Presentation of Financial Statements*, provides no definitive guidance as to the format of the income statement, but states key lines which should be disclosed. It also encourages the disclosure of additional line items and the re-ordering of items presented on the face of the income statement when appropriate for a proper understanding of the entity's financial performance. In keeping with the spirit of this aspect of IAS 1, the Company has adopted a policy of disclosing separately on the face of its Group Income Statement the effect of any components of financial performance considered by the Directors to be exceptional, or for which separate disclosure would assist both in a better understanding of the financial performance achieved and in making projections of future results.

Both materiality and the nature and function of the components of income and expense are considered in deciding upon such presentation. Such items may include, inter alia, the financial effect of major restructuring and integration activity, inventory fair value adjustments, profits or losses on sale or impairment of non-current assets, amortisation and impairment charges relating to intangible assets, curtailment gains or losses relating to employee benefits, finance costs, any profits or losses arising on business disposals, and other items, including the taxation impact of the aforementioned items, which have a significant impact on the Group's results of operations either due to their size or nature.

The line item description in the Group Income Statement "rationalisation of operating activities" that appeared in previous reports has been changed to "restructuring and integration costs". The new description more closely reflects the nature of the costs being reported on this line. This change in presentation has no impact upon the Group's previously reported net cash flows, financial position, total recognised income and expense or earnings per share.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the Group Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those detailed herein to ensure that the Group financial statements are prepared on a consistent basis. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's interest therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3.5 BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations*, are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition, being the excess of the cost of the business combination over the Group's interest in the net fair value of the recognised identifiable assets, liabilities and contingent liabilities, is recognised as an asset and initially measured at cost. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement. The Group took advantage of the exemption under IFRS 1, *First Time Adoption of International Financial Reporting Standards*, not to restate all business combinations prior to 1 January 2005 in line with the requirements of IFRS 3.

3.6 FOREIGN CURRENCIES

The individual financial statements of each Group entity are prepared in their functional currency, which is the currency of the primary economic environment in which that entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are translated into pounds sterling, which is the presentational currency of the Group.

(a) Reporting foreign currency transactions in functional currency

Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:

(i) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the income statement;

(ii) Non-monetary items measured at historical cost in a foreign currency are not retranslated; and

(iii) Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case any exchange component of that gain or loss is also recognised directly in equity.

(b) Translation from functional currency to presentation currency

When the functional currency of a Group entity is different from the Group's presentational currency (pounds sterling), its results and financial position are translated into the presentational currency as follows:

(i) Assets and liabilities are translated using exchange rates prevailing at the balance sheet date;

(ii) Income and expense items are translated at average exchange rates for the year, except where the use of such an average rate does not approximate the exchange rate at the date of the transaction, in which case the transaction rate is used; and

(iii) All resulting exchange differences are recognised in translation reserves as a separate component of equity and are recognised in the income statement in the period in which the foreign operation is disposed of.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 FOREIGN CURRENCIES (CONTINUED)

(c) Net investment in foreign operations

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in the income statement in the separate financial statements of the reporting entity or the foreign operation as appropriate. In the consolidated Group financial statements such exchange differences are initially recognised in translation reserves as a separate component of equity and subsequently recognised in the income statement on disposal of the net investment.

3.7 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable for goods supplied and services rendered to customers, after deducting sales allowances and value-added taxes. Revenue is recognised when the risk of loss transfers to the customer, depending on individual customer terms at the time of despatch, delivery or upon formal customer acceptance. Provision is made for returns where appropriate.

3.8 EMPLOYEE BENEFITS

The Group operates a number of pension plans, both of the defined contribution and defined benefit type.

(a) Defined contribution pension plans

Contributions to the Group's defined contribution plans are recognised as employee benefits expense when they fall due. Prepaid contributions are recognised as an asset to the extent that they result in either a cash refund or a reduction in future payments. Outstanding contributions are recognised as a liability within accruals.

(b) Defined benefit pension plans

The net surplus or net liability recognised in the balance sheet for the Group's defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date as adjusted for unrecognised past service cost, less the fair value of the plan assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and by discounting the estimated future cash flows using interest rates on high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any asset recognised in respect of a surplus arising from this calculation is limited to the sum of unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Pension expense for the Group's defined benefit plans is recognised as follows:

(i) Within trading profit: Current service cost – representing the increase in the present value of the defined benefit obligation resulting from employee service in the current year; and

Past service cost – representing the increase in the present value of the defined benefit obligation resulting from employee service in prior periods that arises from changes made to the benefits under the plans in the current year. To the extent that the changes to benefits vest immediately, past service costs are recognised immediately, otherwise they are recognised on a straight-line basis over the vesting period.

(ii) Within finance costs: Interest cost on the liabilities of the plans – calculated by reference to the plan liabilities and discount rate at the beginning of the year and allowing for changes during the year.

(iii) Within finance income: Expected return on the assets of the plans – calculated by reference to the plan assets and long-term expected rate of return at the beginning of the year and allowing for changes during the year.

(iv) Within the Statement of Recognised Income and Expense: Actuarial gains and losses arising on the assets and liabilities of the plans.

(v) Gains and losses arising on settlements and curtailments are recognised in the income statement in the same line as the item that gave rise to the settlement or curtailment is recognised or, if material, separately reported as a component of profit from operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 EMPLOYEE BENEFITS (CONTINUED)

(c) Share-based payments

The Group operates a number of different share-based payment arrangements for its employees of both the equity-settled and cash-settled type.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant takes account of the effect of market-based conditions, such as the Total Shareholder Return ("TSR"), and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. The cumulative expense recognised is adjusted for the best estimate of the number of shares that will eventually vest and for the effect of other non market-based vesting conditions, such as growth in headline earnings per share, which are not included in the fair value determined at the date of grant. For grants with market-based conditions attaching to them, fair value is measured using a form of stochastic option pricing model. For consistency, this method has also been used to value executive share options and stock appreciation rights granted to executives whose options are not subject to the additional market-based performance conditions. For all other grants, fair value is measured using the Black-Scholes model.

For cash-settled share-based payments, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value of the amount payable is initially measured at grant date using a form of stochastic option pricing model and spread over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in the income statement.

3.9 RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities is recognised in the income statement as an expense in the year in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. All other development expenditure is recognised in the income statement as an expense in the year in which it is incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

3.10 BORROWING COSTS

Borrowing costs, comprising interest on bank loans and overdrafts, finance lease obligations, the unwinding of the discount on provisions and the costs incurred in connection with the arrangement of borrowings, are recognised in the income statement using the effective interest rate method.

3.11 TAXATION

The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the associated deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 PROPERTY, PLANT AND EQUIPMENT

Freehold land is carried at cost less accumulated impairment losses. Other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are capitalised only when it is probable that they will result in future economic benefits flowing to the Group and when they can be measured reliably. All other repairs and maintenance expenditure is charged to the income statement in the period in which it is incurred.

Freehold land is not depreciated as it has an infinite life. Depreciation on other items of property, plant and equipment begins when the asset is available for use and is charged to the income statement on a straight-line basis so as to write off the cost less residual value of the asset over its estimated useful life as follows:

Asset category	Estimated useful life
Freehold property	Between 10 and 50 years
Leasehold property	The term of the lease
Plant and machinery – motor vehicles	Between 1 and 5 years
– information technology equipment	Between 1 and 5 years
– other	Between 5 and 15 years

The depreciation method used, residual values and estimated useful lives are reviewed and changed, if appropriate, at least at each financial year-end. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, as described in note 3.15. Gains and losses arising on disposals are determined by comparing sales proceeds with carrying amount and are recognised in the income statement.

3.13 GOODWILL

Goodwill arising on the acquisition of a subsidiary or associate represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or associate recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Impairment testing is carried out annually, as described in notes 3.15, 5.2 and 23. On disposal of a subsidiary or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.14 INTANGIBLE ASSETS OTHER THAN GOODWILL

Intangible assets other than goodwill are recognised on business combinations if they are separable, or if they arise from contractual or other legal rights, and their fair value can be measured reliably. They are amortised over their estimated useful lives, as follows:

Asset category	Estimated useful life
Customer relationships	20 years
Trade names	20 years
Intellectual property rights	10 years
Other	Between 5 and 10 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

An impairment loss is recognised to the extent that the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of (i) its fair value less costs to sell and (ii) its value in use, which is the present value of the future cash flows expected to be derived from the asset or cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Impairment losses are recognised immediately in the income statement.

(a) Goodwill

Goodwill acquired in a business combination is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The Group's cash-generating units are disclosed in note 23 and represent the lowest level within the Group at which goodwill is monitored. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the resulting impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

(b) Other tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment loss recognised in a prior year for an asset other than goodwill may be reversed where there has been a change in the estimates used to measure the asset's recoverable amount since the impairment loss was recognised. Where an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss for tangible and intangible assets other than goodwill is recognised immediately in the income statement.

3.16 INTERESTS IN JOINT VENTURES

A joint venture is a contractual arrangement whereby the Group and one or more other parties undertake an economic activity that is subject to joint control. Joint control exists when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control.

The Group conducts its joint venture arrangements through jointly controlled entities and accounts for them using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

3.17 INVENTORIES

Inventories are stated at the lower of cost (using the first-in, first-out method) and net realisable value.

Cost comprises expenditure incurred in purchasing or manufacturing inventories together with all other costs directly incurred in bringing the inventory to its present location and condition and, where appropriate, attributable production overheads based on normal activity levels. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The amount of any write-down of inventories to net realisable value is recognised as an expense in the year in which the write-down occurs.

In addition to the inventory recorded in the balance sheet, the Group holds precious metals under consignment arrangements, further details of which are given in note 28.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets (or a collection of assets and liabilities in a disposal group) are separately classified as held for sale in the balance sheet when their carrying value will be recovered principally through a sale transaction rather than through continuing use.

Immediately prior to being classified as held for sale the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in profit or loss, as are gains and losses on subsequent remeasurement.

Discontinued operations are those operations that can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes, that have either been disposed of or classified as held for sale and which represent a separate major line of business or geographical area of operations.

3.19 LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) Finance leases

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

(b) Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3.20 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(b) Derivative financial instruments

The Group uses derivative financial instruments in the form of forward foreign currency contracts and interest rate swaps to manage the effects of its exposure to fluctuations in foreign exchange and interest rates on its borrowings. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are measured at fair value. The method of recognising the gain or loss on remeasurement to fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged (note 4.2).

The fair value of forward foreign currency contracts is their quoted market price at the balance sheet date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the creditworthiness of the swap counterparties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Non-derivative financial instruments

Non-derivative financial instruments include investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Group Statement of Cash Flows. Loans and borrowings comprise secured and unsecured loans and obligations under finance leases (note 3.19).

Non-derivative financial instruments are initially recognised at fair value plus directly attributable transaction costs.

The Group's investments in equity and debt securities are classified as available-for-sale investments. Subsequent to initial recognition they are measured at fair value and changes therein are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

All other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

3.21 PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material, provisions are discounted using a pre-tax discount rate that reflects both the current market assessment of the time value of money and the specific risks associated with the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense (note 3.10).

3.22 USE OF NON-GAAP FINANCIAL MEASURES

The Company uses a number of non-Generally Accepted Accounting Practice ("non-GAAP") financial measures in addition to those reported in accordance with IFRS. Because IFRS measures reflect all items which affect reported performance, the Directors believe that certain non-GAAP measures, which reflect what they view as the underlying performance of the Group, are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this annual report.

(a) Net sales value

Net sales value is calculated as the total of revenue less the amount included therein related to any precious metal component. The Directors believe that net sales value provides an important measure of the underlying sales performance of the Group's Precious Metals division.

(b) Return on sales and return on net sales value

Return on sales is calculated as trading profit divided by revenue. Return on net sales value is calculated as trading profit divided by net sales value. The Directors believe that return on sales provides an important measure of the underlying trading performance of the Group and the Group's Ceramics and Electronics divisions and that return on net sales value provides an important measure of the underlying trading performance of the Group's Precious Metals division.

(c) Underlying revenue growth

Underlying revenue growth measures the organic growth in revenue from one year to the next after eliminating the effects of changes in exchange rates and metals prices and the effects of business acquisitions, disposals and closures. The Directors believe that underlying revenue growth gives an important measure of the organic revenue generation capacity of the Group.

(d) Trading profit

Trading profit, defined as profit from operations before restructuring and integration costs, inventory fair value adjustments, profits or losses relating to non-current assets, charges relating to the amortisation and impairment of intangible assets and curtailment gains or losses relating to employee benefits, is separately disclosed on the face of the Group Income Statement. The Directors believe that trading profit is an important measure of the underlying trading performance of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 USE OF NON-GAAP FINANCIAL MEASURES (CONTINUED)

(e) Headline profit before tax

Headline profit before tax is calculated as the net total of trading profit, plus the Group's share of post-tax profit of joint ventures and total net finance costs associated with ordinary activities. The Directors believe that headline profit before tax provides an important measure of the underlying financial performance of the Group.

(f) Headline earnings per share

Headline earnings per share is calculated as the net total of trading profit, plus the Group's share of post-tax profit of joint ventures and total net finance costs and income tax costs associated with ordinary activities, less profit attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year. The Directors believe that headline earnings per share provides an important measure of the underlying earnings capacity of the Group.

(g) Free cash flow

Free cash flow, defined as net cash flow from operating activities after net outlays for the purchase and sale of property, plant and equipment, dividends from joint ventures and dividends paid to minority shareholders, but before additional funding contributions to Group pension plans, is disclosed on the face of the Group Statement of Cash Flows. The Directors believe that free cash flow gives an important measure of the underlying cash generation capacity of the Group.

(h) Average working capital to sales ratio

The average working capital to sales ratio is calculated as the percentage of average working capital balances (being inventories, trade and other receivables and trade and other payables) for a year to the reported revenue for that year. The Directors believe that the average working capital to sales ratio provides an important measure of the underlying effectiveness with which working capital balances are managed throughout the Group.

(i) EBITDA

EBITDA is calculated as the total of trading profit before depreciation charges. The Directors believe that EBITDA provides an important measure of the underlying financial performance of the Group.

(j) Net interest

Net interest is calculated as interest payable on borrowings less interest receivable, excluding any item therein considered by the Directors to be exceptional.

(k) Interest cover

Interest cover is the ratio of EBITDA to net interest. The Directors believe that interest cover provides an important measure of the underlying financial position of the Group.

(l) Net debt

Net debt comprises the net total of current and non-current interest-bearing loans and borrowings and cash and short-term deposits. The Directors believe that net debt is an important measure as it shows the Group's aggregate net indebtedness to banks and other external financial institutions.

(m) Net debt to EBITDA

Net debt to EBITDA is the ratio of net debt at the year-end to EBITDA for that year. The Directors believe that net debt to EBITDA provides an important measure of the underlying financial position of the Group.

(n) Return on net assets

Return on net assets ("RONA") is calculated as trading profit plus the Group's share of post-tax profit of joint-ventures divided by average operating net assets (being property, plant and equipment, trade working capital and other operating receivables and payables). The Directors believe that RONA provides an important measure of the underlying financial performance of the Group's divisions.

(o) Return on investment

Return on investment ("ROI") is calculated as trading profit plus the Group's share of post-tax profit of joint-ventures divided by invested capital (being shareholders' funds plus net debt, employee benefits net surpluses and net liabilities and goodwill previously written-off to, or amortised against, reserves). The Directors believe that ROI provides an important measure of the underlying financial performance of the Group.

4. FINANCIAL RISK MANAGEMENT

4.1 FINANCIAL RISK FACTORS

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from transactions and borrowings that are denominated in currencies other than pounds sterling. It uses various financial instruments to manage these exposures, as explained below.

(i) Recognised assets and liabilities

Forward foreign exchange contracts are used to hedge against the Group's exposure to changes in the fair value of a recognised asset or liability that are attributable to a particular risk and which could affect profit or loss. Such forward foreign exchange contracts are accounted for as fair value hedges in accordance with the policy in note 4.2(a).

(ii) Forecast transactions

Forward foreign exchange contracts are used to hedge against the Group's exposure to variability in cash flows that might arise from the fluctuation of exchange rates in relation to highly probable forecast transactions that are denominated in currencies other than its own functional currencies and which might affect profit or loss. Such forward foreign exchange contracts are accounted for as cash flow hedges in accordance with the policy in note 4.2(b).

(iii) Net investment hedges

Forward foreign exchange contracts and debt denominated in currencies other than pounds sterling are both used to hedge against the Group's exposure to changes in the value of its investment in the net assets of its foreign operations that arise from fluctuations in exchange rates. Such financial instruments are accounted for as net investment hedges in accordance with the policy in note 4.2(c).

(b) Credit risk

At the balance sheet date, the Group had no significant concentrations of credit risk.

(c) Liquidity risk

The Group Treasury function ensures that there are sufficient levels of committed facilities, cash and cash equivalents to ensure that the Group is at all times able to meet its financial commitments and operate within its financial covenants.

(d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from its borrowings. An analysis of the currency and interest rate profiles of the Group's borrowings is shown in note 37.

Borrowings at floating rates expose the Group to cash flow interest rate risk and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to borrow a mix of fixed and floating rate debt. From time to time the Group manages its cash flow and fair value interest rate risk by using interest rate swaps, which have the economic effect of changing the interest rate profile of the Group's borrowings.

4.2 HEDGING ACTIVITIES

The Group designates certain financial instruments as either: (a) hedges of the exposure to changes in the fair value of recognised assets or liabilities that are attributable to a particular risk and could affect profit or loss (fair value hedges); (b) hedges of the exposure to variability in cash flows that are attributable to a particular risk associated with a highly probable forecast transaction and could affect profit or loss (cash flow hedges); or (c) hedges of net investments in foreign operations.

At the inception of the transaction the Group documents the relationship between the hedging instrument and the hedged item. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised within trading profit in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are subject to the hedged risk.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 HEDGING ACTIVITIES (CONTINUED)

(b) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity within hedging reserves. The ineffective part of any gain or loss is recognised immediately within trading profit, or finance costs in the case of interest rate swaps designated as cash flow hedges, in the income statement. When the forecast transaction that was being hedged is realised and affects profit or loss, the cumulative gain or loss on the derivative financial instrument is removed from equity and recognised in the income statement in the same period. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or non-financial liability.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction takes place. If the hedged transaction is no longer expected to take place, the cumulative gain or loss recognised in equity is recognised immediately within trading profit in the income statement.

(c) Net investment hedges

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge, is recognised directly in equity within translation reserves and subsequently recognised in the income statement as part of the profit or loss on disposal of the net investment. The ineffective portion of the gain or loss is recognised immediately within trading profit in the income statement.

4.3 CAPITAL MANAGEMENT

The Group considers its capital to be equal to the sum of its total equity and net debt. The Group's objectives when managing its capital are:

- to ensure that the Group and all of its businesses are able to operate as going concerns;
- to maximise shareholder value through maintaining an appropriate balance between the Group's equity and net debt;
- to have available the necessary financial resources to allow the Group to invest in areas that may deliver acceptable future returns to investors; and
- to maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group manages its capital using a number of key performance indicators, including RONA and ROI (note 3.22).

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

5.1 PROPERTY, PLANT AND EQUIPMENT

It is Group policy to depreciate its property, plant and equipment assets, except freehold land, on a straight-line basis over their estimated useful lives. This applies an appropriate matching of the revenue earned with the capital costs of production and delivery of goods and services. A key element of this policy is the estimate of the useful life applied to each category of property, plant and equipment which, in turn, determines the annual depreciation charge. Variations in asset lives could significantly impact Group profit through an increase or decrease in the depreciation charge.

5.2 GOODWILL

The Directors use their judgement to determine the extent to which goodwill and other capitalised intangible assets have a value that will benefit the performance of the Group over future periods. To assist in making this judgement, the Directors undertake an assessment, at least annually, of the carrying value of the Group's capitalised goodwill and other intangible assets, using discounted cash flow forecasts to derive the value in use to the Group of the capitalised assets. In the assessment undertaken in 2008, further details of which are given in note 23, value in use was derived from discounted 5-year cash flow projections, using a growth rate of 3% in the years beyond the projection period and pre-tax discount rates. The projection period is, in the opinion of the Directors, an appropriate period over which to view the future results of the Group's businesses for this purpose. Changes to the assumptions and discount rates used in making these forecasts could significantly alter the Directors' assessment of the carrying value of goodwill and other intangible assets.

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

5.3 CURRENT ASSET RESERVES

In the course of normal trading activities, and in particular in the current economic environment, judgement is used to establish the net realisable value of various elements of working capital, principally inventory and trade receivables. Reserves are established for obsolete or slow-moving inventories, bad or doubtful debts and product warranties.

Reserve requirements are based on the facts available at the time and are also determined by using profiles, based on past practice, applied to certain aged inventory and receivables categories. In estimating the collectability of trade receivables, judgement is required in assessing their likely realisation, including the current creditworthiness of each customer and related ageing of the past due balances. Specific accounts are assessed in situations where a customer may not be able to meet its financial obligations due to deterioration in its financial condition, credit ratings or bankruptcy.

5.4 EMPLOYEE BENEFITS

The Group's financial statements include the costs and obligations associated with the provision of pension and other post-retirement benefits to current and former employees. It is the Directors' responsibility to set the assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set after consultation with the Group's actuaries and include those used to determine regular service costs and the financing elements related to the plans' assets and liabilities. Whilst the Directors believe that the assumptions used are appropriate, a change in the assumptions used would affect the Group's profit and financial position.

5.5 DEFERRED TAXATION

The Group has recognised deferred tax assets in respect of unutilised losses and other timing differences arising in certain of the Group's businesses, primarily in Europe and South America. Account has been taken of future forecasts of taxable profit in arriving at the values at which these assets are recognised. If these forecast profits do not materialise or change, or there are changes in tax rates or to the period over which the losses or timing difference might be recognised, then the value of the deferred tax asset will need to be revised in a future period.

The Group has losses and other timing differences for which no value has been recognised for deferred tax purposes in these financial statements. These can arise in loss-making subsidiaries where the future economic benefit of these timing differences is not probable. It can also arise where the timing differences are of such a nature that their value is dependent on only certain types of profit being earned, such as capital profits. If trading or other appropriate profits are earned in future in these companies, these losses and other timing differences may yield benefit to the Group in the form of a reduced tax charge.

5.6 ENVIRONMENTAL RESERVES

In certain parts of the business, mainly in the US, the Group has obligations to carry out environmental clean-ups at former and current production sites. Many of these obligations will not arise for a number of years and the costs are difficult to predict accurately. The Directors use their judgement and experience to make reserves in the financial statements for an appropriate amount for the likely cost of such clean-ups.

5.7 DISCONTINUED OPERATIONS

The Group's financial statements present the results of discontinued operations separately from continuing operations. Discontinued operations include those businesses that have been sold, or are classified as held for sale, and which represented a separate major line of business or geographical area of operations. The Directors exercise their judgement to determine which of the Group's businesses should have their results presented within discontinued operations.

6. SEGMENT INFORMATION

6.1 BUSINESS SEGMENTS

For reporting purposes, the Group is organised into three main business segments: Ceramics, Electronics and Precious Metals. In addition, corporate costs, being the costs directly related to managing the parent company, are reported separately in the analysis of segment result. The principal activities of each of these segments are described in the Operating Review on pages 12 to 21.

Segment revenue represents revenue from external customers (inter-segment revenue is not material) and segment result is equivalent to trading profit. Segment assets exclude cash and short-term deposits, employee benefits surpluses, deferred tax assets, income tax recoverable, investments in joint ventures, assets classified as held for sale and corporate assets that cannot be allocated on a reasonable basis to a business segment. These items are shown collectively in the following tables as "unallocated assets". Segment result and segment assets include items directly attributable to a segment as well as those items that can be allocated on a reasonable basis.

6.2 SEGMENT REVENUE AND SEGMENT RESULT

	Segment revenue		Segment result	
	2008 £m	2007 £m	2008 £m	2007 £m
Ceramics	1,264.3	781.1	167.7	109.4
Electronics	620.3	558.2	51.7	58.0
Precious Metals	317.9	280.2	4.5	9.9
Corporate costs	–	–	(7.6)	(7.7)
Total Group continuing operations	2,202.5	1,619.5	216.3	169.6

Since its acquisition on 4 April 2008, Foseco plc ("Foseco") has contributed £361.4m of revenue and £52.8m of trading profit to the Ceramics results. Further information relating to the acquisition of Foseco is given in note 42.

6.3 RECONCILIATION OF SEGMENT RESULT TO PROFIT BEFORE TAX

	2008 £m	2007 £m
Segment result	216.3	169.6
Restructuring and integration costs	(39.6)	(5.8)
Inventory fair value adjustment	(2.6)	–
Profit relating to non-current assets	3.4	7.0
Amortisation and impairment of intangible assets	(52.5)	–
Curtailment gains relating to employee benefits	6.0	1.0
Profit from operations	131.0	171.8
Finance costs – ordinary activities	(85.3)	(50.9)
– exceptional items	(2.2)	–
Finance income	44.5	29.4
Share of post-tax profit of joint ventures	0.7	1.7
Net profit/(loss) on disposal of continuing operations	0.9	(0.4)
Profit before tax	89.6	151.6

6. SEGMENT INFORMATION (CONTINUED)

6.4 SEGMENT DEPRECIATION AND SEGMENT ASSETS

	Depreciation		Assets	
	2008 £m	2007 £m	2008 £m	2007 £m
Ceramics	34.8	22.8	1,761.5	646.4
Electronics	9.3	8.9	566.9	449.8
Precious Metals	3.1	3.2	120.1	137.5
Unallocated	–	–	249.7	226.5
Discontinued operations	–	–	0.3	1.1
Total Group	47.2	34.9	2,698.5	1,461.3

The increase in segment assets in the Ceramics division is primarily due to the impact of the acquisition of Foseco (note 42).

6.5 GEOGRAPHIC INFORMATION

	External revenue		Non-current assets	
	2008 £m	2007 £m	2008 £m	2007 £m
Europe	892.0	618.2	735.9	206.6
NAFTA	601.1	520.4	431.1	318.3
Asia-Pacific	556.1	389.8	381.3	155.8
Rest of the World	153.3	91.1	116.4	26.6
Continuing operations	2,202.5	1,619.5	1,664.7	707.3
Discontinued operations	–	1.5	0.2	0.7
Unallocated	–	–	13.8	18.6
Total Group	2,202.5	1,621.0	1,678.7	726.6

In the table above external revenue is based upon the geographical location of the operation. Non-current assets exclude deferred tax assets and employee benefits.

7. EXPENSES BY NATURE

The following items have been charged/(credited) in arriving at trading profit:

	2008 £m	2007 £m
Cost of sales	1,615.3	1,168.0
Depreciation	47.2	34.9
Minimum lease payments under leases and sub-leases	20.6	13.5
Employee benefits expense (note 12.1)	480.1	372.8
Auditor's remuneration (note 8)	3.2	2.4
Foreign exchange differences	(1.1)	0.4
Research and development costs	30.7	23.1

8. AMOUNTS PAYABLE TO KPMG AUDIT PLC AND ITS ASSOCIATES

	2008 £m	2007 £m
Audit of these financial statements	0.5	0.6
Audit of financial statements of subsidiaries pursuant to legislation	1.8	1.1
Other services pursuant to such legislation	0.1	0.1
Other services relating to taxation	0.2	0.2
Services relating to corporate finance transactions	0.6	0.4
Total Auditor's remuneration	3.2	2.4

9. RESTRUCTURING AND INTEGRATION COSTS

The restructuring and integration costs of £39.6m (2007: £5.8m) comprise £17.1m of costs associated with the integration of Foseco into the Group's Ceramics division and £22.5m for the cost of a number of initiatives throughout the Group aimed at reducing the Group's cost base and re-aligning its manufacturing capacity with its customers' markets. The initiatives implemented included redundancy programmes, the consolidation of facilities, plant closures, the streamlining of manufacturing processes and the rationalisation of product lines. Of these rationalisation charges, £8.2m (2007: £1.6m) was in respect of asset write-downs. Cash costs of £23.0m were incurred in the year (2007: £14.7m) in respect of the restructuring and integration initiatives commenced both in 2008 and in prior years, leaving provisions made but unspent of £19.5m as at 31 December 2008 (2007: £5.8m). The net tax credit attributable to these restructuring and integration costs was £2.9m (2007: £0.5m).

10. INVENTORY FAIR VALUE ADJUSTMENT

The value of the inventory acquired on the acquisition of Foseco (note 42) was increased by £2.6m in order to restate the value of finished goods inventory from cost, as it had been valued in Foseco's balance sheet immediately prior to acquisition, to its fair value as recognised on acquisition by Cookson, in accordance with the requirements of IFRS 3, *Business Combinations*. The inventory that was subject to this valuation adjustment had all been sold by 31 December 2008. The tax credit attributable to this adjustment was £0.8m.

11. PROFIT RELATING TO NON-CURRENT ASSETS

The net profit relating to non-current assets of £3.4m (2007: £7.0m) comprised net profits of £8.4m arising on the sale of investments and surplus property, less asset write-downs of £5.0m. The net profit relating to non-current assets in 2007 comprised profits on the sale of surplus property. The net tax charge attributable to non-current assets was £0.2m (2007: £1.2m).

12. EMPLOYEES

12.1 EMPLOYEE BENEFITS EXPENSE

	2008 £m	2007 £m
Wages and salaries	412.2	321.3
Social security costs	47.5	35.1
Share-based payments (note 39)	2.7	3.5
Pension costs – defined contribution plans (note 38)	10.1	7.7
– defined benefit plans (note 38)	3.5	6.9
Other post-retirement benefits (note 38)	2.0	1.4
Total employee benefits expense	**478.0**	375.9

Of the total employee benefits expense of £478.0m (2007: £375.9m), £480.1m (2007: £372.8m) was charged in arriving at trading profit, £0.2m (2007: £2.0m) was charged within restructuring and integration costs, £6.0m (2007: £1.0m) was credited within curtailment gains relating to employee benefits, £33.4m (2007: £25.6m) was charged within finance costs, £29.7m (2007: £22.6m) was credited within finance income, £nil (2007: £1.0m) was credited within loss on disposal of continuing operations and £nil (2007: £0.1m) was charged in arriving at net post-tax loss attributable to discontinued operations.

12.2 AVERAGE NUMBER OF EMPLOYEES

	2008 No.	2007 No.
Ceramics	12,356	8,601
Electronics	3,101	3,027
Precious Metals	1,747	1,725
Continuing operations	17,204	13,353
Discontinued operations	–	37
Total average number of employees	**17,204**	13,390

The increase in employee numbers during the year is largely attributable to the acquisition of Foseco (note 42).

12. EMPLOYEES (CONTINUED)

12.3 REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the executive Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24, *Related Party Disclosures*. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 49 to 51.

	2008 £m	2007 £m
Short-term employee benefits	1.0	1.6
Post-employment benefits	0.2	0.2
Share-based payments	1.3	1.1
Total remuneration of key management personnel	2.5	2.9

13. FINANCE COSTS AND FINANCE INCOME

13.1 TOTAL NET FINANCE COSTS

	2008 £m	2007 £m
Finance costs – ordinary activities	85.3	50.9
– exceptional items	2.2	–
Finance income	(44.5)	(29.4)
Total net finance costs	43.0	21.5

13.2 ORDINARY FINANCE COSTS AND FINANCE INCOME

	2008 £m	2007 £m
Interest payable on borrowings:		
Bank loans and overdrafts	49.0	23.8
Obligations under finance leases	0.2	0.1
Amortisation of capitalised borrowing costs	1.8	0.4
	51.0	24.3
Other interest payable:		
Interest on retirement benefit obligations	33.4	25.6
Unwinding of discounted provisions	0.9	1.0
Total ordinary finance costs	85.3	50.9
Interest receivable	(14.4)	(6.4)
Expected return on retirement benefit assets	(29.7)	(22.6)
Unwinding of discounted receivables	(0.4)	(0.4)
Total ordinary finance income	(44.5)	(29.4)

13.3 EXCEPTIONAL FINANCE COSTS

A tranche of the borrowing facility that was arranged in October 2007 was cancelled during the year without being utilised and the £2.2m of costs associated with arranging this tranche of the facility have been written-off in the year as an exceptional item within finance costs.

14. NET PROFIT/(LOSS) ON DISPOSAL OF CONTINUING OPERATIONS

The net profit on disposal of continuing operations of £0.9m (2007: £0.4m loss) related to the sale of the Group's Hi-Tech ceramic filters business, formerly part of the Ceramics division, and the sale of Foseco's Carbon Bonded Ceramics business, both of which disposals were required for compliance with anti-trust clearances in relation to the acquisition of Foseco (note 42), together with the net costs associated with a number of other small business disposals. None of the businesses disposed of either individually or in aggregate represented a separate major line of business or geographical area of operation. Accordingly, these disposals are presented within pre-tax results from continuing operations in the Group Income Statement. The aggregate proceeds, net of selling costs, amounted to £21.2m (2007: £1.5m) and together with additional costs in relation to prior years' disposals, resulted in a net profit before tax of £0.9m (2007: loss of £0.4m).

The tax charge associated with these disposals was £0.3m (2007: £nil).

15. INCOME TAX

15.1 INCOME TAX COSTS

	2008 £m	2007 £m
Current tax:		
UK corporation tax	7.9	16.8
Double tax relief	(6.0)	(16.2)
Overseas taxation	43.8	33.6
Adjustments in respect of prior years	(1.2)	4.9
Total current tax	44.5	39.1
Deferred tax:		
Origination and reversal of temporary taxable differences	(5.8)	7.8
Adjustments in respect of prior years	1.5	(3.5)
Total deferred tax (note 26)	(4.3)	4.3
Total income tax costs	40.2	43.4

The Group's total income tax cost of £40.2m (2007: £43.4m) includes a credit of £8.1m (2007: charge of £3.5m) relating to exceptional items comprising a credit of £2.9m (2007: £0.5m) in relation to restructuring and integration costs, a credit of £0.8m (2007: £nil) relating to the inventory fair value adjustment, a credit of £3.7m (2007: £nil) relating to the amortisation and impairment of intangible assets, a credit of £1.2m (2007: £2.8m charge) relating to deferred tax on goodwill, a charge of £0.2m (2007: £1.2m) relating to non-current assets and a charge of £0.3m (2007: £nil) relating to the profit/(loss) on disposal of continuing operations. The current tax cost for 2008 was reduced by a benefit of £1.2m (2007: £3.5m) arising from previously unrecognised tax losses.

The Group operates in a number of countries that have differing tax rates, laws and practices. Changes in any of these areas could, adversely or positively, impact the Group's tax charge in the future. Continuing losses, or insufficiency of taxable profit to absorb all expenses, in any subsidiary could have the effect of increasing tax charges in the future, relative to 2008, as effective tax relief may not be available for those losses or expenses. Other significant factors affecting the tax charge are described in notes 3.11 and 5.5.

The tax charge relating to items charged or credited directly to equity was £20.5m (2007: £0.3m), of which £19.8m (2007: £nil) relates to the surplus arising on the UK pension funds (note 38.5).

15. INCOME TAX (CONTINUED)

15.2 RECONCILIATION OF INCOME TAX COSTS TO PROFIT PER INCOME STATEMENT

	2008 £m	2007 £m
Profit before tax	89.6	151.6
Tax at the UK corporation tax rate of 28.5% (2007: 30%)	25.5	45.5
Overseas tax rate differences	(1.4)	(9.6)
Impact of change in tax rates	–	0.7
Withholding taxes	2.6	0.8
Amortisation of intangibles	3.6	2.8
Impairment of intangibles	6.5	(0.1)
Expenses not deductible for tax purposes	2.0	1.3
Deferred tax assets not recognised	1.1	0.6
Adjustments in respect of prior years	0.3	1.4
Total income tax costs	40.2	43.4

The UK corporation tax rate changed from 30% to 28% with effect from 1 April 2008, giving a blended rate of 28.5% for the year ended 31 December 2008.

16. DISCONTINUED OPERATIONS

The net post-tax loss of £0.3m attributable to discontinued operations in 2007, comprised a pre-tax loss from operations of £0.2m together with a net post-tax loss on the disposal of operations of £0.1m, the latter comprising a £3.9m profit on the sale of the Group's former Monofrax business, additional profit of £1.2m in respect of the 2003 disposal of the Group's former Speedline business and £5.2m of additional costs in respect of prior years' disposals. There was no tax charge or credit associated with these disposals.

17. DIVIDENDS

The dividend per ordinary share amounts shown in the table below have been restated by dividing those previously reported by an adjustment factor to reflect the bonus element in the shares issued under the terms of the rights issue which completed on 4 March 2009. The adjustment factor used was 6.6391.

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders during the year:		
Final dividend for the year ended 31 December 2007 of 1.32p (2006: 1.05p) per ordinary share	18.6	13.5
Interim dividend for the year ended 31 December 2008 of 0.88p (2007: 0.64p) per ordinary share	12.4	8.2
	31.0	21.7
Proposed final dividend for the year ended 31 December 2008 of nil (2007: 1.32p) per ordinary share	–	18.6

The Board has recently reviewed the Company's near-term dividend policy in response to the ongoing global financial crisis and challenging trading conditions. As a consequence, no final dividend for the year ended 31 December 2008 will be recommended to shareholders at the Company's Annual General Meeting (2007 restated: 1.32p per ordinary share).

18. EARNINGS PER SHARE ("EPS")

	Continuing operations pence	Discontinued operations pence	Total 2008 pence	Continuing operations pence	Discontinued operations pence	Total 2007 pence
Basic EPS	3.3	–	3.3	8.0	–	8.0
Diluted EPS	3.3	–	3.3	8.0	–	8.0
Headline EPS	8.9	–	8.9	8.2	–	8.2
Diluted headline EPS	8.8	–	8.8	8.2	–	8.2

	Continuing operations £m	Discontinued operations £m	Total 2008 £m	Continuing operations £m	Discontinued operations £m	Total 2007 £m
Earnings for the purposes of calculating basic and diluted EPS (being net profit attributable to parent company equity holders)	46.1	–	46.1	105.3	(0.3)	105.0
Adjustments:						
Restructuring and integration costs	39.6	–	39.6	5.8	–	5.8
Inventory fair value adjustment	2.6	–	2.6	–	–	–
Profit relating to non-current assets	(3.4)	–	(3.4)	(7.0)	–	(7.0)
Amortisation and impairment of intangible assets	52.5	–	52.5	–	–	–
Curtailment gains relating to employee benefits	(6.0)	–	(6.0)	(1.0)	–	(1.0)
Exceptional finance costs	2.2	–	2.2	–	–	–
Net (profit)/loss on disposal of continuing operations	(0.9)	–	(0.9)	0.4	–	0.4
Net post-tax loss on disposal of discontinued operations	–	–	–	–	0.1	0.1
Tax relating to exceptional items	(8.1)	–	(8.1)	3.5	–	3.5
Earnings for the purposes of calculating headline EPS	124.6	–	124.6	107.0	(0.2)	106.8

	2008 m	2007 m
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic EPS	1,407.8	1,306.2
Adjustments for dilutive weighted average number of shares relating to the Company's share schemes	1.3	3.2
Weighted average number of ordinary shares for the purposes of calculating diluted EPS	1,409.1	1,309.4

The weighted average number of ordinary shares used in the calculation of earnings per share information for all years presented in these financial statements has been multiplied by an adjustment factor to reflect the bonus element in the shares issued under the terms of the rights issue which completed on 4 March 2009. The adjustment factor used was 6.6391.

For the purposes of calculating diluted EPS, the weighted average number of ordinary shares is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares. Potential ordinary shares are only treated as dilutive when their conversion to ordinary shares would decrease earnings per share, or increase loss per share, from continuing operations.

In addition to the 1.3m (2007: 3.2m) shares shown in the table above as being dilutive, the Company has outstanding options in relation to its share option schemes that could dilute EPS in the future, but which are not included in the calculation of diluted EPS above because they were antidilutive in the years presented.

19. CASH GENERATED FROM OPERATIONS

	2008 £m	2007 £m
Profit from operations – continuing operations	131.0	171.8
– discontinued operations	–	(0.2)
Adjustments for:		
Restructuring and integration costs	39.6	5.8
Inventory fair value adjustment	2.6	–
Profit relating to non-current assets	(3.4)	(7.0)
Amortisation and impairment of intangible assets	52.5	–
Curtailment gains relating to employee benefits	(6.0)	(1.0)
Depreciation	47.2	34.9
EBITDA	263.5	204.3
– Increase in inventories	(20.2)	(18.2)
– Decrease/(increase) in trade receivables	72.1	(19.3)
– Decrease in trade payables	(27.1)	(1.4)
– Increase in other working capital balances	(33.7)	(5.9)
Net increase in trade and other working capital	(8.9)	(44.8)
Net operating outflow related to assets and liabilities classified as held for sale	–	(1.5)
Outflow related to restructuring and integration costs	(23.0)	(14.7)
Additional funding contributions into Group pension plans	(25.0)	(28.1)
Cash generated from operations	**206.6**	**115.2**

20. CASH AND CASH EQUIVALENTS

	2008 £m	2007 £m
Short-term deposits	41.5	118.2
Cash at bank and in hand	74.3	49.2
Cash and short-term deposits	115.8	167.4
Bank overdrafts	(10.2)	(14.2)
Cash and cash equivalents in the Group Statement of Cash Flows	**105.6**	**153.2**

21. RECONCILIATION OF MOVEMENT IN NET DEBT

	Balance as at 1 January 2008 £m	Foreign exchange adjust-ments £m	Debt assumed on acquisitions £m	Non-cash movements £m	Cash flow £m	Balance as at 31 December 2008 £m
Cash and cash equivalents:						
Short-term deposits	118.2	7.9	–	–	(84.6)	41.5
Cash at bank and in hand	49.2	24.1	–	–	1.0	74.3
Bank overdrafts	(14.2)	(2.7)	–	–	6.7	(10.2)
					(76.9)	
Borrowings, excluding overdrafts:						
Current	(4.6)	(12.4)	(6.7)	–	(29.4)	(53.1)
Non-current	(199.5)	(134.3)	(121.4)	–	(336.2)	(791.4)
Capitalised borrowing costs	0.3	–	–	6.9	–	7.2
					(365.6)	
Net debt	(50.6)	(117.4)	(128.1)	6.9	(442.5)	(731.7)

Net debt is a measure that shows the Group's net indebtedness to banks and other external financial institutions and comprises the total of cash and short-term deposits and current and non-current interest-bearing loans and borrowings.

Cash acquired with acquisitions, amounting to £20.9m (note 42.3), is reported within the cash flow column in the table above, to conform with the requirements of IAS 7, Cash Flow Statements, whereby the cash paid for the acquisition of subsidiaries and joint ventures as reported in the Group Statement of Cash Flows, is reported net of cash and cash equivalents acquired.

22. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £m	Leasehold property £m	Plant and machinery £m	Construction in progress £m	Total £m
Cost					
As at 1 January 2007	110.4	22.1	408.2	12.2	552.9
Exchange adjustments	5.3	0.7	12.3	1.2	19.5
Additions – capital expenditure	2.6	1.3	32.1	23.6	59.6
– businesses	–	1.2	2.9	–	4.1
Disposals – sales and scrapings	(4.1)	(4.7)	(22.3)	(0.1)	(31.2)
– businesses	–	–	(0.2)	–	(0.2)
Reclassifications	0.3	1.8	15.2	(17.3)	–
As at 1 January 2008	114.5	22.4	448.2	19.6	604.7
Exchange adjustments	44.6	4.8	142.0	19.4	210.8
Additions – capital expenditure	5.0	0.9	34.2	32.7	72.8
– businesses	43.8	1.8	37.5	3.4	86.5
Disposals – sales and scrappings	(3.1)	–	(19.0)	–	(22.1)
– businesses	(1.9)	–	(5.5)	–	(7.4)
Transferred to assets classified as held for sale	–	–	(0.1)	–	(0.1)
Reclassifications	19.5	1.6	(3.1)	(18.0)	–
As at 31 December 2008	222.4	31.5	634.2	57.1	945.2
Accumulated depreciation and impairment losses					
As at 1 January 2007	48.5	8.7	273.3	–	330.5
Exchange adjustments	3.9	–	3.8	–	7.7
Depreciation charge	2.1	1.3	31.5	–	34.9
Disposals – sales and scrappings	(0.4)	(2.8)	(19.8)	–	(23.0)
– businesses	–	–	(0.1)	–	(0.1)
Reclassifications	1.0	–	(1.0)	–	–
As at 1 January 2008	55.1	7.2	287.7	–	350.0
Exchange adjustments	9.7	2.4	99.2	–	111.3
Depreciation charge	5.8	2.0	39.4	–	47.2
Impairment charge	–	3.4	1.6	–	5.0
Disposals – sales and scrappings	(0.3)	0.3	(11.8)	–	(11.8)
– businesses	(0.4)	–	(2.7)	–	(3.1)
Reclassifications	8.5	0.1	(8.6)	–	–
As at 31 December 2008	78.4	15.4	404.8	–	498.6
Net book value as at 31 December 2008	144.0	16.1	229.4	57.1	446.6
Net book value as at 31 December 2007	59.4	15.2	160.5	19.6	254.7
Net book value as at 1 January 2007	61.9	13.4	134.9	12.2	222.4

The net book value of assets held under finance leases as at 31 December 2008 and 31 December 2007 was not material.

23. INTANGIBLE ASSETS

23.1 MOVEMENT IN NET BOOK VALUE

	31 December 2008			31 December 2007		
	Goodwill £m	Intangible assets £m	Total £m	Goodwill £m	Intangible assets £m	Total £m
Cost						
As at 1 January	430.8	–	430.8	429.0	–	429.0
Exchange adjustments	202.3	20.6	222.9	(1.4)	–	(1.4)
Business acquisitions (note 42)	332.3	257.4	589.7	3.7	–	3.7
Business disposals (note 43)	(2.6)	–	(2.6)	(0.5)	–	(0.5)
As at 31 December	962.8	278.0	1,240.8	430.8	–	430.8
Amortisation and impairment						
As at 1 January	–	–	–	–	–	–
Exchange adjustments	–	0.7	0.7	–	–	–
Amortisation charge for the year (note 23.2)	–	12.9	12.9	–	–	–
Impairment loss (note 23.3)	39.6	–	39.6	–	–	–
As at 31 December	39.6	13.6	53.2	–	–	–
Net book value						
As at 31 December	923.2	264.4	1,187.6	430.8	–	430.8

23.2 AMORTISATION

Intangible assets recognised on the acquisition of Foseco (note 42) are amortised over their useful lives as summarised below.

	Cost on acquisition £m	Remaining useful life years	Charged in 2008 £m
Foseco – customer relationships	103.7	19.3	4.0
– trade name	72.4	19.3	2.7
– intellectual property rights	80.3	9.3	6.0
Other	1.0		0.2
	257.4		12.9

23.3 IMPAIRMENT

Goodwill acquired in a business combination is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The Directors consider that the Group has four cash-generating units: the Ceramics division, the Chemistry product line of the Electronics division, the Assembly Materials product line of the Electronics division and the Precious Metals division. These cash-generating units represent the lowest level within the Group at which goodwill is monitored. Of these four cash-generating units, the carrying amount of goodwill is significant for the Ceramics and Chemistry cash-generating units, in relation to the Group's total carrying amount of goodwill.

	2008 £m	2007 £m
Ceramics	613.9	181.5
Chemistry	242.7	172.0
Other cash-generating units	66.6	77.3
Total goodwill	923.2	430.8

23. INTANGIBLE ASSETS (CONTINUED)

23.3 IMPAIRMENT (CONTINUED)

Goodwill is initially recognised as an asset at cost and subsequently measured at cost less any accumulated impairment losses, with impairment testing carried out annually. For the purpose of impairment testing, the recoverable amount of the Group's cash-generating units is determined from value in use calculations based on detailed divisional plans covering a three year period from the balance sheet date, higher level assumptions covering a further two year period and perpetuity calculations beyond this five year projection period using a growth rate of 3% (2007: 3% for each cash-generating unit). The cash flows in the calculations are discounted to their current value using pre-tax discount rates.

The key assumptions used in the value in use calculations are growth rates, operating margins and discount rates. Growth rates are determined with reference to: current market conditions; external forecasts and historical trends for the Group's key end-markets of steel, automotive and electronics; and expected growth in output within the industries in which each major Group business unit operates.

The perpetuity growth rate of 3% is based on the long-term growth rates experienced in the Group's end-markets. The Group's projections, which are based on historical trends and external forecasts, show conditions for the first quarter of 2009 to be no better than the fourth quarter of 2008 and then to improve slowly through the second quarter of 2009 as the de-stocking in end-markets comes to an end. Further improvements in trading are expected in the second half of 2009 reflecting the Group's normal trading seasonality, notably for the Electronics and Precious Metals divisions, and also supported by the anticipated beneficial impact on infrastructure demand (and, notably, its impact on the demand for steel and foundry castings) of the various fiscal stimulus packages recently announced by governments around the world.

Operating margins are based on historic financial information, adjusted to factor in the anticipated impact of restructuring and rationalisation plans already announced at the balance sheet date. Discount rates are calculated by external consultants for each cash-generating unit, reflecting market assessments of the time value of money and the risks specific to each cash-generating unit. The pre-tax discount rate used for the Ceramics cash-generating unit was 13.0% (2007: 12.5%) and for the Chemistry cash-generating unit was 12.5% (2007: 11.3%).

In assessing goodwill for potential impairment as at 31 December 2008, the Directors made use of the most recent detailed calculations of the recoverable amount of the Group's cash-generating units, prepared as at 31 December 2008. Those calculations resulted in recoverable amounts that exceeded the carrying values of the cash-generating units in three of the Group's four cash-generating units.

For the Precious Metals cash-generating unit, which during 2008 continued to experience weakness in its jewellery end-markets in both Europe and the US, the recoverable amount was less than carrying value and an impairment loss of £39.6m has been recognised against the carrying value of its goodwill. The discount rate applied in this calculation was 14.8% (2007: 12.9%). After recording this impairment, goodwill recognised on the balance sheet for the Precious Metals cash-generating unit is £nil. The Precious Metals cash-generating unit is also a separate reportable segment in note 6.

For the Chemistry cash-generating unit, where its recoverable amount exceeded its carrying value by £4.4m, a reduction in either the perpetuity growth rate assumption from 3.0% to 2.8%, or an increase in the discount rate assumption from 12.5% to 12.7%, would result in its recoverable amount being equal to its carrying value.

24. INTERESTS IN JOINT VENTURES

The principal joint venture of the Group, in which it has a 50% interest, is Electroplating Engineers of Japan Ltd. The Group's interests in its joint ventures are recognised using the equity method. The aggregate amounts relating to these interests were as follows:

	2008 £m	2007 £m
Share of current assets	36.2	20.6
Share of current liabilities	(13.3)	(4.8)
Share of non-current liabilities	(0.7)	(1.6)
As at 31 December	22.2	14.2
Share of revenue	79.2	65.2
Share of post-tax profit	0.7	1.7

25. INVESTMENTS

	2008 £m	2007 £m
Available-for-sale investments	10.2	16.3

Available-for-sale investments include £4.4m (2007: £9.2m) of assets held in Rabbi Trusts and £4.1m (2007: £4.7m) of listed equity securities and are accounted for in accordance with the policies in note 3.20(c). The Rabbi Trust assets are held to fund certain non-qualified US pension plan obligations and are not included within pension plan assets as they are available to satisfy creditors in the event of the winding-up of the Group company in which they are held.

26. DEFERRED TAX

	Accelerated capital allowances £m	Tax losses £m	Pension costs £m	Goodwill £m	Other timing differences £m	Total £m
As at 1 January 2007	(1.9)	6.3	1.9	(13.0)	(3.8)	(10.5)
Exchange adjustments	(0.1)	0.1	0.1	0.1	0.3	0.5
Charge to Group Statement of Recognised Income and Expense	–	–	(0.2)	(0.1)	–	(0.3)
Credit/(charge) to Group Income Statement (note 15)	1.0	(3.2)	(0.5)	(2.8)	1.2	(4.3)
As at 1 January 2008	(1.0)	3.2	1.3	(15.8)	(2.3)	(14.6)
Exchange adjustments	(0.9)	0.4	0.6	(12.4)	1.1	(11.2)
Business acquisitions	(1.9)	0.5	1.2	(75.0)	(3.3)	(78.5)
Charge to Group Statement of Recognised Income and Expense	–	–	(19.8)	–	–	(19.8)
(Charge)/credit to Group Income Statement (note 15)	(1.2)	(0.4)	(0.3)	5.7	0.5	4.3
Other movements	(1.2)	(0.2)	0.8	(0.6)	1.3	0.1
As at 31 December 2008	(6.2)	3.5	(16.2)	(98.1)	(2.7)	(119.7)

Recognised in the Group Balance Sheet as:

	2008 £m	2007 £m
Deferred tax assets	14.8	8.9
Deferred tax liabilities	(134.5)	(23.5)
Net total deferred tax liabilities	(119.7)	(14.6)

The £19.8m charge to the Statement of Recognised Income and Expense shown in the table above relates to the surplus arising on the UK pension funds.

The total deferred tax asset not recognised as at 31 December 2008 was £454.9m (2007: £355.8m). This consisted of £52.1m (2007: £52.1m) relating to capital losses, £190.6m (2007: £146.7m) relating to operating losses, £104.0m (2007: £70.7m) relating to unrelieved interest, £95.1m (2007: £73.2m) relating to other categories and £13.1m (2007: £13.1m) relating to UK ACT tax credits. In accordance with the accounting policy in note 3.11, these items have not been recognised in the above analysis on the basis that their future economic benefit is not probable. In total, there was an increase of £99.1m (2007: increase of £0.7m) in net unrecognised deferred tax assets during the year.

As at 31 December 2008, the Group had total operating losses carried forward with a tax value of £194.1m (2007: £149.9m). This total includes £90.8m (2007: £62.8m) for losses which are available to offset future taxable US income, of which approximately £8.1m (2007: £6.0m) will expire in 2020 and the remainder will expire between 2022 and 2028. A further £80.7m (2007: £70.0m) of losses are available to offset future UK taxable income and may be carried forward without time limit. The remaining losses with a value of £22.6m (2007: £17.1m) include £11.2m (2007: £11.7m) which may be carried forward indefinitely and £11.4m (2007: £5.4m) which has a maximum life of between 5 and 20 years. The amounts arise in a number of countries and are not individually significant, reflecting the spread of the Group's operations.

26. DEFERRED TAX (CONTINUED)

As at 31 December 2008, the Group had US unrelieved interest with a tax value of £102.9m (2007: £70.7m), which may be carried forward indefinitely, and US tax credits carried forward with a tax value of £11.3m (2007: £7.5m). This includes £2.9m (2007: £2.0m) of research and experimentation credits which expire between 2018 and 2027 and £8.4m (2007: £5.5m) of foreign tax credits expiring between 2009 and 2016.

As at 31 December 2008, the Group had UK capital losses carried forward with a tax value of £52.1m (2007: £52.1m), which are available to offset future UK capital gains and may be carried forward without time limit, and UK ACT tax credits carried forward with a tax value of £13.1m (2007: £13.1m), which may be carried forward indefinitely.

The aggregate amount of temporary differences associated with investments in subsidiaries and interests in joint ventures for which deferred tax liabilities have not been recognised is £200.5m (2007: £107.3m).

27. TRADE AND OTHER RECEIVABLES

27.1 ANALYSIS OF TRADE AND OTHER RECEIVABLES

			2008			2007
	Gross £m	Impairment £m	Net £m	Gross £m	Impairment £m	Net £m
Trade receivables – current	272.8	(3.1)	269.7	222.2	(0.6)	221.6
– 1-30 days past due	72.7	(1.7)	71.0	50.0	(0.7)	49.3
– 31-60 days past due	34.9	(1.0)	33.9	15.9	(0.7)	15.2
– 61-90 days past due	18.5	(2.4)	16.1	6.1	(0.6)	5.5
– over 90 days past due	47.8	(25.8)	22.0	23.8	(15.5)	8.3
Total trade receivables	446.7	(34.0)	412.7	318.0	(18.1)	299.9
Other receivables			36.8			34.3
Prepayments and accrued income			29.5			21.7
Total trade and other receivables			479.0			355.9

All of the Group's operating companies have policies and procedures in place to assess the creditworthiness of the customers with whom they do business. Where objective evidence exists that a trade receivable balance may be impaired, provision is made for the difference between its carrying amount and the present value of the estimated cash that will be recovered. Impairment provisions are assessed on an individual customer basis for all significant outstanding balances and collectively for all remaining balances based upon historical loss experience. Historical experience has shown that the Group's trade receivable provisions are maintained at levels that are sufficient to absorb actual bad debt write-offs, without being excessive.

27.2 MOVEMENTS ON IMPAIRMENT PROVISIONS

	2008 £m	2007 £m
As at 1 January	18.1	15.9
Exchange adjustments	5.9	1.0
Business acquisitions	4.8	–
Charge for the year	8.9	4.1
Receivables written-off during the year as uncollectable	(1.6)	(0.4)
Unused amounts reversed	(2.1)	(2.5)
As at 31 December	34.0	18.1

27. TRADE AND OTHER RECEIVABLES (CONTINUED)

27.2 MOVEMENTS ON IMPAIRMENT PROVISIONS (CONTINUED)

Impairment provisions, write-offs and the reversal of unused amounts shown in the table above are charged or credited as appropriate within administration, selling and distribution costs in the Group Income Statement.

In determining the level of impairment provisions required, the Group's operating companies initially review all significant trade receivable balances on an individual basis for evidence of impairment. Evidence of impairment may include such factors as the customer being in breach of contract, or entering bankruptcy or financial reorganisation proceedings. Of the total provision for impairment of trade receivables at 31 December 2008 of £34.0m (2007: £18.1m) shown in the table above, £24.7m (2007: £14.8m) related to balances that were impaired on an individual basis. The ageing analysis of these individually impaired balances is shown in the table below.

	2008 £m	2007 £m
Ageing analysis of individually impaired trade receivable balances:		
Current	2.2	–
1-30 days past due	1.0	0.2
31-60 days past due	0.6	0.6
61-90 days past due	2.2	0.5
Over 90 days past due	18.7	13.5
	24.7	14.8

Due to the large number of customers that the Group transacts its business with, none of which represent a significant proportion of the total outstanding trade receivables balance, the Group is not exposed to any significant concentration of credit risk.

28. INVENTORIES

	2008 £m	2007 £m
Raw materials	133.4	80.8
Work-in-progress	33.2	25.6
Finished goods	165.0	95.0
Total inventories	331.6	201.4

The cost of inventories recognised as an expense and included in cost of sales in the income statement during the year was £1,107.2m (2007: £797.6m).

In addition to the inventory recorded in the balance sheet, the Group held precious metals on consignment terms with a total value as at 31 December 2008 of £396.8m (2007: £344.1m). As at 31 December 2008, metal held under consignment comprised 575,781 ounces of gold (2007: 696,801 ounces), 4,391,512 ounces of silver (2007: 4,786,206 ounces), 18,561 ounces of platinum (2007: 18,981 ounces) and 16,591 ounces of palladium (2007: 19,974 ounces). The Group also held precious metals on behalf of customers for processing, the value of which as at 31 December 2008 was £106.7m (2007: £83.0m).

Cookson has entered into various precious metal consignment arrangements with precious metals consigning entities (the "Consignors"). The metal which the Group fabricates for its customers may be purchased by the Group from a Consignor and sold concurrently to the customer, or may be consigned and sold directly from a Consignor to the Group's customers, with the Group charging customers only for the fabrication process. As the Consignors retain title and associated risks and benefits of ownership under these arrangements, the value of the physical metal so held is not recorded on the Group Balance Sheet. Consequently, the obligations in respect of the consigned metal are not recorded as a liability on the Group Balance Sheet. The utilisation of consigned precious metals is established practice in the precious metals industry.

Cookson provides a guarantee in respect of each consignment arrangement. Whilst the terms of each consignment arrangement differ in their specific terms, they share similar characteristics. Metals are held on consignment by the relevant member of Cookson ("Consignee") and the Consignor retains title to the metal and has a right of physical return of the metal without penalty unless the Consignee purchases such metal at a market price for such metals plus a premium. The Consignee pays a consignment fee on the value of the metals consigned to it which have not been returned or purchased. Consignment fees are charged by the Consignor and were £6.6m for the year ended 31 December 2008 (2007: £3.8m).

Consigned metals may be co-mingled with other metals. Consignors are party to either committed or uncommitted arrangements. Under uncommitted arrangements the Consignor is under no obligation to supply metal to the Group's fabrication operations and has the right, with limited or, in some cases, no notice to demand physical return of its consigned metal. Under committed arrangements the Consignors provide a rolling 12 month commitment to supply metal to the Group's fabrication operations.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2008		2007	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Net investment hedges	–	51.1	0.2	1.5
Cash flow hedges	–	12.5	0.1	0.4
Fair value hedges	6.7	–	–	0.4
Total derivative financial instruments	**6.7**	**63.6**	0.3	2.3

Derivative financial instruments in the table above are reported at their fair value at the balance sheet date and comprise forward foreign exchange contracts and interest rate swap contracts. They are designated as either net investment hedges, cash flow hedges or fair value hedges and are accounted for in accordance with the accounting policies in note 4.2. None of the hedges in the table above are speculative in nature and of the £63.6m (2007: £2.3m) liabilities, £24.3m (2007: £nil) are non-current and £39.3m (2007: £2.3m) are current.

29.1 NET INVESTMENT HEDGES

The Group uses forward foreign exchange contracts to synthetically change the currency profile of its borrowings to more closely match the currency profile of the net assets of its foreign operations. Such contracts are designated as net investment hedges, as they mitigate the Group's exposure to changes in the value of its investment in the net assets of its foreign operations that arises as a result of the fluctuation in exchange rates.

29.2 CASH FLOW HEDGES

In its operations the Group uses forward foreign exchange contracts to provide a hedge against the cash flow risk associated with certain highly probable forecast transactions. Such contracts are designated as cash flow hedges and are used in relation to the forecast sale of goods and purchase of raw materials in order to provide a hedge against the variability in cash flows that might otherwise arise as a result of the fluctuation in exchange rates.

The Group uses interest rate swaps to provide a hedge against the cash flow risk associated with interest payable on floating rate debt instruments. These contracts are designated as cash flow hedges and are used to hedge against the variability in cash flows that might otherwise arise as a result of fluctuations in interest rates.

29.3 FAIR VALUE HEDGES

In its operations the Group uses forward foreign exchange contracts, designated as fair value hedges, to provide a hedge against the risk of changes in the fair value of recognised assets and liabilities that are denominated in foreign currencies that might otherwise arise as a result of the fluctuation in exchange rates.

30. ASSETS CLASSIFIED AS HELD FOR SALE

Assets of £0.3m in respect of a business in the process of being disposed of were recorded as held for sale at the end of 2008 (2007: £nil).

31. SHARE CAPITAL – ORDINARY SHARES OF 10 PENCE

31.1 NUMBER OF SHARES

	2008 m	2007 m
Authorised – as at 1 January and 31 December	1,935.0	1,935.0
Issued and fully paid		
As at 1 January	212.6	193.4
Shares issued in the year	–	19.2
As at 31 December	212.6	212.6

31. SHARE CAPITAL – ORDINARY SHARES OF 10 PENCE (CONTINUED)

31.2 VALUE OF SHARES

	2008 £m	2007 £m
Authorised – as at 1 January and 31 December	193.5	193.5
Issued and fully paid		
As at 1 January	21.3	19.3
Shares issued in the year	–	2.0
As at 31 December	21.3	21.3

In October 2007, the Company issued 18,583,519 new 10p ordinary shares through a share placing at a price of 825p per ordinary share, to part finance the Company's acquisition of Foseco plc. The issue raised £150.6m net of issue costs.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, are entitled to one vote per share at meetings of the Company and rank equally with regard to entitlement to the Company's residual assets.

On 5 March 2009, the Company issued 2,551,293,144 new 10p ordinary shares under the terms of a fully underwritten rights issue (note 48).

32. SHARE PREMIUM ACCOUNT

	£m
As at 1 January 2007	6.3
Arising on exercise of share options	1.7
As at 1 January 2008	8.0
Arising on exercise of share options	0.1
As at 31 December 2008	8.1

33. OTHER RESERVES

	Hedging reserve £m	Investment revaluation reserve £m	Translation reserve £m	Total £m
As at 1 January 2007	–	5.0	(22.0)	(17.0)
Exchange differences on translation of the net assets of foreign operations	–	–	26.2	26.2
Exchange translation differences arising on net investment hedges	–	–	(10.1)	(10.1)
Change in fair value of available-for-sale investments recognised directly in equity	–	1.0	–	1.0
Change in fair value of cash flow hedges	(0.3)	–	–	(0.3)
As at 1 January 2008	(0.3)	6.0	(5.9)	(0.2)
Exchange differences on translation of the net assets of foreign operations	–	–	375.4	375.4
Exchange translation differences arising on net investment hedges	–	–	(166.8)	(166.8)
Change in fair value of available-for-sale investments recognised directly in equity	–	2.5	–	2.5
Change in fair value of available-for-sale investments transferred to profit for the year	–	(6.5)	–	(6.5)
Change in fair value of cash flow hedges	(11.7)	–	–	(11.7)
Income tax on items recognised directly in equity	–	–	(0.6)	(0.6)
As at 31 December 2008	(12.0)	2.0	202.1	192.1

Hedging reserve

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction (note 29.2), the effective part of the gain or loss on the derivative financial instrument is recognised directly in equity within the hedging reserve. When the forecast transaction that was being hedged is realised and affects profit or loss, the cumulative gain or loss on the derivative financial instrument is removed from the hedging reserve and recognised in the Group Income Statement in the same period.

33. OTHER RESERVES (CONTINUED)

Investment revaluation reserve

Available-for-sale investments are carried in the Group Balance Sheet at fair value. Changes in fair value from one balance sheet date to the next are recorded in the investment revaluation reserve, together with any related tax. When the investment is derecognised the cumulative amount relating to it in the investment revaluation reserve, together with any related tax, is recognised in the Group Income Statement.

Translation reserve

The translation reserve comprises all foreign exchange differences attributable to the equity holders of the parent company that arise from the translation of the financial statements of foreign operations and from the translation of financial instruments that hedge the Group's net investment in foreign operations. In addition to foreign exchange differences attributable to the equity holders of the parent company, the Group Statement of Recognised Income and Expense also includes foreign exchange differences attributable to minority interests (note 35).

34. RETAINED EARNINGS

	Treasury shares £m	Share option reserve £m	Other retained earnings £m	Total retained earnings £m
As at 1 January 2007	(8.4)	4.6	470.0	466.2
Profit for the year	–	–	105.0	105.0
Actuarial gain on employee benefit plans	–	–	23.5	23.5
Recognition of share-based payments	–	3.4	–	3.4
Arising from issue of shares	–	–	148.8	148.8
Disposal of treasury shares	3.1	–	(3.1)	–
Release of share option reserve on exercised options	–	(2.2)	2.2	–
Income tax on items recognised directly in equity	–	–	(0.3)	(0.3)
Dividends paid	–	–	(21.7)	(21.7)
As at 1 January 2008	(5.3)	5.8	724.4	724.9
Profit for the year	–	–	46.1	46.1
Actuarial gain on employee benefit plans	–	–	33.7	33.7
Recognition of share-based payments	–	2.9	–	2.9
Purchase of treasury shares	(3.9)	–	–	(3.9)
Disposal of treasury shares	6.6	–	(6.3)	0.3
Release of share option reserve on exercised options	–	(2.3)	2.3	–
Income tax on items recognised directly in equity	–	–	(19.9)	(19.9)
Dividends paid	–	–	(31.0)	(31.0)
As at 31 December 2008	(2.6)	6.4	749.3	753.1

The treasury shares shown in the table above are ordinary shares of 10p each of the Company and are held by Cookson Investments (Jersey) Limited as Trustee of the Cookson Group ESOP (note 15 to the Company financial statements).

In October 2007, the Company issued 18,583,519 new 10p ordinary shares through a share placing, to part finance the Company's acquisition of Foseco plc. The issue raised £150.6m net of issue costs. A cash box structure was utilised to affect the share placing, as a result of which Section 131 of the Companies Act 1985 applied to the excess of the net proceeds over the nominal value of the shares issued and consequently no share premium was recognised. The excess net proceeds of £148.8m were recorded as a merger reserve that was subsequently transferred to retained earnings and which is available for distribution to shareholders.

35. MINORITY INTERESTS

	2008 £m	2007 £m
As at 1 January	11.9	9.4
Exchange adjustments	2.4	1.1
Minority interest in profit for the year	3.3	2.9
Dividends paid to minority shareholders	(2.1)	(1.5)
Acquisition of minority interest (note 42)	2.1	–
As at 31 December	**17.6**	**11.9**

36. INTEREST-BEARING LOANS AND BORROWINGS

36.1 BORROWING FACILITIES

As at 31 December 2008, the Group had committed borrowing facilities of £1,044.1m (2007: £383.0m), of which £228.2m (2007: £187.0m) were undrawn and due to expire in more than two years but not more than five years from the balance sheet date.

The Group's borrowing requirements are met by US Private Placement Loan Notes ("USPP") and a multi-currency committed syndicated bank facility of £793.7m (2007: £200.0m). The USPP facility was fully drawn as at 31 December 2008 and amounted to £250.4m (US$365.0m), of which $40.0m is repayable in November 2009, $135.0m in May 2010 and $190.0m in May 2012. The syndicated bank facility comprises £443.7m of term loans and a £350.0m revolving credit facility which terminates in 2012. This facility was used, in combination with the net proceeds of £150.6m from the share placing on 11 October 2007, to finance the acquisition of Foseco in April 2008. This included the refinancing of the existing committed bank facilities of Cookson and Foseco. The facility was originally repayable in three tranches: £75.0m and €37.5m in October 2010; £75.0m and €37.5m in October 2011; and £500.0m and €75.0m in October 2012.

On 6 March 2009, the Group came to an agreement with the banks providing the syndicated facility whereby the Group agreed to prepay, in March 2009, the £75.0m and €37.5m tranches originally due to be repaid in October 2010. In exchange for this the banking syndicate has rescheduled by one year the tightening of the net debt to EBITDA covenant attached to the facility. As a result, the covenant test will now be 3.5 times (previously 3.0 times) at 30 June 2009 and 31 December 2009, reverting to 3.0 times as at 30 June 2010 and thereafter. Following this change to the facility, the required future repayments are £75.0m and €37.5m in 2011, with the balance of £500.0m and €75.0m being repayable in 2012.

36.2 ANALYSIS OF LOANS AND BORROWINGS BY REPAYMENT TERM

	Non-current		Current		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Loans and overdrafts	789.0	198.8	61.0	18.0	850.0	216.8
Obligations under finance leases	2.4	0.7	2.3	0.8	4.7	1.5
Capitalised borrowing costs	(5.0)	(0.2)	(2.2)	(0.1)	(7.2)	(0.3)
Total interest-bearing loans and borrowings	**786.4**	**199.3**	**61.1**	**18.7**	**847.5**	**218.0**

	2008			2007		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Interest-bearing loans and borrowings are repayable as follows:						
On demand or within one year	27.4	35.9	63.3	–	18.8	18.8
In the second year	92.6	113.0	205.6	20.1	1.6	21.7
In the third year	–	111.4	111.4	67.7	13.7	81.4
In the fourth year	130.4	343.9	474.3	–	0.6	0.6
In the fifth year	–	–	–	95.2	0.5	95.7
After five years	–	0.1	0.1	–	0.1	0.1
Capitalised borrowing costs	(0.2)	(7.0)	(7.2)	(0.3)	–	(0.3)
Total interest-bearing loans and borrowings	**250.2**	**597.3**	**847.5**	**182.7**	**35.3**	**218.0**

Capitalised borrowing costs, which have been recognised as a reduction in borrowings in the financial statements, amounted to £7.2m as at 31 December 2008 (31 December 2007: £0.3m) of which £0.2m (2007: £0.3m) related to the USPP and £7.0m (2007: £nil) related to the syndicated bank facility.

36. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

36.3 PRESENT VALUE OF MINIMUM FINANCE LEASE OBLIGATIONS

	2008 £m	2007 £m
Due within one year	2.3	0.8
Due between one and five years	2.4	0.7
Total present value of minimum finance lease obligations	**4.7**	**1.5**

37. FINANCIAL RISK MANAGEMENT

37.1 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties and is calculated by reference to market values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing rates translated at year-end exchange rates.

	2008		2007	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Short-term borrowings and current portion of long-term borrowings	61.0	61.3	18.0	18.0
Long-term portion of long-term borrowings	789.0	798.1	198.8	205.3
Obligations under finance leases	4.7	4.7	1.5	1.5
Capitalised borrowing costs	(7.2)	–	(0.3)	–
Gross borrowings	847.5	864.1	218.0	224.8
Cash and short-term deposits (note 20)	(115.8)	(115.8)	(167.4)	(167.4)
Net debt	**731.7**	**748.3**	**50.6**	**57.4**

In addition, the Group has derivative financial instruments that are recorded at their fair value (note 29). These comprised financial assets of £6.7m (2007: £0.3m) and financial liabilities of £63.3m (2007: £2.3m).

37.2 CURRENCY AND INTEREST RATE PROFILES OF FINANCIAL ASSETS AND LIABILITIES

The currency and interest rate profiles of the Group's borrowings are set out below. The first table shows the impact of forward foreign exchange contracts on the currency profile of the Group's gross borrowings. The second table shows the fixed/floating profile of the Group's gross borrowings and the impact that interest rate swaps have on this profile.

	2008			2007		
	Borrowings before FX swaps £m	FX swaps £m	Borrowings after FX swaps £m	Borrowings before FX swaps £m	FX swaps £m	Borrowings after FX swaps £m
Sterling	280.2	203.2	483.4	7.8	–	7.8
United States Dollar	337.0	(329.2)	7.8	202.6	(78.3)	124.3
Euro	148.0	(143.7)	4.3	2.4	–	2.4
Chinese Renminbi	13.6	110.6	124.2	–	37.0	37.0
Singapore Dollar	–	86.1	86.1	–	–	–
Japanese Yen	42.9	–	42.9	0.4	19.0	19.4
Other	25.8	73.0	98.8	4.8	22.3	27.1
As at 31 December 2008	**847.5**	**–**	**847.5**	**218.0**	**–**	**218.0**

The fair value of the foreign exchange swaps detailed in the table above, excluding unearned interest, is a net liability of £37.3m (2007: £1.3m). A 10% strengthening of Sterling would result in a £18.4m increase (2007: £0.2m decrease) in the fair value of this liability. A 10% weakening of Sterling would result in a £22.6m decrease (2007: £0.1m increase) in the fair value of this liability.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.2 CURRENCY AND INTEREST RATE PROFILES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Financial liabilities (gross borrowings)					Financial assets (cash and short-term deposits)	2008 Net debt
	Fixed rate £m	Interest rate swaps £m	Notional fixed rate debt £m	Floating rate £m	Total £m	£m	£m
Sterling	–	75.0	75.0	205.2	280.2	(13.6)	266.6
United States Dollar	250.4	78.9	329.3	7.7	337.0	(11.5)	325.5
Euro	–	143.7	143.7	4.3	148.0	(24.5)	123.5
Chinese Renminbi	–	–	–	13.6	13.6	(18.3)	(4.7)
Singapore Dollar	–	–	–	–	–	(1.0)	(1.0)
Japanese Yen	–	32.5	32.5	10.4	42.9	(2.3)	40.6
Other	–	–	–	25.8	25.8	(44.6)	(18.8)
As at 31 December 2008	**250.4**	**330.1**	**580.5**	**267.0**	**847.5**	**(115.8)**	**731.7**

	Financial liabilities (gross borrowings)					Financial assets (cash and short-term deposits)	2007 Net debt
	Fixed rate £m	Interest rate swaps £m	Notional fixed rate debt £m	Floating rate £m	Total £m	£m	£m
Sterling	–	–	–	7.8	7.8	(89.8)	(82.0)
United States Dollar	183.0	–	183.0	19.6	202.6	(1.8)	200.8
Euro	–	–	–	2.4	2.4	(24.9)	(22.5)
Chinese Renminbi	–	–	–	–	–	(19.2)	(19.2)
Japanese Yen	–	–	–	0.3	0.3	(0.7)	(0.4)
Other	–	–	–	4.9	4.9	(31.0)	(26.1)
As at 31 December 2007	183.0	–	183.0	35.0	218.0	(167.4)	50.6

The financial assets shown in the tables above attract floating rate interest at the interbank offered rate of the appropriate currency, less a margin. The floating rate financial liabilities bear interest at the interbank offered rate of the appropriate currency, plus a margin. The fixed rate financial liabilities of £250.4m (2007: £183.0m) have a weighted average interest rate of 7.9% (2007: 7.9%) and a weighted average period for which the rate is fixed of 2.3 years (2007: 3.3 years).

The fair value of the Group's interest rate swaps as at 31 December 2008 was a liability of £10.4m (2007: £nil). A one percent increase in interest rates would result in a £5.5m (2007: £nil) decrease in the fair value of this liability. A one percent decrease in interest rates would result in a £5.5m (2007: £nil) increase in the fair value of this liability.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 MARKET RISK – CURRENCY RELATED

The Group is exposed to currency risk in relation to the value of its financial assets and liabilities that are denominated in currencies other than sterling (note 37.2), arising from fluctuations in exchange rates. The table below shows the impact on the value of the Group's reported net financial liabilities of exchange rates either strengthening or weakening by 10% against sterling and the impact that this would have on the reported profit or loss and equity. The Group's reported profit is not impacted by the effect of the changes in exchange rates on the value of its net financial liabilities, but equity would be £42.3m lower if sterling strengthened by 10% and £51.7m higher if sterling weakened by 10%.

		Effect of sterling strengthening by 10%			Effect of sterling weakening by 10%		
	2008 As reported £m	Rates +10% £m	Profit/ (loss) £m	Equity £m	Rates -10% £m	Profit/ (loss) £m	Equity £m
Net financial (assets)/liabilities:							
Denominated in sterling	**266.6**	**266.6**	**–**	**–**	**266.6**	**–**	**–**
Not denominated in sterling	**465.1**	**422.8**	**–**	**42.3**	**516.8**	**–**	**(51.7)**
Net debt	**731.7**	**689.4**	**–**	**42.3**	**783.4**	**–**	**(51.7)**

		Effect of sterling strengthening by 10%			Effect of sterling weakening by 10%		
	2007 As reported £m	Rates +10% £m	Profit/ (loss) £m	Equity £m	Rates -10% £m	Profit/ (loss) £m	Equity £m
Net financial (assets)/liabilities:							
Denominated in sterling	(82.0)	(82.0)	–	–	(82.0)	–	–
Not denominated in sterling	132.6	120.5	–	12.1	147.3	–	(14.7)
Net debt	50.6	38.5	–	12.1	65.3	–	(14.7)

37.4 MARKET RISK – INTEREST RATE RELATED

(a) Cash flow risk

Changes in market interest rates expose the Group to the risk of fluctuation in its future cash flows in relation to its financial assets and liabilities that attract interest at floating rates (note 37.2). Based upon the interest rate profile of the Group's financial assets and liabilities as at 31 December 2008, a one percent increase in market interest rates would result in an increase in both the Group's annual net finance costs charged to the Group Income Statement and the Group's net interest paid in the Group Statement of Cash Flows of £1.5m (2007: reduction of £1.3m). Correspondingly, a one percent decrease in interest rates would result in a reduction in both the Group's annual net finance costs charged to the Group Income Statement and the Group's net interest paid in the Group Statement of Cash Flows of £1.5m (2007: increase of £1.3m).

(b) Fair value risk

Changes in market interest rates expose the Group to the risk of fluctuation in the fair value of its financial assets and liabilities that attract interest at fixed rates (note 37.1). Based upon the interest rate profile of the Group's financial assets and liabilities as at 31 December 2008, a one percent increase in market interest rates would result in a £5.7m (2007: £6.0m) decrease in the fair value of the Group's net debt including forward foreign exchange contracts and a one percent decrease in market interest rates would result in a £5.7m (2007: £6.3m) increase in the fair value of the Group's net debt including forward foreign exchange contracts.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.5 CURRENCY EXPOSURE OF FINANCIAL ASSETS AND LIABILITIES

The table below shows the net unhedged monetary assets and liabilities of Group companies that are not denominated in their functional currency and which therefore give rise to exchange gains and losses in the income statement.

	Net unhedged monetary assets/(liabilities)					
	Sterling £m	US Dollar £m	Euro £m	Renminbi £m	Other £m	Total £m
Functional currency:						
Sterling	–	3.2	2.6	1.7	1.8	9.3
United States Dollar	–	–	0.2	–	(4.0)	(3.8)
Euro	(2.0)	(1.9)	–	–	1.4	(2.5)
Chinese Renminbi	(0.7)	3.9	(4.0)	–	(1.2)	(2.0)
Other	(1.1)	7.0	6.9	21.5	1.4	35.7
As at 31 December 2008	(3.8)	12.2	5.7	23.2	(0.6)	36.7

	Net unhedged monetary assets/(liabilities)					
	Sterling £m	US Dollar £m	Euro £m	Renminbi £m	Other £m	Total £m
Functional currency:						
Sterling	–	0.1	1.0	–	–	1.1
United States Dollar	2.1	–	(0.4)	23.6	(0.7)	24.6
Euro	(0.6)	0.7	–	–	2.2	2.3
Chinese Renminbi	(0.1)	5.8	(1.7)	–	(7.2)	(3.2)
Other	(4.4)	(9.0)	3.6	–	(0.2)	(10.0)
As at 31 December 2007	(3.0)	(2.4)	2.5	23.6	(5.9)	14.8

38. EMPLOYEE BENEFITS

38.1 GROUP POST-RETIREMENT PLANS

The Group operates a number of pension plans around the world, both of the defined contribution and defined benefit type, and accounts for them in accordance with IAS 19.

(a) Defined contribution pension plans

The Group's principal defined contribution plans are in the UK and the US and the assets of the plans are held separately from the Group in trustee-administered funds. The total expense for these plans in the Group Income Statement amounted to £10.1m (2007: £7.7m) and represents the contributions payable for the year by the Group to the plans.

(b) Defined benefit pension plans

The Group's principal defined benefit pension plans are in the UK and the US. The assets of these plans are held separately from the Group in trustee-administered funds. The trustees are required to act in the best interests of the plans' beneficiaries. The Group also has defined benefit pension plans in other territories but, with the exception of those in Germany, these are not material in relation to the Group as a whole.

The Group's main defined benefit pension plan in the UK ("the UK Plan"), was closed to new entrants from 2004. A full actuarial valuation of the UK Plan is carried out every three years by an independent actuary for the UK Plan Trustee and the last full valuation was carried out as at 31 December 2006. At that date, the market value of plan assets was £278.3m and this represented a funding level of 78% of the accrued plan benefits at the time (using the projected unit method of valuation) of £356.6m. Calculated on a "buy-out" basis (using an estimation of the cost of buying out the UK Plan benefits with an insurance company), the liabilities at that date were £475.7m, representing a funding level of 59%. From 1 January 2008, based on the latest full valuation, the Group's ordinary contributions have been set at 16.9% of pensionable salaries. In addition to these ordinary contributions, in 2006 the Company agreed a repayment schedule with the UK Plan Trustee, which provided for additional funding payments of £26.5m per annum from 2008 to 2010, with the aim of eliminating the UK Plan deficit by 2011. This repayment schedule was amended by the Company and the UK Plan Trustee with effect from 1 September 2008, such that the additional funding payments were reduced to £14.0m per annum over the same term as a consequence of the improved funding position of the UK Plan. Early in 2009, a further amendment to the repayment schedule was made, details of which are given in note 38.4(c) below. The next full triennial valuation is due as at 31 December 2009.

The US has a number of defined benefit plans, providing retirement benefits based on final salary or a fixed benefit. In addition, the Group's US Retirement Security Plan has characteristics similar to defined contribution plans but with a minimum performance level guaranteed by the Group on the members' accounts. The cash balance rate assumption in the table in note 38.2(b) refers to the assumed minimum guaranteed return on members' accounts. From early in 2007, the Retirement Security Plan and what were then the largest of the Group's other US defined benefit plans were closed to new members and also to future benefit accrual for existing members. Existing plan members are, in each case, being provided with future pension benefit through a defined contribution arrangement. Actuarial valuations of the US defined benefit pension plans are carried out every year and the last full valuation was carried out as at 31 December 2007. At that date the market value of the plan assets was £55.5m, representing a funding level of 62% of accrued plan benefits at that date (using the projected unit method of valuation) of £90.1m. Funding levels for the Group's US defined benefit pension plans are normally based upon annual valuations carried out by independent qualified actuaries and are governed by US government regulations.

Upon the acquisition of Foseco, the Group assumed £29.4m of net liabilities in respect of Foseco's defined benefit pension and other post-retirement obligations. Of this total net deficit, which included a surplus of £2.1m for the UK arrangements, £18.2m related to obligations for arrangements in Germany, which are unfunded as is common practice in that country, £10.1m to obligations in the US and £3.2m to obligations in the Rest of the World. With effect from 1 January 2009, the Foseco UK pension plan has been merged with the Group's UK plan.

(c) Other post-retirement defined benefit plans

The Group's principal defined employee benefit plans other than pensions are healthcare benefit plans in the US and UK. As is common for these types of plan, the costs of providing these benefits are not funded externally by the Group.

38. EMPLOYEE BENEFITS (CONTINUED)

38.2 POST-RETIREMENT LIABILITY – VALUATION AND RISK MITIGATION

The assumptions used in calculating the costs and obligations of the Group's defined benefit pension and other post-retirement benefit plans, as detailed below, are set by the Directors after consultation with independent professionally qualified actuaries.

(a) Mortality assumptions

The mortality assumptions used in the actuarial valuations of the Group's UK and US defined benefit pension liabilities are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of those plans. These assumptions are unchanged from those used in 2007.

For the UK Plan, the assumptions used have been derived by adjusting the standard mortality tables which reflect recent research into mortality experience in the UK. The assumptions are based on PA 92 tables projected forward with adjustments to reflect (i) the lower level of life expectancy amongst the blue collar membership (using an overall scaling factor of 112%, based on the results of a recent investigation carried out on the mortality experience in the UK Plan); (ii) the medium cohort improvement factors; and (iii) a minimum level, or "underpin", to the amount by which life expectancy is expected to improve at each age in the future, which has the effect of increasing the life expectancy at age 65 by some 0.5 years for someone currently aged 65 and by up to 2 years for someone currently aged 45.

For the Group's US plans, the assumptions used have been based on the standard RP2000CH mortality tables, projected 64 years for non-pensioners and 33 years for pensioners using projection scale AA. The Group's major plans in Germany have been valued using the Heubeck Richttafein 2005G mortality tables.

			2008			2007
Life expectancy of pension plan members	UK years	US years	Germany years	UK years	US years	Germany years
Age to which current pensioners aged 65 are expected to live:						
– Men	86.3	84.6	84.0	86.3	84.6	83.5
– Women	89.0	86.9	88.1	89.0	86.9	87.7
Age to which future pensioners currently aged 45, are expected to live:						
– Men	88.2	86.6	85.8	88.2	86.6	86.3
– Women	90.3	89.1	89.8	90.3	89.1	90.3

(b) Other principal actuarial valuation assumptions

			2008			2007
	UK % p.a.	US % p.a.	Germany % p.a.	UK % p.a.	US % p.a.	Germany % p.a.
Discount rate	6.25	5.75	5.60	5.82	6.29	4.40
Price inflation	2.80	2.50	2.00	3.40	2.50	2.00
Rate of increase in pensionable salaries	3.80	n/a	2.75	4.40	n/a	2.75
Rate of increase to pensions in payment	2.70	n/a	1.90	3.40	n/a	1.75
Cash balance rate	n/a	5.25	n/a	n/a	5.25	n/a
Expected asset return – equities	7.20	8.30	n/a	8.10	8.80	n/a
– bonds	n/a	4.70	n/a	n/a	5.70	n/a
– money market instruments and swaps	3.90	n/a	n/a	4.80	n/a	n/a
Healthcare cost trend rate – long-term	2.80	6.00	n/a	3.20	6.00	n/a
– next year	2.80	9.00	n/a	3.20	10.00	n/a

38. EMPLOYEE BENEFITS (CONTINUED)

38.2 POST-RETIREMENT LIABILITY – VALUATION AND RISK MITIGATION (CONTINUED)

(b) Other principal actuarial valuation assumptions (continued)

Discount rate

The discount rate used to determine the liabilities of the UK Plan for IAS 19 accounting purposes is required to be determined by reference to market yields on high quality corporate bonds. As described in note 38.2(c) below, the UK Plan operates a hedging strategy, using a combination of swaps and money market instruments, to mitigate the impact of interest rate and inflation rate movements on the value of its projected liabilities for future pension payments (the UK Plan's "economic liabilities"), the value of which is related more to interest rate and inflation rate swap yields than to corporate bond yields. When the relationship between the relevant swap yields and corporate bond yields is stable, the UK Plan's hedging strategy should deliver a broadly stable funding ratio (the ratio of plan assets to plan liabilities) not just in relation to the UK Plan's economic liabilities, but also under an IAS 19 basis of valuation. However, should corporate bond yields be significantly above swap yields, as has been the case since the second half of 2007, then the IAS 19 value of the UK Plan's liabilities will be reduced to a greater extent than will the value of the actual underlying economic liabilities. The funding valuation of the UK Plan's economic liabilities as at the end of 2008 showed a funding ratio of 85%, while the IAS 19 valuation showed a funding surplus, with a ratio of 120%. This represents a difference of approximately £140m in the valuation of the UK Plan's liabilities, of which £90.0m relates to the difference in the discount rates used in each valuation methodology, £30.0m due to the use of the Long Cohort mortality assumption for funding purposes and £20.0m due to other valuation differences. The Company continues to fund the UK Plan with reference to its economic funding position.

The UK discount rate in the above table is based on the annualised yield on the iBoxx over 15 year AA-rated sterling corporate bond index, adjusted to reflect (i) the reduction to the index in January 2009 resulting from the removal of two financial institution bonds; and (ii) a reduction aimed at matching the duration of the index to that of the UK Plan's liabilities. The US discount rate is based on the equivalent iBoxx index for US domestic corporations. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The discount rate for Germany is based on the yield on the iBoxx over 10 year euro corporates AA index.

Expected asset return

The expected asset return is the Company's expectation (based on market yields), at the valuation date, of long-term asset returns. The Group's major post-retirement investment portfolios are those related to its UK and US plans. Both portfolios are invested in equities, bonds and cash. In addition the UK Plan invests in infrastructure and absolute return funds. The UK Plan's bond exposure is held through a synthetic bond portfolio, comprised of money market instruments and cash, which is designed to give broadly the same economic exposure as a portfolio of UK government bonds split 30% fixed-interest and 70% index-linked gilts. The majority of the Group's total post-retirement assets are in synthetic bonds, equities and bonds, the assumptions as at 31 December 2008 as to the expected returns of which are explained below. The UK Plan has also entered into some derivatives arrangements, detailed at 37.2(c) below, designed to mitigate equity market, interest rate and inflation risk.

- Money market instruments and swaps – the UK Plan holds 'synthetic bonds', being money market instruments and swaps intended to provide the same economic exposure as gilts, but typically delivering a small yield above that of gilts; for 2008 the incremental yield assumed was 0.2% per annum.
- Equities – the assumption for the UK Plan is that, in the long-term, equity investments are considered likely to outperform government bonds by a margin of 3.5%. The assumption for the US plans represents an outperformance of 4.3% over long-term treasury bonds.
- Bonds – the US plans hold a mixture of government and corporate bonds and therefore the long-term return is expected to be part-way between treasury and corporate bond yields.

38. EMPLOYEE BENEFITS (CONTINUED)

38.2 POST-RETIREMENT LIABILITY – VALUATION AND RISK MITIGATION (CONTINUED)

(c) UK pension plan risk mitigation strategy

In 2006, the Company and the UK Plan Trustee undertook an initiative to consider how best to manage the UK Plan's exposure to major investment risks. The following were deemed to be the major investment risks which could affect the value of the UK Plan's assets compared to the value of its economic liabilities:

- Interest rate risk – the risk of government bond interest rates falling, leading to an increase in the value of plan liabilities.
- Inflation risk – the risk of inflation rising faster than expected, leading to an increase in the value of plan liabilities.
- Equity market risk – the risk of significant equity market falls, leading to a fall in the value of plan assets.

In order to mitigate these key risks, the Trustee has entered into the following financial derivative arrangements:

- Interest rate swaps – the UK Plan receives a fixed rate of interest and pays out a variable rate of interest, based on the London Inter Bank Offered Rate. This is beneficial when long-term interest rates fall, significantly offsetting the corresponding increase in the value of the UK Plan's economic liabilities.
- Inflation swaps – the UK Plan pays out a fixed rate of interest of around 3% per annum and receives payments linked to actual inflation. This is beneficial when inflation increases faster than expected and significantly offsets the corresponding increase in the value of the UK Plan's economic liabilities.
- Equity derivatives – using a combination of equity derivatives, the UK Plan has bought protection against the first 20% fall in equity market prices over the four year period from 1 December 2006. To pay for this protection, the UK Plan foregoes any equity market price returns above about 6.5% per annum, but will continue to receive dividend payments and the benefit of any active management out-performance of its equity manager's respective benchmark.

The interest rate and inflation swaps entered into are designed to mitigate interest rate and inflation risk for approximately 80% of the UK Plan's liabilities. This investment strategy has significantly reduced the risk that the value of the UK Plan's assets falls materially relative to the value of its economic liabilities.

(d) Sensitivity analysis of the impact of changes in key IAS 19 actuarial assumptions

The following table analyses, for the Group's main UK, US and German pension plans, the theoretical estimated impact on plan liabilities resulting from changes to key actuarial assumptions used for IAS 19 valuation purposes, whilst holding all other assumptions constant.

It should be noted that the investment strategy adopted by the UK Plan, details of which are given above, was designed to mitigate a significant majority of the interest rate and inflation risk related to the UK Plan's economic liabilities. The stabilising impact of this strategy is not reflected in the following table.

		Impact on plan liabilities		
Assumption	Change in assumption	UK	US	Germany
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 1.7%	Decrease/increase by 1.2%	Decrease/increase by 1.3%
Price inflation	Increase/decrease by 0.1%	Increase/decrease by 1.5%	n/a	Increase/decrease by 0.8%
Mortality	Increase by one year	Increase by 3.2%	Increase by 2.8%	Increase by 1.9%

With regard to the Group's post-retirement healthcare benefit plans, a one percent increase in the healthcare cost trend rate assumptions shown in the table in note 38.2(b) would increase the accumulated post-employment medical benefit obligation by £1.0m without changing the post-employment medical benefit costs and a one percent decrease in the healthcare cost trend rate assumptions would reduce the obligation by £0.9m without changing the post-employment medical benefit costs.

38. EMPLOYEE BENEFITS (CONTINUED)

38.3 DEFINED BENEFIT OBLIGATION

The liabilities of the Group's defined benefit pension and other post-retirement plans for IAS 19 accounting purposes are measured by discounting the best estimate of the future cash flows to be paid out by the plans using the projected unit method, in which the calculation of plan liabilities makes allowance for projected increases in benefit-related earnings.

	Defined benefit pension plans				Other post-retirement benefit plans	2008 Total
	UK £m	US £m	ROW £m	Total £m	£m	£m
Present value as at 1 January 2008	344.1	90.1	29.4	463.6	21.5	485.1
Exchange differences	–	46.8	16.9	63.7	7.3	71.0
Current service cost	3.5	0.6	2.8	6.9	0.7	7.6
Interest cost	21.5	7.8	2.8	32.1	1.3	33.4
Curtailment (gains)/losses	(0.8)	(5.1)	0.1	(5.8)	–	(5.8)
Settlements	(1.5)	–	–	(1.5)	–	(1.5)
Business acquisitions	38.4	38.2	29.3	105.9	2.4	108.3
Actuarial (gains)/losses	(52.7)	4.1	0.5	(48.1)	(1.2)	(49.3)
Contributions from members	1.5	–	0.1	1.6	–	1.6
Benefits paid	(16.4)	(7.1)	(2.3)	(25.8)	(2.9)	(28.7)
Present value as at 31 December 2008	337.6	175.4	79.6	592.6	29.1	621.7

	Defined benefit pension plans				Other post-retirement benefit plans	2007 Total
	UK £m	US £m	ROW £m	Total £m	£m	£m
Present value as at 1 January 2007	355.6	98.7	29.0	483.3	23.4	506.7
Exchange differences	–	(2.0)	2.7	0.7	(0.1)	0.6
Current service cost	3.5	0.4	1.6	5.5	0.2	5.7
Interest cost	18.1	5.3	1.1	24.5	1.1	25.6
Curtailment losses/(gains)	–	0.8	(0.3)	0.5	0.1	0.6
Settlements	–	–	(2.0)	(2.0)	–	(2.0)
Business disposals	–	(5.3)	–	(5.3)	–	(5.3)
Actuarial gains	(19.0)	(2.5)	(1.6)	(23.1)	(1.3)	(24.4)
Contributions from members	1.4	–	0.1	1.5	–	1.5
Benefits paid	(15.5)	(5.3)	(1.2)	(22.0)	(1.9)	(23.9)
Present value as at 31 December 2007	344.1	90.1	29.4	463.6	21.5	485.1

Of the total obligation in the Rest of the World in 2008 of £79.6m (2007:£29.4m), £35.3m (2007:£7.8m) relates to unfunded obligations of Group arrangements in Germany.

38. EMPLOYEE BENEFITS (CONTINUED)

38.4 PLAN ASSETS

	2008				2007			
	UK £m	US £m	ROW £m	Total £m	UK £m	US £m	ROW £m	Total £m
Fair value as at 1 January	318.1	55.5	15.4	389.0	277.3	58.9	15.4	351.6
Exchange differences	–	24.5	4.1	28.6	–	(1.1)	0.8	(0.3)
Expected return on assets	22.2	6.3	1.2	29.7	18.1	3.9	0.6	22.6
Settlements	(1.5)	–	–	(1.5)	–	–	(2.0)	(2.0)
Business acquisitions	40.7	28.1	10.1	78.9	–	–	–	–
Business disposals	–	–	–	–	–	(4.3)	–	(4.3)
Actuarial gains/(losses)	12.7	(25.9)	(2.4)	(15.6)	2.1	(0.9)	(2.1)	(0.9)
Contributions from employer	29.0	5.1	7.4	41.5	34.7	4.3	3.8	42.8
Contributions from members	1.5	–	0.1	1.6	1.4	–	0.1	1.5
Benefits paid	(16.4)	(7.1)	(2.3)	(25.8)	(15.5)	(5.3)	(1.2)	(22.0)
Fair value as at 31 December	406.3	86.5	33.6	526.4	318.1	55.5	15.4	389.0

(a) UK Plan asset allocation

As at 31 December 2008, the UK Plan's assets, excluding risk-mitigation derivatives, were allocated 37% in equities (of which 47% are UK and 53% overseas); 42% in money market instruments combined with interest rate and inflation swaps; 10% in infrastructure investments; 8% in absolute return funds; and 3% in cash. The UK Trustee's target allocation currently provides for money market instruments to be 40% of the UK Plan's assets and for 10% of its assets to be held in each of infrastructure investments and absolute return funds, with 40% to be held in equities. The infrastructure and absolute return assets are held to reduce further the exposure to equity market risk and to provide an alternative source of return which is not highly correlated with equity markets.

The swaps held in combination with the money market instruments (typically AAA-rated, very short-term debt) provide a similar exposure to holding gilts and are in addition to the interest rate swaps, inflation swaps and equity options in place as part of the risk mitigation strategy described at 38.2(c).

(b) US pension plan assets not recognised above

In addition to the assets reported above, £4.4m (2007: £9.2m) of assets were held as at 31 December 2008 to fund certain non-qualified US pension plan obligations (note 25). These assets are not included within pension plan assets as they are available to satisfy creditors in the event of the winding-up of the Group company in which they are held and are reported as investments in the Group Balance Sheet.

(c) Defined benefit contributions in 2009

The Group is expected to make aggregate contributions into its defined benefit pension plans of £18.0m in 2009. The Group is also expected to make aggregate contributions in respect of its other post-retirement benefit plans of £3.0m in 2009.

Early in 2009, in response to the difficult market conditions faced by the Company's businesses, the Company consulted with the Trustee and both have agreed to a change to the existing schedule of additional funding payments, such that no further additional payments will be made from January 2009 until July 2010, or until such earlier time as the Company announces that it is to recommence payment of dividends to shareholders. Upon additional payments being recommenced, these will amount to £16.3m per annum until June 2015. A new triennial funding valuation is due for the UK Plan as at the end of 2009, based upon which the Company and Trustee expect to agree a new schedule of contributions to commence in July 2010.

(d) Actual return on plan assets

The actual return on plan assets was £14.1m (2007: £21.7m).

38. EMPLOYEE BENEFITS (CONTINUED)

38.5 BALANCE SHEET RECOGNITION

The amount recognised in the balance sheet in respect of the Group's defined benefit retirement plans and other post-retirement benefit plans for IAS 19 accounting purposes is analysed in the following tables. Included in the total present value of funded defined benefit obligations are surpluses of £70.6m (2007: £nil) which are reported separately in the Group Balance Sheet.

	Defined benefit pension plans				Other post-retirement benefit plans	2008 Total
	UK £m	US £m	ROW £m	Total £m	£m	£m
Equities	142.6	35.0	3.9	181.5	–	181.5
Bonds	10.7	23.6	3.3	37.6	–	37.6
Money market instruments and swaps	133.5	–	–	133.5	–	133.5
Risk-mitigation derivatives	52.4	–	–	52.4	–	52.4
Other	67.1	27.9	26.4	121.4	–	121.4
Fair value of plan assets	406.3	86.5	33.6	526.4	–	526.4
Present value of funded defined benefit obligations	(336.9)	(153.5)	(51.2)	(541.6)	–	(541.6)
	69.4	(67.0)	(17.6)	(15.2)	–	(15.2)
Present value of unfunded post-retirement benefit plans	(0.7)	(21.9)	(28.4)	(51.0)	(29.1)	(80.1)
Net surpluses/(liabilities) recognised in the balance sheet	68.7	(88.9)	(46.0)	(66.2)	(29.1)	(95.3)
Recognised in the Group Balance Sheet as:						
Net surpluses	70.0	0.6	–	70.6	–	70.6
Net liabilities	(1.3)	(89.5)	(46.0)	(136.8)	(29.1)	(165.9)
	68.7	(88.9)	(46.0)	(66.2)	(29.1)	(95.3)

	Defined benefit pension plans				Other post-retirement benefit plans	2007 Total
	UK £m	US £m	ROW £m	Total £m	£m	£m
Equities	151.5	55.5	–	207.0	–	207.0
Bonds	–	–	0.3	0.3	–	0.3
Money market instruments and swaps	116.0	–	–	116.0	–	116.0
Risk-mitigation derivatives	(9.8)	–	–	(9.8)	–	(9.8)
Other	60.4	–	15.1	75.5	–	75.5
Fair value of plan assets	318.1	55.5	15.4	389.0	–	389.0
Present value of funded defined benefit obligations	(343.4)	(71.1)	(24.6)	(439.1)	–	(439.1)
	(25.3)	(15.6)	(9.2)	(50.1)	–	(50.1)
Present value of unfunded post-retirement benefit plans	(0.7)	(19.0)	(4.8)	(24.5)	(21.5)	(46.0)
Net liabilities recognised in the balance sheet	(26.0)	(34.6)	(14.0)	(74.6)	(21.5)	(96.1)

38. EMPLOYEE BENEFITS (CONTINUED)

38.6 INCOME STATEMENT RECOGNITION

The expense recognised in the Group Income Statement in respect of the Group's defined benefit retirement plans and other post-retirement benefit plans is as follows:

	Defined benefit pension plans £m	Other post-retirement benefit plans £m	2008 Total £m	Defined benefit pension plans £m	Other post-retirement benefit plans £m	2007 Total £m
Current service cost	6.9	0.7	7.6	5.5	0.2	5.7
Interest on obligation	32.1	1.3	33.4	24.5	1.1	25.6
Expected return on plan assets	(29.7)	–	(29.7)	(22.6)	–	(22.6)
Curtailment (gains)/losses	(6.0)	–	(6.0)	0.5	0.1	0.6
Restructuring and integration costs	0.2	–	0.2	–	–	–
Disposals	–	–	–	(1.0)	–	(1.0)
Total expense	3.5	2.0	5.5	6.9	1.4	8.3

The total expense recognised in the Group Income Statement in respect of the Group's defined benefit retirement plans and other post-retirement benefit plans is recognised in the following lines:

	2008 £m	2007 £m
Other manufacturing costs	3.2	2.5
Administration, selling and distribution costs	4.4	2.8
Restructuring and integration costs	0.2	2.0
Curtailment gains relating to employee benefits	(6.0)	(1.0)
Finance costs	33.4	25.6
Finance income	(29.7)	(22.6)
Loss on disposal of continuing operations	–	(1.0)
Total expense	5.5	8.3

The curtailment gain relating to employee benefits of £6.0m in 2008 resulted from reductions in liabilities arising from the freezing of benefits for existing members of the Group's two largest Foseco US defined benefit pension plans, together with reductions arising from business disposals and redundancy programmes. The gain of £1.0m in 2007 arose in relation to the UK post-retirement medical plan, resulting from a reduction in the Group's costs of providing benefits under the plan.

Of the total net curtailment loss reported in 2007 of £0.6m, £0.4m has been credited within administration, selling and distribution costs, £2.0m has been charged within restructuring and integration costs and £1.0m has been reported as curtailment gains relating to employee benefits.

38. EMPLOYEE BENEFITS (CONTINUED)

38.7 HISTORICAL INFORMATION

The history of the fair value of the plan assets, the present value of defined benefit obligations, the deficit in the plans and the experience adjustments on plan assets and liabilities are shown below:

	Defined benefit pension plans				
	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of plan assets	526.4	389.0	351.6	325.0	274.5
Present value of defined benefit obligations	(592.6)	(463.6)	(483.3)	(517.8)	(433.2)
Net deficit	(66.2)	(74.6)	(131.7)	(192.8)	(158.7)
Experience gains/(losses) on plan liabilities	5.6	(0.3)	23.1	(6.4)	(10.7)
Experience (losses)/gains on plan assets	(15.6)	(0.9)	2.9	23.4	11.4

Other post-retirement benefit plans

	Other post-retirement benefit plans				
	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	(29.1)	(21.5)	(23.4)	(32.0)	(31.2)
Net deficit	(29.1)	(21.5)	(23.4)	(32.0)	(31.2)
Experience gains/(losses) on plan liabilities	1.2	(0.1)	(2.2)	(0.7)	(1.8)

The cumulative amount of actuarial gains recognised in the Group Statement of Recognised Income and Expense is £11.1m (2007: £22.6m losses).

39. SHARE-BASED PAYMENTS

39.1 SHARE-BASED PAYMENT SCHEMES

The Group operates a number of different share-based payment schemes; the main features of each scheme are outlined below.

(a) Long-term incentive plan ("LTIP")

The LTIP was introduced in 2004 to replace the Mid-Term Incentive Plan ("MTIP") and the executive share option schemes, both of which are being phased out.

The LTIP has two elements. Firstly, executives who are eligible receive a conditional annual award of shares worth up to a prescribed percentage of their base salary ("Performance Shares"). Secondly, executives who are eligible can elect to invest all or part of their annual incentive in ordinary shares of the Company ("Investment Shares") in return for which they receive a conditional award of ordinary shares worth up to 2.25 times the pre-tax equivalent of the annual incentive so invested ("Matching Shares"). In addition, for awards made after 7 March 2007, the Remuneration Committee has the discretion to award participants the dividends that would have been paid on the number of shares that vest in respect of dividend record dates occurring during the period between the award date and the date of vesting.

Performance Shares and Matching Shares can vest after three years, with the proportion of shares vesting being based on the Company's performance against specified performance conditions. For awards made in 2006, vesting is based upon the Group's three-year TSR performance relative to that of the companies of its comparator group, the FTSE 250 excluding Investment Trusts. Vesting of the Performance Shares and Matching Shares under the 2006 LTIP awards are determined as follows:

TSR ranking relative to FTSE 250 excluding Investment Trusts	Performance Shares vesting percentage	Matching Shares vesting ratio (Matching Shares: Investment Shares)
Below median	0%	0
Median	25%	0.5:1
Upper quintile (top 20%)	100%	2.25:1
Between median and upper quintile	Pro rata between 25% and 100%	Pro rata between 0.5:1 and 2.25:1

39. SHARE-BASED PAYMENTS (CONTINUED)

39.1 SHARE-BASED PAYMENT SCHEMES (CONTINUED)

(a) Long-term incentive plan ("LTIP") (continued)

In 2007, the Remuneration Committee broadened the performance condition by including headline EPS growth. For awards made in 2007 and for future awards, vesting of 50% of shares awarded will be based on the TSR performance measure described above and 50% on headline EPS (the calculation of which is shown in note 18) growth over a three-year period. The two measures will operate independently.

Vesting of Performance Shares and Matching Shares under the 2007, 2008 and future LTIP awards will be based on TSR performance in accordance with the following schedule:

TSR ranking relative to FTSE 250 excluding Investment Trusts	Performance Shares vesting percentage	Matching Shares vesting ratio (Matching Shares: Investment Shares)
Below median	0%	0
Median	12.5%	0.25:1
Upper quintile (top 20%)	50%	1.125:1
Between median and upper quintile	Pro rata between 12.5% and 50%	Pro rata between 0.25:1 and 1.125:1

Vesting of Performance Shares and Matching Shares under the 2007, 2008 and future LTIP awards will be based on Headline EPS growth, as compared with the compound annual growth in the UK Retail Prices Index ("RPI"), in accordance with the following schedule:

Annual compound Headline EPS growth above RPI	Performance Shares vesting percentage	Matching Shares vesting ratio (Matching Shares: Investment Shares)
Below 3%	0%	0
3%	12.5%	0.25:1
At or above 10%	50%	1.125:1
Between 3% and 10%	Pro rata between 12.5% and 50%	Pro rata between 0.25:1 and 1.125:1

An executive's Matching Shares award will only vest if the Investment Shares originally purchased have been retained.

The fair value of awards granted under the LTIP is measured using a stochastic pricing model.

(b) Mid-term incentive plan ("MTIP")

Under the MTIP, executives were eligible to receive a bonus, paid partly in cash and partly in ordinary shares of the Company, the beneficial receipt of which was deferred for two years from the date of the award ("restricted shares"), based upon the achievement of target financial performance measured over a three-year period. Performance targets based on either the Group's cumulative profit or cumulative profit and cash flow performance were set by the Remuneration Committee for each three-year MTIP period. The MTIP operated on a rolling three-year basis and the final remaining cycle culminated at the end of 2005.

The fair value of awards granted under the MTIP is measured using a Black-Scholes pricing model.

(c) Executive option schemes ("ESOS")

The last executive share option grant was made in 2003. Under these schemes, share options were granted at the market price prevailing at the time of grant. Options normally only became exercisable if the growth in Headline EPS was at least equal to the increase in the RPI plus 3% per annum (2% per annum for options granted in 1995 and 1996) for a consecutive three year period.

The fair value of awards granted under the ESOS was measured using a stochastic pricing model.

(d) UK and international Sharesave schemes ("SAYE" schemes)

The last grant under the SAYE schemes was made in 2004. Under the SAYE schemes, employees had the opportunity to purchase ordinary shares in the Group at a discounted price of up to 20% by using their savings together with an additional tax free bonus at the end of their saving period. The schemes operated in conjunction with a three or five-year savings contract and options were granted at a discount of up to 20% of the market value of the shares at the date of grant. Employees who entered into these contracts had to make monthly savings of between £5 and £250.

The fair value of awards granted under the SAYE schemes was measured using a Black-Scholes pricing model.

(e) Deferred Bonus Plan ("DBP")

In 2007, the Company implemented a new DBP in place of the LTIP for certain corporate managers. Under this plan, executives receive an allocation of deferred shares to the value of a percentage of their annual bonus. These shares vest after three years, although an executive's allocation may lapse if their employment ceases in certain circumstances before the end of the three-year period. The executive Directors do not participate in this plan.

The fair value of awards granted under the DBP scheme is measured using a Black-Scholes pricing model.

39. SHARE-BASED PAYMENTS (CONTINUED)

39.1 SHARE-BASED PAYMENT SCHEMES (CONTINUED)

(f) Stock Appreciation Rights ("SAR")

Due to the disadvantageous tax regime in Belgium, Belgian participants in the ESOS and SAYE schemes received SAR instead of share options. These SAR were awarded under exactly the same rights and conditions as the share options, except that individuals received, in cash, the difference between the subscription price and market price of Cookson Group plc shares on the date of exercise, rather than having the right to purchase shares.

39.2 DETAILS OF OUTSTANDING OPTIONS/AWARDS

The Company has followed the transitional provisions of IFRS 2 and applied it to those options that were granted after 7 November 2002 and which had not vested by 1 January 2005. The following disclosures are only in respect of those options that fall within the scope of IFRS 2. The exercise prices shown in the following tables are the weighted average exercise prices. The number of options/awards and the associated share prices in the tables below have not been restated to reflect the bonus element of the shares issued under the terms of the rights issue which completed on 4 March 2009.

	Outstanding awards								
	As at 1 January 2008 No.	Granted No.	Exercised No.	Forfeited/ lapsed No.	As at 31 December 2008 No.	Awards exercisable as at 31 December 2008 No.	Earliest year in which awards exercisable	Latest year in which awards expire	Range of exercise prices pence
LTIP	2,544,483	915,791	(842,286)	(145,367)	2,472,621	–	2009	2011	
Exercise price	nil	nil	nil	nil	nil	–			n/a
MTIP	76,316	–	(76,316)	–	–	–	n/a	n/a	
Exercise price	nil	–	nil	–	–	–			n/a
ESOS	353,422	–	(10,515)	(6,114)	336,793	336,793	2009	2013	
Exercise price	287p	–	301p	298p	286p	286p			250-360p
SAYE	114,086	–	(14,031)	(7,779)	92,276	92,276	2009	2010	
Exercise price	290p	–	279p	310p	290p	290p			270-350p
DBP	13,472	13,495	(1,961)	(1,990)	23,016	–	2010	2011	
Exercise price	nil	nil	nil	nil	nil	–			n/a
SAR	44,182	–	(4,289)	–	39,893	39,893	2009	2013	
Exercise price	295p	–	288p	–	295p	295p			250-360p

Options were exercised on a regular basis throughout 2008. The weighted average share price during 2008 was 513p (2007: 702p).

	Outstanding awards								
	As at 1 January 2007 No.	Granted No.	Exercised No.	Forfeited/ lapsed No.	As at 31 December 2007 No.	Awards exercisable as at 31 December 2007 No.	Earliest year in which awards exercisable	Latest year in which awards expire	Range of exercise prices pence
LTIP	2,077,980	805,928	–	(339,425)	2,544,483	–	2008	2010	
Exercise price	nil	nil	–	nil	nil	–			n/a
MTIP	183,417	–	(107,101)	–	76,316	–	2008	2008	
Exercise price	nil	–	nil	–	nil	–			n/a
ESOS	545,492	–	(188,620)	(3,450)	353,422	353,422	2008	2013	
Exercise price	302p	–	323p	260p	287p	287p			250-360p
SAYE	349,840	–	(208,431)	(27,323)	114,086	14,174	2008	2010	
Exercise price	281p	–	274p	296p	290p	270p			270-350p
DBP	–	13,869	–	(397)	13,472	–	2010	2010	
Exercise price	–	nil	–	nil	nil	–			n/a
SAR	97,349	–	(53,167)	–	44,182	44,182	2008	2013	
Exercise price	287p	–	280p	–	295p	295p			250-360p

39. SHARE-BASED PAYMENTS (CONTINUED)

39.3 AWARDS GRANTED DURING THE YEAR

	2008			2007		
		LTIP			LTIP	
	DBP	EPS element	TSR element	DBP	EPS element	TSR element
Fair value of options granted (per share)	**664p**	**664p**	**358p**	635p	635p	324p
Share price on date of grant (per share)	**664p**	**664p**	**664p**	635p	635p	635p
Expected volatility	**n/a**	**n/a**	**32.5%**	n/a	n/a	31.9%
Risk-free interest rate	**n/a**	**n/a**	**3.9%**	n/a	n/a	5.4%
Exercise price (per share)	**nil**	**nil**	**nil**	nil	nil	nil
Expected term (years)	**3.00**	**3.00**	**3.00**	3.00	3.00	3.00
Expected dividend yield	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a

Share price volatility for awards granted in 2007 and 2008 is based upon weekly movements in the Company's share price over a period prior to the grant date that is equal in length to the expected term of the award.

39.4 INCOME STATEMENT RECOGNITION

The total expense recognised in the Group Income Statement for each of the share-based payment schemes is shown in the table below, of which £2.7m (2007: £3.4m) was charged within administration, distribution and selling costs and £nil (2007: £0.1m) was charged in arriving at net post-tax loss on disposal of operations.

	2008 £m	2007 £m
LTIP	**2.9**	2.9
MTIP	**–**	0.4
SAYE	**–**	0.1
DBP	**–**	–
SAR	**(0.2)**	0.1
Total expense	**2.7**	3.5

The total intrinsic value at the end of the year for cash-settled share based payments that had vested was £nil (2007: £0.3m).

40. TRADE AND OTHER PAYABLES

	2008 £m	2007 £m
Non-current:		
Accruals and other payables	**23.3**	12.6
Deferred purchase consideration	**0.4**	0.4
Total non-current payables	**23.7**	13.0
Current:		
Trade payables	**188.8**	138.8
Other taxes and social security	**35.4**	30.4
Accruals and other payables	**120.0**	88.9
Deferred purchase consideration	**0.4**	0.5
Total current payables	**344.6**	258.6

Included within accruals and other payables are liabilities in respect of cash-settled share-based payments of £nil (2007: £0.3m).

41. PROVISIONS

	Disposal and closure costs £m	Restructuring and integration costs £m	Other £m	Total £m
As at 1 January 2008	28.8	5.8	7.8	42.4
Exchange adjustments	10.7	2.8	2.0	15.5
Business acquisitions	–	2.4	–	2.4
Charged to Group Income Statement	8.1	31.5	0.9	40.5
Unused provision released to Group Income Statement	(0.3)	(0.1)	(1.7)	(2.1)
Unwind of discount	0.9	–	–	0.9
Cash spend	(8.1)	(23.0)	(1.3)	(32.4)
Reclassifications/transfers	(0.1)	0.1	–	–
As at 31 December 2008	40.0	19.5	7.7	67.2

	2008 £m	2007 £m
Recognised in the Group Balance Sheet as:		
Non-current	37.7	24.5
Current	29.5	17.9
Total provisions	67.2	42.4

The provision for disposal and closure costs includes the Directors' current best estimate of the costs to be incurred both in the fulfilment of obligations undertaken in connection with former Group businesses, resulting from either disposal or closure, together with those related to the demolition and clean-up of closed sites. The provision comprises amounts payable in respect of known or probable costs resulting both from legal or other regulatory requirements, or from third-party claims, including claims relating to product liability.

As the settlement of many of the obligations for which provision is made is subject to legal or other regulatory process, the timing of the associated cash outflows is subject to some uncertainty, but the majority of the amounts provided are expected to be utilised over the next five years and the underlying estimates of costs are regularly updated to reflect changed circumstances with regard to individual matters.

The provision for restructuring and integration costs is used to manage the costs of all of the Group's initiatives to rationalise its operating activities. The balance of £19.5m as at 31 December 2008 relates to future expenditure on restructuring initiatives, the majority of which commenced in 2007 and 2008 and is expected to be spent over the course of the next two years.

Other provisions comprise amounts payable in respect of known or probable costs resulting both from legal or other regulatory requirements, or from third-party claims. As the settlement of many of the obligations for which provision is made is subject to legal or other regulatory process, the timing of the associated outflows is subject to some uncertainty, but the majority of the amounts provided are expected to be utilised over the next five years and the underlying estimates of costs are regularly updated to reflect changed circumstances with regard to individual matters.

Where insurance cover exists for any of these known or probable costs, a related asset is recognised in the Group Balance Sheet only when its realisation is virtually certain. As at 31 December 2008, £11.9m (2007: £6.4m) was recorded in receivables in respect of associated insurance reimbursements, of which £9.1m (2007: £4.7m) is non-current. The amounts reported in the table above as charged to the Group Income Statement represent only that part of the total income statement charge reported as a movement on provisions. Other components of the charge, such as asset write-offs, are reported as a reduction in the carrying value of the relevant balance sheet item.

42. ACQUISITION OF SUBSIDIARIES AND JOINT VENTURES, NET OF CASH ACQUIRED

42.1 ACQUISITION OF FOSECO

In February 2008, as an initial stage in its acquisition of Foseco, the Company completed the purchase of 20 percent of the issued share capital of Foseco India Ltd. at a cash cost of £6.9m, with directly attributable acquisition costs of £0.4m. On 4 April 2008, the Company completed the acquisition of the entire issued share capital of Foseco at an agreed price of 295p per Foseco share, valuing Foseco's equity at £496.7m. In addition to the cash cost of the shares, directly attributable acquisition costs amounted to £10.0m and net debt assumed on acquisition was £105.9m.

Foseco is a world leader in the supply of consumable products for use in the foundry and steel-making industries, with a presence in 32 countries and major facilities in Germany, the US, the UK, Brazil, China, India, South Korea and Japan.

On 16 April 2008, the Company completed the disposal of Foseco's Carbon Bonded Ceramics business ("CBC") to companies owned by RHI AG ("RHI"). In order to expedite anti-trust clearances in relation to the Company's acquisition of Foseco, a conditional agreement to sell CBC to RHI had been reached on 11 January 2008. CBC had revenue of approximately £19m for the year ended 31 December 2007 and gross assets of approximately £8m as at 31 December 2007. Prior to disposal, the CBC assets were classified as held for sale. Anti-trust clearance in connection with the acquisition of Foseco also required the disposal of the Group's Hi-Tech ceramic filters business, formerly part of the Ceramics division. This latter disposal was completed on 23 December 2008, to companies owned by Süd-Chemie AG. For the year ended 31 December 2008, Hi-Tech had revenue of approximately £12m.

42.2 OTHER ACQUISITIONS

In addition to the acquisition of Foseco, in September 2008 the Group made two further acquisitions for a combined cost of £10.7m, satisfied in cash. The fair value of the assets acquired in these transactions was £1.7m resulting in the recognition of £9.0m of goodwill.

During 2007, the Group acquired interests in subsidiaries and joint ventures for a total consideration of £14.1m, comprising fair value of net assets acquired of £8.6m, associated goodwill of £3.7m, and £1.8m invested in joint ventures. The net cash outflow in 2007 in relation to acquisitions was £14.0m.

42. ACQUISITION OF SUBSIDIARIES AND JOINT VENTURES, NET OF CASH ACQUIRED (CONTINUED)

42.3 IMPACT OF ACQUISITIONS ON GROUP RESULTS

Since acquisition, Foseco has contributed £361.4m to Group revenue and £52.8m to Group trading profit; other acquisitions have contributed £1.5m to Group revenue and £0.2m to Group trading profit. If all acquisitions had taken place at the beginning of the year, Group revenue would have been £2,331m and Group trading profit would have been £233.2m.

Acquisitions had the following effect on the Group's assets and liabilities.

	Acquisition of Foseco			Other acquisitions	Total Group
	Pre-acquisition carrying amounts £m	Fair value adjustments £m	Recognised values on acquisition £m	Recognised values on acquisition £m	Recognised values on acquisition £m
Property, plant and equipment	87.2	(1.6)	85.6	0.9	86.5
Intangible assets	24.0	232.4	256.4	1.0	257.4
Employee benefits – net surpluses	2.4	–	2.4	–	2.4
Deferred tax assets	1.5	0.5	2.0	–	2.0
Cash and short-term deposits	20.5	–	20.5	0.4	20.9
Inventories	46.9	(1.4)	45.5	0.4	45.9
Trade and other receivables	104.7	(0.7)	104.0	1.5	105.5
Assets classified as held for sale	–	8.0	8.0	–	8.0
Interest-bearing loans and borrowings	(126.4)	–	(126.4)	(1.7)	(128.1)
Employee benefits – net liabilities	(31.8)	–	(31.8)	–	(31.8)
Deferred tax liabilities	(3.6)	(76.9)	(80.5)	–	(80.5)
Provisions	(2.4)	–	(2.4)	–	(2.4)
Trade and other payables	(71.6)	(3.2)	(74.8)	(0.8)	(75.6)
Income tax payable	(15.7)	–	(15.7)	–	(15.7)
Minority interests	(3.5)	1.4	(2.1)	–	(2.1)
Net identifiable assets and liabilities	32.2	158.5	190.7	1.7	192.4
Goodwill on acquisition			323.3	9.0	332.3
Consideration			514.0	10.7	524.7
Consideration comprised:					
Cash			503.6	10.4	514.0
Directly attributable acquisition costs			10.4	0.3	10.7
Total consideration			514.0	10.7	524.7
Recognition in the Group Statement of Cash Flows:					
Cash paid – for shares			(503.6)	(10.4)	(514.0)
– acquisition costs			(10.4)	(0.3)	(10.7)
Cash and cash equivalents acquired			20.5	0.4	20.9
Total impact of acquisitions on Group cash flows			(493.5)	(10.3)	(503.8)
Less: reported in 2007			1.6	–	1.6
Net cash outflow from acquisition of subsidiaries and joint ventures			(491.9)	(10.3)	(502.2)

The goodwill arising on the acquisition of Foseco of £323.3m, principally relates to the value of the anticipated synergies to be realised from the acquisition, together with the value of Foseco's assembled workforce. The fair value adjustments shown above are provisional, based upon the fair value work that has been performed since the acquisition date. It is anticipated that the acquisition accounting will be finalised in the Group's 2009 half yearly financial report.

In respect of the other acquisitions, no significant fair value adjustments were made in arriving at the recognised values on acquisition and the goodwill of £9.0m principally relates to the value of the anticipated synergies to be realised from the acquisition.

43. DISPOSAL OF SUBSIDIARIES AND JOINT VENTURES, NET OF CASH DISPOSED OF

	Continuing operations £m	Discontinued operations £m	Total 2008 £m	Continuing operations £m	Discontinued operations £m	Total 2007 £m
Net consideration:						
Net proceeds received	21.2	–	21.2	1.5	19.3	20.8
Disposal costs payable	(3.6)	–	(3.6)	(1.1)	(5.1)	(6.2)
Total net consideration	17.6	–	17.6	0.4	14.2	14.6
Assets and liabilities disposed of:						
Property, plant and equipment	4.3	–	4.3	–	–	–
Attributable goodwill (note 3.13)	2.6	–	2.6	0.5	–	0.5
Trade working capital	1.8	–	1.8	1.3	–	1.3
Employee benefits	–	–	–	(1.0)	–	(1.0)
Assets previously classified as held for sale	8.0	–	8.0	–	18.6	18.6
Liabilities previously classified as held for sale	–	–	–	–	(4.3)	(4.3)
Net assets disposed of	16.7	–	16.7	0.8	14.3	15.1
Profit/(loss) on disposal of operations	0.9	–	0.9	(0.4)	(0.1)	(0.5)
Net cash received from disposals:						
Net proceeds received	21.2	–	21.2	1.5	19.3	20.8
Proceeds received in relation to prior years' disposals	2.0	–	2.0	2.1	2.5	4.6
Disposal costs paid in relation to prior years' disposals	(0.4)	(4.5)	(4.9)	(0.7)	–	(0.7)
Net cash inflow/(outflow) from disposal of subsidiaries and joint ventures	22.8	(4.5)	18.3	2.9	21.8	24.7
Recognition in the Group Statement of Cash Flows:						
Disposal of subsidiaries and joint ventures, net of cash disposed of	21.2	–	21.2	2.9	21.9	24.8
Within other investing outflows, including additional costs for prior years' disposals	1.6	(4.5)	(2.9)	–	(0.1)	(0.1)
Net cash inflow/(outflow) from disposal of subsidiaries and joint ventures	22.8	(4.5)	18.3	2.9	21.8	24.7

44. COMMITMENTS

	2008 £m	2007 £m
Capital commitments:		
Contractual commitments for the acquisition of property, plant and equipment	12.9	14.0
Operating lease commitments:		
The future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:		
Not later than one year	18.7	11.3
Later than one year and not later than five years	43.5	29.9
Later than five years	66.8	67.0
Total operating lease commitments	129.0	108.2

45. CONTINGENT LIABILITIES

Guarantees given by the Group under property leases of discontinued operations amounted to £4.3m (2007: £3.2m). Details of guarantees given by the Company, on behalf of the Group, are given in note 19 to the Company financial statements.

The Group has extensive international operations and several companies within the Group are parties to legal proceedings, certain of which are insured claims arising in the ordinary course of the operations of the Group company involved. While the outcome of litigation can never be predicted with certainty, having regard to legal advice received and the Group's insurance arrangements, the Directors believe that none of these matters will, either individually or in the aggregate, have a materially adverse effect on the Group's financial position or results of operations.

Legal claims have been brought against Group companies by third parties alleging that persons have been harmed by exposure to hazardous materials. Two of the Group's subsidiaries are subject to lawsuits in the US relating to a small number of products containing asbestos manufactured prior to the acquisition of those subsidiaries by the Group. To date, there have been no liability verdicts against either of these subsidiaries. A number of lawsuits have been withdrawn, dismissed or settled, and the amount paid, including costs, in relation to this litigation has not had a materially adverse effect on the Group's financial position or results of operations.

46. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Details of the principal subsidiaries and joint ventures of Cookson Group plc and the countries in which they are incorporated are given in note 7 to the Company financial statements.

47. RELATED PARTIES

All transactions with related parties are conducted on an arm's length basis and in accordance with normal business terms. Transactions between related parties that are Group subsidiaries are eliminated on consolidation and are not disclosed in this note.

During the year, Group subsidiaries made sales of products and services to Group joint venture companies of £1.5m (2007: £1.2m) and made purchases of goods and services from Group joint venture companies of £1.8m (2007: £0.2m). As at 31 December 2008, amounts owed by the Group's joint ventures to Group subsidiaries was £nil (2007: £nil) and amounts owed to Group joint ventures by Group subsidiaries was £nil (2007: £nil). Details of related party information in relation to key management personnel are given in note 12.3.

48. EVENTS AFTER THE BALANCE SHEET DATE

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 13 February 2009 were offered 2,551,293,144 new ordinary shares of 10p each on the basis of twelve new ordinary shares for every existing ordinary share held. These shares were fully subscribed on 4 March 2009, resulting in total proceeds on issue of £241m, net of expenses of £14m.