

2 March 2010

ANNOUNCEMENT OF 2009 FULL YEAR RESULTS

HIGHLIGHTS

- Revenue of £1,961m (24% lower than 2008 on an underlying basis¹) showing strongly improving trend with H2 underlying revenue¹ 13% higher than H1
- Cost reduction programme successfully completed – annualised savings of over £65m.
- Trading profit of £111.7m, of which 85% (£95.2m) was earned in H2
- Return on sales margin recovered to 9.2% in H2 (Ceramics H2 10.1%; Electronics H2 11.3%), versus 1.8% in H1
- Pre-tax exceptional charges of £96.6m as expected, related primarily to restructuring
- Free cash flow of £73m in H2, significantly exceeding expectations (full year 2009: £157m)
- Net debt reduced by £360m to £371m at year end, through rights issue in March 2009 and strong actions to reduce working capital (reduced by £153m) and conserve cash
- Improvements in steel and electronics end-markets have continued so far into 2010

¹ Being revenue at constant currency; as if Foseco had been acquired on 1 January rather than 4 April 2008; adjusted for the impact of differences in commodity metal prices; and eliminating back-to-back customer equipment sales

	<u>2009</u>	<u>2008</u>	<u>Reported rates</u>	<u>Constant rates</u>
Revenue	£1,961m	£2,203m	(11)%	(21)%
Trading profit ¹	£111.7m	£216.3m	(48)%	(54)%
Return on sales ¹	5.7%	9.8%	(4.1)pts	(4.1)pts
Profit/(loss) before tax				
- headline ¹	£75.7m	£176.2m	£(100.5)m	
- basic	£(20.9)m	£89.6m	£(110.5)m	
Tax rate – headline ²	35.2%	27.5%	(7.7)pts	
Earnings per share ^{3,4}				
- headline ¹	18.0p	88.5p	(70.5)p	
- basic	(17.8)p	32.7p	(50.5)p	
Dividends per share ^{3,5}	-	8.8p	(8.8)p	
Free cash flow ¹	£157.3m	£73.1m	up £84.2m	
Net debt ¹	£371.4m	£731.7m	down £360.3m	

¹ Refer to Note 1 of the attached financial statements for definitions

² Tax rate on headline profit before tax (before share of post-tax profit of joint ventures)

³ As restated for the effect of the share consolidation in May 2009

⁴ Continuing operations only

⁵ Dividends are presented on an “as declared” basis

Commenting on the Group's results and outlook, Nick Salmon, Chief Executive, said:

“Trading profit for 2009 was in line with the guidance given in November. Cash generation however was particularly strong due to an excellent performance throughout the Group in managing working capital.

“The improvement in steel production and electronics end-markets experienced in the second half of 2009 has continued so far into 2010. Customer shutdowns at year-end reverted to a normal pattern, as compared to the prolonged shutdowns a year earlier.

“We have leading market positions supplying products and services to essential industries and a well balanced global market presence with significant exposure to higher-growth emerging markets. Our cost base has been considerably reduced over the last 18 months and hence performance should continue to recover significantly as end-markets improve.”

OVERVIEW

Summary of Group results

Following the rapid decline in all our end-markets in the last quarter of 2008, we experienced very difficult trading conditions through the first half of 2009. According to World Steel Association (WSA) statistics, global steel production outside China, our largest end-market, recorded volumes down 35% for the first six months of 2009. This acute downturn was caused by a significant reduction in steel inventories throughout the supply chain from producers to end-users (“de-stocking”) such that steel production declined much more than the decline in underlying demand. We believe that the de-stocking phase ended in the second half of 2009 but as yet re-stocking is limited, as evidenced by low levels of steel inventories reported in most regions. De-stocking has had a similar impact on our other main end-markets of foundry castings and electronics. Our underlying revenue for the first six months of 2009 was down by one third compared with the same period in 2008.

We saw the first tentative signs of recovery in electronic materials markets starting in late March followed by global steel production outside China increasing slowly since May. Whilst these markets continued to improve through the second half of the year as the de-stocking ended and production levels rose to match underlying demand, by year-end they still remained well below the levels seen in recent years. The other main end-market, foundry castings, remained weak throughout the year indicating that the de-stocking phase for castings was not yet over. Underlying Group revenue improved by 13% in the second half of 2009 compared with the first half and full year revenue of £1,961m was 24% below 2008.

Trading profit in 2009 reduced significantly to £111.7m, a decrease of 54% at constant exchange rates. The majority of this, £95.2m, was earned in the second half, reflecting the increased revenue and the progressive benefits

from the significant cost reduction programmes initiated in late 2008 and early 2009. The return on sales margin recovered to 9.2% for the second half of 2009 compared to 1.8% for the first six months.

Headline profit before tax decreased by 57% to £75.7m. Headline earnings per share were down 80% to 18.0p. Pre-tax exceptional charges totalled £96.6m, mainly related to one-off restructuring costs, leading to an overall reported loss for the year of £44.7m. The restructuring programmes reduced our workforce by almost 3,000 people (nearly 20%) and they are estimated to have reduced the annual cost base by over £65m.

Net debt at 31 December 2009 was £371m, a reduction of £360m from a year earlier reflecting the £241m net proceeds from the rights issue received in March and the strong actions taken to reduce working capital (reduced by £153m) and conserve cash. Research and development spending, however, was maintained at normal levels (being £35m in 2009, unchanged from 2008 at constant exchange rates). The net debt to EBITDA ratio, as calculated for bank covenant purposes, was 2.3 times as at 31 December 2009.

The net liability for employee post-retirement benefits at 31 December 2009 was £138m, an increase of £6m since 30 June 2009. Further steps are being taken to reduce and de-risk this liability. Employees are being consulted regarding the proposed closure of the UK defined benefit plan to future benefit accrual, as has already been implemented for the main US defined benefit plans. Also in the US, steps are being taken to terminate certain retiree medical arrangements.

No interim dividend was paid during the year and the Board is not recommending a final dividend to shareholders in respect of 2009. A decision to resume dividend payments will be made once we can see a sustained recovery in our end-markets and trading performance, and in the context of the Group's indebtedness and cash requirements at that time.

Ceramics division

On an underlying basis (at constant currency and as if Foseco had been acquired on 1 January rather than 4 April 2008), revenue was 35% lower in the first half of 2009 compared with 2008 but then increased by 11% in the second half compared to the first half of 2009. This increase was mainly due to higher sales in the Steel Flow Control product line where second half revenue exceeded that in the first half of 2009 by 29%, in line with steel production trends in our key markets. Full year revenue of £1,131m was down 28% on an underlying basis. Trading profit (at reported rates) decreased from last year by 58% to £70.9m, giving a return on sales margin of 6.3% compared with 13.3% in 2008. The majority of the trading profit, £59.5m, was earned in the second half with strong profit drop-through from the additional revenue and increased benefit of cost savings from facility closures and headcount reductions. The return on sales margin in the second half increased to 10.1%.

For the four product lines, revenue for the year and underlying change compared to 2008 were as follows: Steel Flow Control £366m, down 25%; Linings £388m, down 21%; Foundry £320m, down 37%; and Fused Silica £57m, down 29%.

Electronics division

Full year revenue of £530m was 20% lower than in 2008 on an underlying basis (at constant currency and commodity metals' prices and eliminating back-to-back equipment sales). Underlying revenue was 32% below the 2008 level in the first half but then increased by 19% in the second half compared to the first half of 2009 reflecting both improved trading conditions and normal seasonality. Revenue trends were similar in both the Assembly Materials and Chemistry product lines. Trading profit decreased from last year by 24% to £39.2m, giving a return on sales margin of 7.4% compared with 8.3% in 2008. The majority of the trading profit, £32.9m, was earned in the second half due to the strong profit drop-through from the additional revenue, the increased benefit of cost savings and a more profitable revenue mix, with increased sales of higher margin innovative products such as halogen-free and lower melting point solder pastes and semi-conductor copper damascene. The return on sales margin in the second half was 11.3%.

Precious Metals division

Net sales value of £133m was unchanged from the prior year at constant exchange rates. Weaker retail jewellery markets were offset by further increases in reclaim activity in Europe and gold coin blank production in the US, both stimulated by the high price of gold. The trading profit of £8.9m was almost double that reported in 2008 as a result of the high level of reclaim business in Europe, particularly in Spain, and the restructuring measures implemented in the US in the early part of the year.

Priorities for 2010

Our current focus is on maximising the performance of all our businesses as markets recover. Specific priorities include:

- continued tight control of costs and working capital as activity levels increase;
- investment in further production capacity and people in our fastest growing markets such as China and India;
- continued R&D investment to further expand our portfolio of higher technology products; and
- further reduction and de-risking of our post-retirement benefit obligations.

Outlook

The improvement in steel production and electronics end-markets experienced in the second half of 2009 has continued so far into 2010. Customer shutdowns at year-end reverted to a normal pattern, as compared to the prolonged shutdowns a year earlier.

Whilst the outlook for global economic growth is uncertain, we currently expect steel production and electronics end-markets to grow progressively through 2010, but at a slower rate than in the second half of 2009 when growth was enhanced by the end of de-stocking. The outlook for the “later cycle” foundry castings market continues to be unclear, given we have yet to see sustained evidence of recovery. Precious metals markets are expected to remain at similar levels to 2009. Our cost base has been considerably reduced over the last 18 months and hence performance should continue to recover significantly as end-markets improve.

OPERATING REVIEW

Note: the data provided in the tables below are at reported exchange rates.

Group

	<u>Revenue (£m)</u>		<u>Trading Profit (£m)</u>		<u>Return on Sales (%)</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
First half	929	1,058	16.5	113.3	1.8	10.7
Second half	1,032	1,145	95.2	103.0	9.2	9.0
Year	1,961	2,203	111.7	216.3	5.7	9.8

2009 was marked by a progressive recovery in the performance of the Group's businesses, albeit still not back to the levels experienced prior to the onset of the global economic crisis. The first quarter of 2009 saw a continuation of the trends in the fourth quarter of 2008, when the Group experienced a rapid and significant softening in its end-markets, including an unprecedented reduction in global steel production, combined with weaker automotive and consumer electronics markets. Despite these difficult trading conditions, the prompt action taken to reduce the Group's cost base enabled trading profit to remain at break-even during the first quarter of 2009. As the year progressed, a number of the Group's key end-markets started to pick up, notably electronics end-markets since late March and global steel production end-markets since May. This, combined with the increased benefit of cost savings as a result of management action across all three divisions, meant that the Group's trading results improved each quarter as the year progressed.

Group revenue in 2009 of £1,961m was 21% lower than 2008 at constant exchange rates and down 11% at reported exchange rates. Underlying

revenue (being revenue at constant currency; as if Foseco had been acquired on 1 January rather than 4 April 2008; adjusted for the impact of differences in commodity metal prices; and eliminating back-to-back customer equipment sales) was 24% lower than 2008. In the first half, underlying revenue was 32% lower than in 2008 but with the gradual improvement in a number of the Group's key end-markets as the year progressed, combined with easier comparatives for the fourth quarter, underlying revenue in the second half was 15% lower than the second half of 2008. Notably, underlying revenue in the second half of 2009 was 13% higher than the first half of 2009. Revenue for the Group was well balanced geographically with 39% coming from the Group's operations in Europe, 27% from Asia-Pacific, 27% from NAFTA and 7% from Rest of the World.

Trading profit in 2009 reduced significantly to £111.7m, a decrease of 54% at constant exchange rates and 48% at reported exchange rates. The majority of the trading profit, £95.2m, was earned in the second half, with only £16.5m earned in the first half. Trading profit for 2009 (at constant exchange rates) in the Ceramics and Electronics divisions was down 62% and 35% respectively from 2008, whilst trading profit in the Precious Metals division almost doubled (up by £3.8m).

The return on sales margin in 2009 decreased to 5.7% from 9.8% for 2008 (at reported exchange rates). Encouragingly, the return on sales margin in the second half of 2009 was 9.2% (first half 2009: 1.8%).

Headline profit before tax decreased by 57% to £75.7m. Headline earnings per share were down 80% to 18.0p, reflecting the lower profitability and an 80% increase in the weighted average number of shares as a result of the rights issue in March 2009.

Exceptional charges (net of tax), excluded from headline results, totalled £90.7m, principally relating to the one-off costs associated with the cost-reduction programmes implemented in all three divisions. A first phase of immediate measures was executed in the last quarter of 2008. Further steps were initiated through the first half of 2009, the majority of which were completed by the third quarter. These included the permanent closure of eight manufacturing facilities and the substantial downsizing of three others together with significant cuts in production and overhead headcount, mainly in Europe and North America. Over the same period the integration of Foseco (acquired in April 2008) was successfully completed, delivering cost savings in excess of the original target. Altogether these measures reduced Group headcount by almost 20% and reduced the annual cost base by over £65m compared to the September 2008 level.

Net debt as at 31 December 2009 was £371m, a £360m reduction from the £732m as at 31 December 2008. This significant decrease arose from both the £241m net proceeds from the rights issue in March and from strong cash generation resulting from the actions taken to conserve cash. These included programmes to reduce levels of working capital, tight control of capital expenditure, and the suspension of dividends and UK pension 'top-up'

contributions. The net debt to EBITDA ratio (as calculated for bank purposes) was 2.3 times as at 31 December 2009 (compared to the bank covenant requirement of not more than 3.5 times).

Ceramics division

Trading under the Vesuvius and Foseco brand names, the Ceramics division is the world leader in the supply of advanced consumable products and systems to the global steel industry (approximately 55% of the Ceramics division's revenue) and foundry industry (approximately 33% of the Ceramics division's revenue) and a leading supplier of speciality products to the glass and solar industries.

	<u>Revenue (£m)</u>		<u>Trading Profit (£m)</u>		<u>Return on Sales (%)</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
First half	543	582	11.4	85.1	2.1	14.6
Second half	588	682	59.5	82.6	10.1	12.1
Year	1,131	1,264	70.9	167.7	6.3	13.3

The Ceramics division experienced very difficult trading conditions during the year although steel production end-markets did show some improvement in the second half. Revenue of £1,131m was 11% lower than for 2008. On an underlying basis (at constant exchange rates and as if Foseco had been acquired on 1 January 2008), revenue was down 28%. Underlying revenue was 35% lower in the first half of 2009 compared with 2008, but with the improvement in steel-related product lines as the year progressed increased by 11% in the second half compared to the first half of 2009.

Trading profit in 2009 reduced significantly to £70.9m, a decrease of 62% at constant exchange rates and 58% at reported exchange rates. The majority of the trading profit, £59.5m, was earned in the second half due to the strong profit drop-through on the additional revenue – most notably from the steel-related product lines – combined with the increased benefit of cost savings from facility closures and restructuring. The return on sales margin was 6.3% (compared to 13.3% in 2008) with margins of 2.1% in the first half of 2009 and 10.1% in the second half.

Following the restructuring and integration initiatives in the first three quarters of 2009, there has been some re-manning of production facilities in the fourth quarter as activity levels increased and, as a result, Ceramics headcount at the end of December 2009 was around 1,900 lower than at September 2008, a reduction of 15%.

Global steel production is the division's main end-market corresponding to a little over half of its total revenue. According to the WSA, global steel production in 2009 was 1.2 billion tonnes, 8% lower than for 2008. Within this

total, steel production in China (which now currently accounts for just under half of global steel production) was 13% higher. However, market trends outside of China are more significant for the Ceramics division in the short-term as China currently accounts for less than 10% of the division's steel-related revenue. In the Steel Flow Control product line, for which global steel production represents almost 100% of the end-market, China represents slightly less than 20% of total global revenue as the majority of steel production in China is not currently based on the enclosed continuous casting technology which uses Vesuvius's flow control products. Whilst there is significant installed capacity for the production of 'flat' steel which uses Vesuvius's products, currently around 70% of actual steel production is for 'long' products (which are typically used in construction and rail applications) which require significantly less flow control products. The use of enclosed continuous casting is expected to increase over time as the Chinese steel industry continues to modernise and demand for 'flat' steel product increases. In the Linings product line, for which steel production represents around two-thirds of the end-market, there is only modest revenue arising in China as yet as this market has only recently been addressed, but this business is expected to grow over the coming years with the newly-formed Angang Vesuvius Refractories joint venture.

Excluding China, steel production in 2009 was 22% lower than 2008; 35% lower in the first half and 7% lower in the second half when compared to the equivalent halves in 2008. Following the unprecedented collapse in steel production in the fourth quarter of 2008, steel production (excluding China) in the first quarter of 2009 remained depressed with production down 37% compared to the corresponding quarter in 2008. However, since May, production levels have improved steadily such that production (excluding China) was 32% higher in the fourth quarter of 2009 compared to the first quarter of 2009 with increases in all key regions. This increase in steel production is believed to mark the end of the de-stocking phase and the progressive realignment of steel production to underlying demand. Whilst this improvement in steel production is encouraging, production levels in most regions are still significantly lower than levels seen in recent years. For example, global production (excluding China) in the fourth quarter of 2009 represented only 82% of the production levels seen in the second quarter of 2008.

The foundry castings market, which represents around one-third of the division's revenue, produces castings which are used in a wide variety of engineering products. Approximately 40% of castings (and therefore a similar percentage of the revenue for the Foundry product line) relate to the vehicle sector, being 25% for cars and light trucks and 15% for heavy trucks. Other end-markets for foundry castings include construction, agriculture and mining machinery; power generation equipment, pipes and valves; railroad and general engineering equipment. The foundry castings market deteriorated significantly towards the end of 2008 with the unprecedented reduction in automotive and heavy truck production (particularly in the US and Europe) and the widespread cut in production of other engineering products.

For light vehicles, for example, this trend continued throughout the first half of 2009 with JD Power statistics showing production of light vehicles in the first half of 2009 (compared to the corresponding period in 2008) being down 33% in Western Europe, 50% down in North America and 30% down in the rest of the world (excluding China). In the second half of 2009, production levels of light vehicles improved, stimulated by government sponsored vehicle replacement schemes in a number of countries including the US, Germany and the UK. As a result, light vehicle production for the year as a whole was down 19% in Western Europe, 32% down in North America and 17% down in the rest of the world (excluding China). Whilst the level of global vehicle production did recover in the second half of 2009 this is yet to have a significant impact on revenue due to de-stocking through the supply chain. Global truck production has remained at very low levels throughout 2009, being 30% lower than in 2008. The other end-markets mentioned above also typically exhibit more “late cycle” characteristics and are yet to show signs of a pick-up.

The principal products in the Fused Silica product line are tempering rollers used mainly in the production of glass for construction and automotive applications, and Solar Crucibles™ which are used in the production of photovoltaic (“solar”) panels. Both products have experienced very difficult trading conditions during the year with weak end-market demand exacerbated by a sharp de-stocking of solar panels, particularly in China. However, the fourth quarter of 2009 did see some small improvement in the demand for Solar Crucibles™ indicating that the de-stocking phase for solar panels was probably coming to an end.

Note: in the product line analysis below for the Ceramics division, all of the financial information is presented on an ‘underlying’ basis i.e. at constant currency and as if Foseco had been acquired with effect from 1 January 2008. References to profitability of individual product lines refers to the relative contribution they make to the trading profit of the division before centralised divisional costs.

Steel Flow Control

The Steel Flow Control product line provides a full range of products and services to control, regulate and protect the flow of steel in the enclosed continuous casting process. Products include VISO™ and VAPEX™ products, slide-gate and tube changer systems and refractories, gas purging and temperature control devices, and mould and tundish fluxes.

Global steel production represents almost 100% of the end-market for Steel Flow Control products and services. Underlying revenue in Steel Flow Control of £366m fell by 25% compared to 2008, broadly in line with the reduction in steel production in the key markets in which Vesuvius operates. Underlying revenue in the first half of 2009 was 38% lower than the first half of 2008 but increased 29% in the second half. Underlying profit contribution reduced by nearly half compared to 2008 with a small contribution in the first half but a more substantial contribution in the second half as steel production

started to increase and more cost-savings were captured. There was strong profit contribution drop-through on the additional revenue and the contribution margin in the second half of 2009 was broadly consistent with that achieved in full year 2008.

The cost-cutting measures noted above include the permanent closure of three steel flow control facilities, namely Newmilns in the UK, Fisher (Illinois) in the US and Emmerich in Germany.

Production from the additional production line in Ostend, Belgium, which became operational at the end of 2008, increased gradually during the year. Production of some Steel Flow Control products has been reallocated from our other European factories to this automated facility to yield significant overall productivity gains. Projects are ongoing during 2010 to increase capacity in our Chinese and Indian facilities in order to meet the continuing growth in demand in these countries.

Linings

Linings includes products and services that enable our customers' plants to withstand the effects of extreme temperatures or erosive chemical attack. The business manufactures castables, gunning materials, ramming mixes, pre-cast shapes, tap hole clay, bricks, mortars, and provides construction and installation services.

Global steel production represents around 70% of the end-market for Linings products and services with the remainder arising from a variety of non-steel markets including the cement, lime, aluminium, power generation, petrochemical and waste incineration industries.

Underlying revenue in the Linings product line fell by 21% to £388m. This principally reflected the reduced level of maintenance and new-build activity in the steel industry, as steel production levels fell sharply – particularly in the first half of the year – and a number of customer facilities were temporarily closed. The level of activity in non-steel markets was also relatively subdued as a result of the global economic downturn. This product line is more project-based than the others and therefore benefited in the first half of the year from an order backlog of maintenance projects. Underlying revenue was 25% lower in the first half of 2009 and 16% lower in the second half of 2009 (when compared to the equivalent halves in 2008). Underlying revenue in the second half of 2009 was 5% higher than the first half of 2009, a less marked improvement than for Steel Flow Control as some of the order backlog was worked down.

Underlying profit contribution fell by just under half compared to 2008, with a small contribution in the first half of the year but an increased contribution in the second half, due to the increased benefit of cost-savings and the marginally higher revenue. The contribution margin in the second half of 2009 was only one percentage point lower than for full year 2008.

As part of the cost-cutting measures noted above, two linings facilities were closed permanently by the end of the third quarter of 2009, namely Hautrage in Belgium and Brownsville (Texas) in the US, and the pre-cast monolithic activities at the facility in Conneaut (Ohio) have either been discontinued or transferred to another facility.

The terms of the 50/50 Linings joint venture with Anshan Iron and Steel Corporation Group (“Angang”), one of China’s largest steel producers, were finalised in July 2009. Production from a newly-built facility, of which Vesuvius’ share of the investment was £5m, commenced progressively in the second half of 2009, thereby enhancing our linings capacity in this important region.

Foundry

The Foundry product line is a leading supplier of products and services to the foundry industry worldwide and trades under the Foseco brand name. Products include feeding systems, filters, metal treatments, metal transfer systems, crucibles, stoppers, sand binders, coatings and moulding materials.

Underlying revenue in the Foundry product line fell by 37% to £320m in 2009 reflecting the very significant decrease in global casting production and as de-stocking took place throughout the supply chain. Underlying revenue was 42% lower in the first half of 2009 and 32% lower in the second half of 2009 when compared to the equivalent halves in 2008. The significant fall in revenue started slightly later than for the Steel Flow Control product line and, whilst revenue levels did start to pick up slowly towards the end of the third quarter, there has not yet been the same level of recovery in revenue as has been evident in the steel-related product lines. As a result underlying revenue in the second half of 2009 was only very marginally ahead of the first half of 2009 (up 3%), reflecting the more ‘late cycle’ characteristics of the end-markets.

Foundry’s profit contribution for the year was over 80% lower than for 2008. The profit contribution was just above break-even in the first half with some modest improvement in the second half, notwithstanding the broadly unchanged revenue, due to the increased benefit of cost-savings.

As part of the series of cost-cutting measures noted above, the foundry facilities in Tlalnepantla, Mexico and Chehalis (Washington), US were closed permanently in 2009 and the Halifax, UK facility closed in early 2010.

Fused Silica

The principal products in the Fused Silica product line are Solar Crucibles™ used in the manufacture of photovoltaic (“solar”) panels and tempering rollers used in the glass industry.

Underlying revenue fell by 29% to £57m in 2009, with difficult market conditions in both principal end-markets.

Solar Crucible™ revenue fell by 17% in 2009 reflecting a severe de-stocking of solar panels, particularly in China. Revenue in the third quarter was particularly weak although some modest improvement in revenue was seen in the fourth quarter as the de-stocking phase appeared to be coming to an end and, as a result, underlying revenue for Solar Crucibles™ in the second half of 2009 was 5% lower than for the first half of 2009.

Revenue for tempering rollers and other speciality products used in the manufacture of glass fell 39% in 2009 due to weakness in the construction and automotive sectors. Underlying revenue in the second half of 2009 was 17% lower than for the first half of 2009.

The Fused Silica product line reported a small profit contribution for the year, over 70% lower than for 2008. The contribution improved slightly in the second half due to the increased benefit of cost-savings more than offsetting the lower revenue.

To better align production capacity with end-market demand for Solar Crucibles™, the facility in Hautrage, Belgium was closed permanently and headcount at the facility in Feignes, France, was reduced by around one-third. Production at the factory in Wei Ting, China was halted for a period in mid-year due to market conditions but recommenced in the third quarter.

Electronics division

The Electronics division is a world leading supplier of consumable electronic assembly materials (the Assembly Materials product line) and advanced surface treatment and electro-plating chemicals (the Chemistry product line). The principal end-market is global electronics production (“electronic materials”), which accounts for approximately two-thirds of the division’s revenue. Industrial and automotive markets make up the remaining one-third of revenue.

	<u>Revenue (£m)</u>		<u>Trading Profit (£m)</u>		<u>Return on Sales (%)</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
First half	240	321	6.3	29.9	2.6	9.3
Second half	290	299	32.9	21.8	11.3	7.3
Year	530	620	39.2	51.7	7.4	8.3

Revenue for 2009 was £530m, 25% lower at constant exchange rates (15% lower at reported exchange rates) when compared to 2008. The lower revenue partially reflects the ‘pass through’ to customers of lower tin and silver prices, the Assembly Materials product line’s major raw materials. In 2009, the average prices of tin and silver were respectively 31% and 6% lower than for 2008, such that approximately £42m of the division’s revenue decrease was as a result of these lower metal prices. Excluding both the

impact of lower metal prices in Assembly Materials, and precious metal sales and back-to-back electro-plating equipment sales in Chemistry, underlying revenue was 20% lower than 2008 (at constant exchange rates). The slowdown in demand started in the last quarter of 2008 and reflected both a weakening in end-markets (notably for consumer electronics and automotive) and a marked de-stocking of components and finished products within the supply chain. However, since late March, electronic materials end-markets progressively improved as customer de-stocking came to an end and end-markets recovered. According to Henderson Ventures, electronic equipment production worldwide, which had experienced high single-digit annual growth rates in the five years preceding the downturn in late 2008, reduced by 11% by value in 2009 compared to 2008. Two of the key products within the consumer electronics market are mobile phone handsets and personal computers. Mobile phone handset volumes were down 3% compared to 2008 (following 7% growth in 2008) whilst personal computer volumes, including laptops and netbooks, were up 5% compared to 2008 (following 8% growth in 2008). Industrial and automotive end-markets remained generally weak throughout 2009.

Underlying revenue was 32% lower in the first half of 2009 compared with the first half of 2008 but then increased 19% in the second half compared to the first half of 2009, reflecting both the improvement in trading conditions and also the normal seasonality of the business.

Trading profit in 2009 reduced to £39.2m, a decrease of 35% at constant exchange rates and 24% at reported exchange rates. The majority of the trading profit, £32.9m, was earned in the second half of the year due to the strong profit drop-through on the additional revenue complemented by a better “mix” of sales of higher margin products such as solder pastes and copper damascene, as well as the increased benefit of cost savings. The return on sales margin was 7.4% (compared to 8.3% in 2008) with margins of 2.6% in the first half of 2009 and 11.3% in the second half. If metal prices in 2009 had been at similar levels to those in 2008, the return on sales margin would have been approximately half a percentage point less.

Asia-Pacific, the division’s largest region, accounted for 43% of revenue in 2009 (by location of customer), broadly in line with 2008.

As a result of the cost reduction measures the total headcount reduction by December 2009 compared to September 2008 was around 400 people, 12% of the total workforce. The largest impact has been in the European operations.

Note: references to profitability of individual product lines below refers to the relative contribution they make to the trading profit of the division before centralised divisional costs.

Assembly Materials

Assembly Materials is a leading global supplier of materials to assemblers of printed circuit boards (“PCBs”) and the semi-conductor packaging industry (together accounting for approximately 65% of Assembly Materials’ revenue) and to certain non-electronics markets such as plumbing, automotive and water treatment. Its products include solder (which is available in bar, wire, paste, powder and sphere form) and fluxes, adhesives, cleaning chemicals and stencils.

Revenue for the year at £308m was 29% lower than 2008 at constant exchange rates (20% lower at reported exchange rates). Excluding the impact of passing through lower tin and silver prices in 2009, underlying revenue was 22% lower than last year (at constant exchange rates) reflecting the significant slowdown in the production of electronic equipment which started in the fourth quarter of 2008, combined with the continuation of the strategy to focus on higher margin, more value-added products and reduce sales of more commoditised products. For solder products, sales of higher margin, more value-added products such as solder paste were less affected, with volumes unchanged between years, whereas volumes for the more commoditised products such as bar solder were down 30%. This trend reflected the continuing shift from wave soldering to surface mount technology for the production of PCB’s. The recycling, reclaim business has continued its recent volume growth, particularly in China where the new facility in Guangxi Province became operational at the end of 2008.

Underlying revenue was 33% lower in the first half of 2009 compared with the first half of 2008 but increased by 19% in the second half compared to the first half of 2009, reflecting both the improvement in trading conditions and also the normal seasonality of the business.

Profit contribution for 2009 was some 41% lower than for 2008 (at constant exchange rates) with a small contribution in the first half but a more substantial contribution in the second half.

The transfer of European solder paste production from Ashford, UK to Hungary was completed at the end of the third quarter of 2009.

Chemistry

The Chemistry product line manufactures speciality electro-plating chemicals under the trade name Enthone. Approximately 45% of sales are to the electronics industry and 55% to industrial and automotive applications.

Revenue for the year of £222m was 18% lower than 2008 at constant exchange rates (7% lower at reported exchange rates). Excluding precious metal sales and back-to-back electro-plating equipment sales, underlying revenue was 18% lower than last year (at constant exchange rates). Sales of plating-on-plastics and corrosion and wear-resistant coating products for industrial and automotive markets were down 22%, whilst sales of surface

coating products serving the PCB fabrication market within electronics were down 21%, reflecting the difficult trading environment in these markets particularly in the earlier part of the year. Copper damascene sales into the semi-conductor market were well ahead of 2008.

Underlying revenue was 31% lower in the first half of 2009 compared with the first half of 2008, but increased by 20% in the second half compared to the first half of 2009 reflecting both the improvement in electronic materials end-markets and also the normal seasonality of the business.

Profit contribution for 2009 was just under 23% lower than for 2008 (at constant exchange rates). A small profit contribution was reported in the first half, whilst the more substantial contribution in the second half of 2009 was higher than either the first or second halves of 2008.

With the continued growth of China's electronic materials, automotive and industrial end-markets, the construction of the new £10m Chemistry facility in Shanghai, which had been delayed through 2009, was started in the first quarter of 2010 with expected completion by late 2011. Currently the China market is served from Cookson facilities in Shenzhen, Tianjin and Singapore.

Precious Metals

The Precious Metals division is a leading supplier of fabricated precious metals (primarily gold, silver and platinum) to the jewellery industry in the US, UK, France and Spain, and also has significant precious metal recycling operations in Europe.

	Revenue (£m)		Net Sales Value (£m)		Trading Profit (£m)		Return on Net Sales Value (%)	
	2009	2008	2009	2008	2009	2008	2009	2008
First half	147	155	63	55	2.3	1.9	3.7	3.5
Second half	153	163	70	63	6.6	2.6	9.4	4.1
Year	300	318	133	118	8.9	4.5	6.7	3.8

The Precious Metals division operates in two distinct geographic regions: the US, which constituted 47% of the total net sales value (being revenue excluding the precious metals content) for the division, and Europe (which is focused on the UK, France and Spain). Average precious metal prices in 2009 have been approximately 10% higher than last year for gold but lower for silver and platinum (6% and 27% lower respectively). The gold price was relatively stable during the first three quarters of 2009 but rose significantly during the fourth quarter such that it ended 2009 nearly one-quarter higher than at the beginning of the year.

Net sales value of £133m was unchanged compared to 2008 at constant exchange rates (13% higher at reported exchange rates). Weaker retail jewellery markets due to consumer spending cutbacks, were offset by strong sales to the US Mint of gold coin blanks and higher levels of precious metal reclaim in Europe, stimulated by the high price of gold.

Trading profit for 2009 at £8.9m was some 75% higher than 2008 at constant exchange rates (nearly double at reported exchange rates) with improved profitability in both the US and Europe. The US benefitted from action taken in the first quarter of 2009 to reduce permanent headcount at the US production facility by one-fifth, and the continued relocation of production to the Dominican Republic facility, which opened in 2008. There has been some re-manning of the US production facility in the fourth quarter as activity levels increased and, as a result, US headcount at the end of December 2009 was around 15% lower than at September 2008. European profitability reflected the benefits of earlier restructuring and the high level of reclaim business, particularly in Spain. Trading profit for the division as a whole was £2.3m in the first half of the year and £6.6m in the second half reflecting both the normal seasonality of the business and the impact of the restructuring of the US operations in the first quarter.

Group corporate

The Group's corporate costs, being the costs directly related to managing the Group holding company were £7.3m, marginally lower than for 2008.

FINANCIAL REVIEW

Group results highlights

	2009	2008	Change vs 2008
Profit/(loss) before tax (£m)			
- headline	75.7	176.2	-57%
- basic	(20.9)	89.6	-123%
Earnings/(loss) per share (pence) ¹			
- headline	18.0	88.5	-80%
- basic	(19.2)	32.7	-159%
Dividends per share (pence) ^{1,2}			
- interim	-	8.8	down 8.8p
- final	-	-	-
Free cash flow (£m)	157.3	73.1	up £84.2
Net debt (£m)	371.4	731.7	down £360.3

¹ As restated for the effect of the share consolidation in May 2009

² Dividends are presented on an "as declared" basis

As described in detail in the Operating Review, all of the Group's businesses experienced very difficult end-market conditions during 2009. However, trading results did improve as the year progressed due to some improvement in end-markets and the increased benefit of cost-savings. Trading profit in

2009 decreased by 54% to £111.7m at constant exchange rates, notwithstanding an additional quarter's contribution in 2009 from Foseco, which had been acquired in April 2008. The positive impact of currency translation resulted in trading profit at reported exchange rates decreasing by 48% compared to 2008.

After net finance costs (ordinary activities) of £37.0m, headline profit before tax was £75.7m. The Group's effective tax rate increased significantly in 2009 to 35.2% (2008: 27.5%) as a result of the impact of the difficult trading conditions on the geographic split of the Group's pre-tax profits.

The reduction in the Group's trading profit and the higher effective tax rate more than offset the lower finance costs such that headline profit after tax reduced by 57% to £75.7m. This, combined with a 80% increase in the weighted average number of shares as a result of the March 2009 rights issue, resulted in headline earnings per share decreasing by 80% to 18.0p.

As a result of the significant deterioration in end-market conditions, dividend payments have been suspended since the end of 2008 and the Board has decided to recommend to shareholders that there should be no final dividend in respect of 2009.

Net debt as at 31 December 2009 was £371m, a £360m reduction from 31 December 2008. This significant reduction arose as a result of strong cash generation during the year and the successful rights issue in March 2009 which raised net cash proceeds of £241m.

Group Income Statement

Headline profit before tax

Headline profit before tax was £75.7m for 2009, which was £100.5m lower than for 2008. The decrease in headline profit before tax arose as follows:

	2009 £m	2008 £m	Change £m	%
Trading profit:				
- at 2009 exchange rates	111.7	244.6	(132.9)	-54%
- currency exchange rate impact	-	(28.3)	28.3	
Trading profit - as reported	111.7	216.3	(104.6)	-48%
Net finance costs - ordinary activities	(37.0)	(40.8)	3.8	+9%
Post-tax income from joint ventures	1.0	0.7	0.3	+43%
Headline profit before tax	75.7	176.2	(100.5)	-57%

The £3.8m lower charge for net finance costs (interest) principally arose due to a reduction of just over 2 percentage points in the average interest rate payable on gross borrowings. Pension interest in 2009 of £4.8m, included

within net finance costs, increased by £1.1m primarily due to the full year impact of the acquisition of Foseco.

Items excluded from headline profit before tax

A net charge of £96.6m was incurred in 2009 (2008: £86.6m) for the following items excluded from headline profit before tax:

Restructuring and integration costs: of the total charge of £75.6m (2008: £39.6m), £53.6m related to items, principally redundancies, where there is a fairly immediate cash cost, and £22.0m to provisions for onerous lease obligations where the cash outflow will be spread over the remaining years of the related leases. The principal items included in the charge for 2009 were as follows:

- £44.3m arose in the Ceramics division, of which £4.9m related to the integration of Foseco and £39.4m to the cost-saving initiatives. Of these costs, £30.3m related to redundancy costs, £3.8m to provisions for discounted future onerous lease rental costs and £10.2m to other cash-related costs;
- £27.8m in the Electronics division, of which the principal element was a £18.2m provision for discounted future onerous lease rental costs. The restructuring of the Electronics division's UK operations has resulted in the transfer of a significant amount of UK production to other existing Electronics facilities outside of the UK, resulting in significant unutilised space in the UK. This facility is subject to a lease under which the future rentals which relate to the now unutilised part of this facility represent an onerous obligation. The remaining restructuring costs in the Electronics division comprise £5.3m of redundancy costs and £4.3m of other cash-related costs associated with the rationalisation of the division's European and US operations; and
- £2.4m in the Precious Metals division, of which £1.5m related to redundancy costs associated with the restructuring of the division's US operations.

Additional restructuring charges (cash-related) of between £5m to £10m are expected to be incurred in 2010.

(Loss)/profit relating to non-current assets: the net loss of £2.8m (2008: profit of £3.4m) comprised net losses of £0.3m (2008: profit of £8.4m) arising on the sale of investments and surplus property, and asset write-downs of £2.5m (2008: £5.0m).

Amortisation and impairment of intangible assets: costs of £17.6m (2008: £12.9m) were incurred in 2009 relating to the amortisation of intangible assets, principally customer relationships, intellectual property rights and the Foseco trade name, arising on the acquisition of Foseco in April 2008. These intangible assets are being amortised over lives varying between 10 and 20

years. 2008 also included a charge of £39.6m related to the write-off, as a non-cash charge, of all of the goodwill relating to the Precious Metals division.

Exceptional gains relating to employee benefits: a credit of £9.7m (2008: £6.0m) was realised in the year relating to the termination of certain of the Group's post-retirement healthcare benefit arrangements in the US which was announced in December 2009. In 2008, a credit was realised relating to the full closure to future accruals of Foseco's US defined benefit pension plans, the disposal of Foseco's Carbon Bonded Ceramics business and the impact of redundancy programmes in the UK and the US.

Finance costs - exceptional items: costs of £14.0m (2008: £2.2m) were incurred in 2009 principally relating to the close-out of interest rate swaps. In March 2009, following receipt of the £241m of rights issue proceeds, the Group prepaid £75m and €37.5m of term debt, with an original maturity of October 2010, under its syndicated bank facility. In April 2009, the Group's borrowing profile was amended such that all of the foreign currency-denominated borrowings drawn under the syndicated bank facility were converted into sterling. Following these transactions, the Group closed out a number of interest rate swaps that had originally been taken out to hedge the interest payments relating to these borrowings. As a result of the reduction in global interest rates over the previous eighteen months, the swaps had accumulated a negative fair value of £12.8m. Under hedge accounting rules, this fair value, which prior to the close-outs had been reported in reserves, was transferred to the income statement as an exceptional item along with £1.2m of other associated costs. On the assumption that interest rates remain at current levels, the closing out of these interest rate swaps will continue to have a beneficial impact on the Group's finance costs going forward.

Net profit on disposal of continuing operations: a net profit of £3.7m (2008: £0.9m) was realised in 2009 principally relating to the disposal of the Ceramics division's Pyrobor operations, a small non-core business manufacturing high temperature insulation boards acquired with Foseco.

Group loss before tax and *after* the items noted above was £20.9m for 2009 compared to a profit before tax of £89.6m in 2008.

Taxation

The tax charge on ordinary activities was £26.3m on a headline profit before tax of £75.7m. The effective tax rate on headline profit before tax (before share of post-tax profit of joint ventures) was 35.2%. For 2009, the Group reported profit before tax in a number of tax-paying jurisdictions (such as China and India), whilst incurring losses before tax in jurisdictions (notably the US) where it is not appropriate to record a tax credit. The Group's effective tax rate for 2010 is expected to be around 30%, marginally higher than the 27.5% rate reported in 2008, although it will be strongly influenced by the actual geographic split of profit before tax.

A tax credit of £5.9m (2008: £8.1m) arose in relation to all the items excluded from headline profit before tax noted above. A significant amount of these

exceptional items arose in jurisdictions (notably the UK and the US) where it is not appropriate to record a tax credit.

Discontinued operations

A charge of £3.4m (2008: £nil) was incurred in 2009 in respect of additional costs for operations discontinued in prior years.

(Loss)/profit for the year

Headline profit attributable to owners of the parent for 2009 was £45.6m (2008: £124.6m), with the £79.0m decrease over 2008 principally arising from the significant decrease in headline profit before tax and the higher effective tax rate. Profit attributable to non-controlling interests of £3.8m was marginally higher than for 2008.

After taking account of all items excluded from headline profit before tax noted above (net of the related tax impact) and the charge relating to discontinued operations, the Group recorded a loss of £44.7m for 2009, £94.1m lower than the £49.4m profit recorded in 2008.

Return on investment (ROI)

The Group's post-tax ROI in 2009 was 3.4%, below the 8.2% reported in 2008 reflecting the very difficult end-market conditions during the year. The Group's post-tax cost of capital ("WACC") is approximately 9%.

Earnings per share (EPS)

The average number of shares in issue during 2009 was 252.8m, 112.0m higher than for 2008 principally reflecting the issue of 255.1m new shares in respect of the rights issue in March 2009. In accordance with IAS 33, the average number of shares in issue used in the calculation of EPS for all periods prior to the rights issue has been multiplied by an adjustment factor to reflect the bonus element in the new shares issued. The adjustment factor used was 6.6391. The average number of shares also reflects the share consolidation in May 2009 whereby shareholders exchanged 10 existing shares for 1 new share.

Headline earnings per share, based on the headline profit attributable to owners of the parent divided by the average number of shares in issue, amounted to 18.0p per share in 2009, compared to headline earnings per share of 88.5p per share in 2008. The Board believes this basis of calculating EPS is an important measure of the underlying earnings per share of the Group. Basic loss per share, based on the net loss from continuing operations, was 17.8p (2008: earnings per share of 32.7p).

Dividend

As a result of the very significant deterioration in end-market conditions since the fourth quarter of 2008, the Board decided not to recommend a final dividend for 2008 to shareholders nor declare an interim dividend for 2009. Given the weak trading conditions experienced during 2009 and the difficulties in predicting the strength and timing of the recovery in our end-markets, the Board has decided not to recommend a final dividend to shareholders for 2009.

A decision to resume dividend payments will be made once a clear recovery can be seen in the Group's end-markets and trading performance, and in the context of the Group's cash requirements at that time.

Group cash flow

Net cash inflow from operating activities

In 2009, the Group generated £183.7m of net cash inflow from operating activities, £63.3m higher than in 2008. This net increase principally arose from:

	2009 £m	2008 £m	Change £m
EBITDA	165.3	263.5	(98.2)
Trade and other working capital	152.5	(8.9)	161.4
Outflows related to assets held for sale	(0.8)	-	(0.8)
Restructuring and integration costs paid	(49.3)	(23.0)	(26.3)
Additional pension contributions	(8.3)	(25.0)	16.7
Net interest paid	(35.2)	(34.2)	(1.0)
Taxation paid	(40.5)	(52.0)	11.5
Net cash inflow from operating activities	183.7	120.4	63.3

Of the £152.5m cash inflow in respect of trade and other working capital, £133.2m related to the reduced level of inventory and trade receivables. This decrease resulted principally from the success of a number of Group-wide initiatives to reduce working capital, combined with a reduction in raw material inventories in the Ceramics division which had been built up in the second half of 2008.

The significant reduction in working capital during the year resulted in the ratio of average trade working capital to sales calculated over the second half of 2009 improving by 4.5 percentage points to 21.4% compared to the second half of 2008.

Cash outflow for restructuring and integration was £49.3m. A cash outflow for restructuring and integration of around £20m is expected in 2010.

Net cash outflow from investing activities

Capital expenditure: payments to acquire property, plant and equipment in 2009 were £35.0m, £37.8m lower than 2008 and representing 65% of depreciation (2008: 154%). Of this £35.0m, just under £10m was for customer installations which secure long-term supply contracts for consumables. A cash outflow for capital expenditure of around £55m is expected in 2010 reflecting a number of capacity expansion projects in the emerging markets of China, India and Brazil, and customer installations in the Ceramics and Electronics divisions.

Acquisition of subsidiaries and joint ventures: net cash outflow from acquisitions of subsidiaries and joint ventures in 2009 was £5.9m, principally relating to the Ceramics division's investment in the Linings joint venture in China with Angang.

Disposals of subsidiaries and joint ventures: net cash inflow from disposals of subsidiaries and joint ventures in 2009 was £6.2m, principally relating to the disposals in February 2009 of the Ceramics division's high temperature insulation board business ("Pyrobor") and the Precious Metals division's emblematic jewellery business ("Masters of Design").

Other investing outflows: net cash outflow from other investing activity in 2009 was £8.9m (2008: £2.1m), principally relating to the partial cash settlement of the close-out of interest rate swaps and trailing costs in respect of prior years' disposals.

Free cash flow

Free cash flow is defined as net cash flow from operating activities and after net outlays for the acquisition and disposal of property, plant and equipment, dividends received from joint ventures and paid to non-controlling shareholders, but before additional funding contributions to Group pension plans.

Free cash inflow for 2009 was £157.3m, £84.2m higher than 2008, primarily due to the £63.3m increase in net cash flow from operating activities for the reasons described above, combined with the £37.8m decrease in the payments to acquire property, plant and equipment.

The Group traditionally experiences weaker free cash inflows in the first half of the year compared with the second half, due to the seasonality of trade working capital cash flows. However, in 2009 continued management focus on cash generation has resulted in strong free cash flow in both the first and second halves of 2009 (first half £84.4m; second half £72.9m). For 2010, it is expected that there will be some level of cash outflow in respect of trade working capital as it increases in line with the growth in revenue, and that there will be a return to more normal trade working capital seasonality.

Net cash flow before financing

Net cash inflow before financing for 2009 was £142.5m, compared with a net cash outflow of £418.2m in 2008 which arose principally from the acquisition of Foseco.

Cash flow from financing activities: net cash inflow from financing activities (before movement in borrowings) was £198.3m (2008: outflow of £24.3m), principally comprising the following:

- Cash outflow of £38.0m relating to the settlement during the period of forward foreign exchange contracts, in particular those relating to the Chinese renminbi and US dollars. These forward foreign exchange contracts had been taken out broadly to align the currency profile of the Group's borrowings with the net assets of the Group and formed part of the hedge on investments of the Group's foreign operations; and
- Proceeds of £241m (net of expenses of £14m) relating to the rights issue which was completed in March 2009. The rights issue resulted in the issue of 255.1m new shares at an issue price of 100p (as restated for the subsequent share consolidation in May 2009) with the shares being issued on the basis of 12 new shares for every 1 existing share.

Net cash inflow and movement in net debt: net cash inflow for 2009 (before movement in borrowings) was £340.8m, £783.3m higher than 2008.

With a £22.0m positive foreign exchange adjustment and a £2.5m increase in borrowings arising from other non-cash movements, this resulted in a decrease in net debt from £731.7m at 31 December 2008 to £371.4m at 31 December 2009.

Group borrowings

The net debt of £371.4m as at 31 December 2009 was primarily drawn on available committed facilities of around £880m. The Group's net debt comprised the following:

	31 December 2009 £m	31 December 2008 £m
US Private Placement loan notes	201.3	250.4
Committed bank facility	324.9	565.5
Lease financing	3.6	4.8
Other	1.8	26.8
Gross borrowings	531.6	847.5
Cash and short-term deposits	(160.2)	(115.8)
Net Debt	371.4	731.7

The US Private Placement loan notes, currently US\$325m, are repayable in two instalments; US\$135m in May 2010 and US\$190m in May 2012.

On 10 October 2007, the Group entered into a new multi-currency, committed bank facility for approximately £750m, raised for the purpose of the acquisition of Foseco. On completion of the acquisition in April 2008, this

facility was used, in combination with the net proceeds of £151m from the share placing on 11 October 2007, to finance the acquisition of Foseco. This included the refinancing of the existing committed bank facilities of Cookson and Foseco. This facility was originally repayable in three instalments; £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 reached agreement with its banks whereby the Group prepaid in March 2009 the £75.0m and €37.5m repayments originally due in October 2010. In exchange for this the banks rescheduled the tightening of the net debt to EBITDA covenant. As a result, the covenant test was 3.5 times (previously 3.0 times) at 31 December 2009, reverting to 3.0 times as at 30 June 2010 and thereafter.

As at December 2009, the Group's EBITDA to interest on borrowings ratio was 6.4 times (as compared with not less than 4.0 times for bank covenant purposes) and the net debt to EBITDA ratio was 2.3 times (as compared with not more than 3.5 times for bank covenant purposes). Given the Board's expectations for trading and cash flows over the next twelve months, the Board are confident that the Group will be able to operate within the current committed debt facilities and continue to be in full compliance with the financial covenants contained within these debt facilities.

As at 31 December 2009, the Group had undrawn committed debt facilities totalling £350m.

The average interest rate on net debt for 2010 - excluding pension interest - is expected to be around 6%. This rate reflects both the relatively expensive US private placement loan notes - which have an interest rate of just over 8% - and the low levels of interest income earned on cash balances. In January 2010, the Group entered into a number of interest rate swaps. Following these transactions, around two-thirds of the Group's current gross borrowings are now at fixed interest rates for an average period of just over two years.

Currency

Whilst sterling has strengthened against the majority of currencies from the beginning of the year to 31 December 2009 (by 8% against the euro and 11% against each of the US dollar and Chinese renminbi), the relative strength of sterling during the first ten months of 2008 has meant that the average exchange rates used to translate the Group's overseas results into sterling for 2009 and 2008 have benefitted the Group's reported results. Between these years, the average exchange rates for sterling weakened against the euro by 11%, the US dollar by 16%, and the Chinese renminbi by 17%.

In 2009, the net translation impact of currency changes compared to 2008 was to increase 2008 revenue by £284m and 2008 trading profit by £28m.

Currently all of the currency-denominated borrowings under the US Private Placement loan notes are swapped into sterling and all drawings under the syndicated bank facility are in sterling such that changes in exchange rates

do not currently have a material impact on the level of gross borrowings. This policy will be kept under review.

Pension fund and other post-retirement obligations

The Group operates defined contribution and defined benefit pension plans, principally in the UK and US. In addition, the Group has various other post-retirement defined benefit ("PRB") arrangements, being principally healthcare arrangements in the US. The Group's UK defined benefit pension plan ("the UK Plan"), now merged with that of Foseco, is closed to new members and its two principal defined benefit pension plans in the US are closed to new members and to further accruals for existing members. Employees are being consulted regarding the proposed closure of the UK defined benefit and defined contribution plans to future benefit accrual with effect from 31 July 2010. It is proposed that a new Group Personal Pension Plan be implemented in their place to provide defined contribution benefits for all eligible UK employees.

As at 31 December 2009, a net liability of £137.7m was recognised in respect of employee benefits. The increase of £42.4m from the net deficit as at 31 December 2008 of £95.3m primarily arose in respect of the UK arrangements, where the liabilities increased by £82.5m as a result of changes in the IAS 19 discount rate and inflation assumptions, taking the UK pension and other PRB plans from an overall surplus at the end of 2008 into a deficit of £24.3m. In contrast, the deficit in the Group's US arrangements reduced by £49.1m, the main contributing factors being asset and exchange rate gains, together with a gain resulting from the termination of certain US retiree medical benefit arrangements. The net deficit in the Group's plans outside of the UK and the US was broadly the same as at the end of 2008.

The total Group net liability comprises deficits of £22.3m relating to the UK Plan, £54.1m to the Group's defined benefit pension plans in the US, £46.0m to pension arrangements in other countries, and £15.3m to unfunded post-retirement defined benefit arrangements, being mainly healthcare benefit arrangements in the US.

During 2008 it was agreed, in consultation with the Trustee of the UK Plan, to reduce the level of 'top-up' payments (made in addition to normal cash contributions) to £14.0m per annum with effect from 1 September 2008. In March 2009, the Group again consulted with the Trustee and both agreed to a change to the schedule of 'top-up' payments, such that no further additional payments will be made from the end of January 2009 until August 2010, or until such earlier time as the Group announces that it is to recommence payment of dividends to shareholders. A new triennial funding valuation for the UK Plan as at the end of 2009 is underway, based upon which the Company and Trustee expect to agree a new schedule of contributions to commence in August 2010.

The discount rate used to determine the liabilities of the UK Plan for IAS 19 accounting purposes is required to be a corporate bond yield. The UK Plan

has, since 2006, operated 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 meeting 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, the current spread of corporate bond yields over swap yields results in the IAS 19 value of the UK Plan's liabilities being lower than the value of the actual underlying economic liabilities. As at 31 December 2009, the estimated funding position (incorporating the UK Plan's economic liabilities) showed a funding ratio of 85%, but the IAS 19 valuation reflected a funding ratio of 95%. This represents a valuation difference of around £50m, of which some £30m is due to the use of the stronger Long Cohort mortality assumption for funding purposes and the rest is largely due to the difference in the discount rates used in each valuation methodology. The Group continues to fund the UK Plan with reference to its economic funding position.

In 2006, in order to reduce significantly the future volatility of the Group's UK Plan the plan Trustee implemented risk mitigation elements within its investment strategy which included, inter alia, entering into an equity hedge. The equity hedge has provided a significant level of protection to the UK Plan's assets arising from the fall in global equity markets in the last two years. In January 2010, to ensure that the equity hedge continued to provide risk protection to the UK Plan's assets going forward (including those additional assets arising from the merger of the Foseco pension plan), the equity hedge was restructured to reflect better the current level of equity markets.

The total charge to the income statement in 2009 for all pension plans (including defined contribution plans) was £23.7m, an increase of £2.3m over 2008. Of this charge, £18.9m (2008: £17.7m) has been deducted in arriving at trading profit and £4.8m (2008: £3.7m) has been included within finance charges. In addition, an exceptional net credit of £9.7m was reported (2008: £6.0m) relating mainly to the termination of certain US retiree medical benefit arrangements and a charge of £0.8m (2008: £0.2m) was included in restructuring and integration costs related to pension charges associated with redundancy programmes. Total pension cash contributions amounted to £36.2m in 2009 (2008: £49.0m), which included additional funding contributions into the UK Plan of £1.2m and a non-recurring funding contribution into the US plans of £7.1m.

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Copies of Cookson's 2009 Annual Report are due to be posted to shareholders of the Company who have elected to receive a hard copy on 9 April 2010 and are also expected to be available on the Company's website and at the Registered Office of the Company from this date.

Cookson management will make a presentation to analysts on 2 March 2010 at 9.30am (UK time). This will be broadcast live on Cookson's website. An archived version of the presentation will be available on the website later that day.

Forward looking statements

This announcement contains certain forward looking statements which may include reference to one or more of the following: the Group's financial condition, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies or synergies, budgets, capital and other expenditures, competitive positions, growth opportunities for existing products, plans and objectives of management and other matters.

Statements in this announcement that are not historical facts are hereby identified as "forward looking statements". Such forward looking statements, including, without limitation, those relating to the future business prospects, revenue, working capital, liquidity, capital needs, interest costs and income, in each case relating to Cookson, wherever they occur in this announcement, are necessarily based on assumptions reflecting the views of Cookson and involve a number of known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements to differ materially from those expressed or implied by the forward looking statements. Such forward looking statements should, therefore, be considered in light of various important factors. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward looking statements include without limitation: economic and business cycles; the terms and conditions of Cookson's financing arrangements; foreign currency rate fluctuations; competition in Cookson's principal markets; acquisitions or disposals of businesses or assets; and trends in Cookson's principal industries.

The foregoing list of important factors is not exhaustive. When relying on forward looking statements, careful consideration should be given to the foregoing factors and other uncertainties and events, as well as factors described in documents the Company files with the UK regulator from time to time including its annual reports and accounts.

Such forward looking statements speak only as of the date on which they are made. Except as required by the Rules of the UK Listing Authority and the London Stock Exchange and applicable law, Cookson undertakes no obligation to update publicly or revise any forward looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward looking events discussed in this announcement might not occur.

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Registered in England and Wales No. 251977
www.cooksongroup.co.uk

Group Income Statement

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Revenue	2	1,960.6	2,202.5
Manufacturing costs - raw materials		(972.7)	(1,107.2)
- other		(470.1)	(508.1)
Administration, selling and distribution costs		(406.1)	(370.9)
Trading profit	1.5, 2	111.7	216.3
Restructuring and integration costs	3	(75.6)	(39.6)
Inventory fair value adjustment	4	-	(2.6)
(Loss)/profit relating to non-current assets	5	(2.8)	3.4
Amortisation and impairment of intangible assets	13	(17.6)	(52.5)
Exceptional gains relating to employee benefits plans	6	9.7	6.0
Profit from operations		25.4	131.0
Finance costs - ordinary activities	7	(75.6)	(85.3)
- exceptional items	7	(14.0)	(2.2)
Finance income	7	38.6	44.5
Share of post-tax profit of joint ventures		1.0	0.7
Net profit on disposal of continuing operations	8	3.7	0.9
(Loss)/profit before tax		(20.9)	89.6
Income tax costs - ordinary activities	9	(26.3)	(48.3)
- exceptional items	9	5.9	8.1
Discontinued operations	10	(3.4)	-
(Loss)/profit for the year		(44.7)	49.4
(Loss)/profit for the year attributable to:			
Owners of the parent		(48.5)	46.1
Non-controlling interests		3.8	3.3
(Loss)/profit for the year		(44.7)	49.4
Headline earnings			
Trading profit		111.7	216.3
Net finance costs - ordinary activities		(37.0)	(40.8)
Share of post-tax profit of joint ventures		1.0	0.7
Headline profit before tax	1.5	75.7	176.2
Income tax costs - ordinary activities		(26.3)	(48.3)
Profit attributable to non-controlling interests		(3.8)	(3.3)
Headline profit attributable to owners of the parent		45.6	124.6
Earnings per share from continuing operations, as restated			
	11		
Basic (loss)/earnings per share (pence)		(17.8)	32.7
Diluted (loss)/earnings per share (pence)		(17.8)	32.7
Headline basic earnings per share (pence)		18.0	88.5
Headline diluted earnings per share (pence)		18.0	88.4

Group Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
(Loss)/profit for the year		(44.7)	49.4
Other comprehensive (loss)/income for the year:			
Exchange differences on translation of the net assets of foreign operations		(94.5)	377.8
Exchange translation differences arising on net investment hedges		16.8	(166.8)
Change in fair value of cash flow hedges		(1.0)	(11.7)
Change in fair value of cash flow hedges transferred to profit for the year		12.8	-
Actuarial gains on employee benefits plans		24.4	78.0
Actuarial losses on employee benefits plans		(101.7)	(44.3)
Change in fair value of available-for-sale investments		0.5	2.5
Change in fair value of available-for-sale investments transferred to profit for the year		-	(6.5)
Income tax relating to components of other comprehensive income	9	21.8	(20.5)
Other comprehensive (loss)/income for the year, net of tax		(120.9)	208.5
Total comprehensive (loss)/income for the year		(165.6)	257.9
Total comprehensive (loss)/income for the year attributable to:			
Owners of the parent		(168.2)	252.2
Non-controlling interests		2.6	5.7
Total comprehensive (loss)/income for the year		(165.6)	257.9

Group Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Cash flows from operating activities			
Profit from operations		25.4	131.0
Restructuring and integration costs		75.6	39.6
Inventory fair value adjustment		-	2.6
Loss/(profit) relating to non-current assets		2.8	(3.4)
Amortisation and impairment of intangible assets		17.6	52.5
Exceptional gains relating to employee benefits plans		(9.7)	(6.0)
Depreciation		53.6	47.2
EBITDA	1.5	165.3	263.5
Net decrease/(increase) in trade and other working capital		152.5	(8.9)
Net operating outflow related to assets and liabilities classified as held for sale		(0.8)	-
Outflow related to restructuring and integration costs	3	(49.3)	(23.0)
Additional funding contributions into Group pension plans		(8.3)	(25.0)
Cash generated from operations		259.4	206.6
Interest paid		(43.8)	(41.4)
Interest received		8.6	7.2
Income taxes paid		(40.5)	(52.0)
Net cash inflow from operating activities		183.7	120.4
Cash flows from investing activities			
Purchase of property, plant and equipment		(35.0)	(72.8)
Proceeds from the sale of property, plant and equipment		1.2	2.2
Proceeds from the sale of investments		0.1	14.7
Acquisition of subsidiaries and joint ventures, net of cash acquired		(5.9)	(502.2)
Disposal of subsidiaries and joint ventures, net of cash disposed of		6.2	21.2
Dividends received from joint ventures		1.1	0.4
Other investing outflows, including additional costs for prior years' disposals		(8.9)	(2.1)
Net cash outflow from investing activities		(41.2)	(538.6)
Net cash inflow/(outflow) before financing activities		142.5	(418.2)
Cash flows from financing activities			
Repayment of borrowings	15	(284.1)	-
Increase in borrowings		-	365.6
Settlement of forward foreign exchange contracts		(38.0)	18.3
Proceeds from the issue of share capital		240.7	0.1
Purchase of treasury shares		-	(3.9)
Proceeds from the sale of treasury shares		-	0.3
Borrowing facility arrangement costs		(2.4)	(6.0)
Dividends paid to equity shareholders	12	-	(31.0)
Dividends paid to non-controlling shareholders		(2.0)	(2.1)
Net cash (outflow)/inflow from financing activities		(85.8)	341.3
Net increase/(decrease) in cash and cash equivalents	15	56.7	(76.9)
Cash and cash equivalents at 1 January		105.6	153.2
Effect of exchange rate fluctuations on cash and cash equivalents		(4.6)	29.3
Cash and cash equivalents at 31 December		157.7	105.6
Free cash flow			
	1.5		
Net cash inflow from operating activities		183.7	120.4
Additional funding contributions into Group pension plans		8.3	25.0
Purchase of property, plant and equipment		(35.0)	(72.8)
Proceeds from the sale of property, plant and equipment		1.2	2.2
Dividends received from joint ventures		1.1	0.4
Dividends paid to non-controlling shareholders		(2.0)	(2.1)
Free cash flow		157.3	73.1

Group Balance Sheet

As at 31 December 2009

	Notes	2009 £m	2008 £m
Assets			
Property, plant and equipment		391.9	446.6
Intangible assets	13	1,115.6	1,187.6
Employee benefits – net surpluses	16	-	70.6
Interests in joint ventures		23.5	22.2
Investments		9.8	10.2
Deferred tax assets		12.0	14.8
Other receivables		11.0	12.1
Total non-current assets		1,563.8	1,764.1
Cash and short-term deposits		160.2	115.8
Inventories		222.0	331.6
Trade and other receivables		405.1	479.0
Income tax recoverable		5.5	1.0
Derivative financial instruments		0.2	6.7
Assets classified as held for sale		3.2	0.3
Total current assets		796.2	934.4
Total assets		2,360.0	2,698.5
Equity			
Issued share capital		276.4	21.3
Share premium account		-	8.1
Other reserves		127.9	192.1
Retained earnings		643.9	753.1
Total parent company shareholders' equity		1,048.2	974.6
Non-controlling interests		18.2	17.6
Total equity		1,066.4	992.2
Liabilities			
Interest-bearing loans and borrowings		441.6	786.4
Employee benefits – net liabilities	16	137.7	165.9
Other payables		27.2	23.7
Provisions		56.6	37.7
Derivative financial instruments		7.7	24.3
Deferred tax liabilities		99.3	134.5
Total non-current liabilities		770.1	1,172.5
Interest-bearing loans and borrowings		90.0	61.1
Trade and other payables		337.5	344.6
Income tax payable		45.8	59.3
Provisions		36.9	29.5
Derivative financial instruments		11.9	39.3
Liabilities directly associated with assets classified as held for sale		1.4	-
Total current liabilities		523.5	533.8
Total liabilities		1,293.6	1,706.3
Total equity and liabilities		2,360.0	2,698.5
Net debt			
Interest-bearing loans and borrowings - non-current	1.5	441.6	786.4
- current		90.0	61.1
Cash and short-term deposits		(160.2)	(115.8)
Net debt	15	371.4	731.7

Group Statement of Changes in Equity

As at 31 December 2009

	Issued share capital £m	Share premium account £m	Exchange trans- lation differ- ences £m	Cash flow hedges £m	Available- for-sale Invest- ments £m	Retained earnings £m	Owners of the parent total £m	Non- controlling interests £m	Total equity £m
As at 1 January 2008	21.3	8.0	(5.9)	(0.3)	6.0	724.9	754.0	11.9	765.9
Profit for the year	-	-	-	-	-	46.1	46.1	3.3	49.4
Other comprehensive income/(loss) for the year:									
Exchange differences on translation of the net assets of foreign operations	-	-	375.4	-	-	-	375.4	2.4	377.8
Exchange translation differences arising on net investment hedges	-	-	(166.8)	-	-	-	(166.8)	-	(166.8)
Change in fair value of cash flow hedges	-	-	-	(11.7)	-	-	(11.7)	-	(11.7)
Actuarial gains on employee benefits plans	-	-	-	-	-	78.0	78.0	-	78.0
Actuarial losses on employee benefits plans	-	-	-	-	-	(44.3)	(44.3)	-	(44.3)
Change in fair value of available-for-sale investments	-	-	-	-	2.5	-	2.5	-	2.5
Change in fair value of available-for-sale investments transferred to profit for the year	-	-	-	-	(6.5)	-	(6.5)	-	(6.5)
Income tax relating to components of other comprehensive income (note 9)	-	-	(0.6)	-	-	(19.9)	(20.5)	-	(20.5)
Other comprehensive income/(loss) for the year, net of tax	-	-	208.0	(11.7)	(4.0)	13.8	206.1	2.4	208.5
Total comprehensive income/(loss) for the year	-	-	208.0	(11.7)	(4.0)	59.9	252.2	5.7	257.9
Transactions with owners:									
Shares issued in the year	-	0.1	-	-	-	-	0.1	-	0.1
Recognition of share-based payments	-	-	-	-	-	2.9	2.9	-	2.9
Treasury shares - additions	-	-	-	-	-	(3.9)	(3.9)	-	(3.9)
- disposals	-	-	-	-	-	0.3	0.3	-	0.3
Dividends paid	-	-	-	-	-	(31.0)	(31.0)	(2.1)	(33.1)
Business acquisitions	-	-	-	-	-	-	-	2.1	2.1
Total transactions with owners for the year	-	0.1	-	-	-	(31.7)	(31.6)	-	(31.6)
As at 1 January 2009	21.3	8.1	202.1	(12.0)	2.0	753.1	974.6	17.6	992.2
(Loss)/profit for the year	-	-	-	-	-	(48.5)	(48.5)	3.8	(44.7)
Other comprehensive (loss)/income for the year:									
Exchange differences on translation of the net assets of foreign operations	-	-	(93.3)	-	-	-	(93.3)	(1.2)	(94.5)
Exchange translation differences arising on net investment hedges	-	-	16.8	-	-	-	16.8	-	16.8
Change in fair value of cash flow hedges	-	-	-	(1.0)	-	-	(1.0)	-	(1.0)
Change in fair value of cash flow hedges transferred to profit for the year	-	-	-	12.8	-	-	12.8	-	12.8
Actuarial gains on employee benefits plans	-	-	-	-	-	24.4	24.4	-	24.4
Actuarial losses on employee benefits plans	-	-	-	-	-	(101.7)	(101.7)	-	(101.7)
Change in fair value of available-for-sale investments	-	-	-	-	0.5	-	0.5	-	0.5
Income tax relating to components of other comprehensive income (note 9)	-	-	-	-	-	21.8	21.8	-	21.8
Other comprehensive (loss)/income for the year, net of tax	-	-	(76.5)	11.8	0.5	(55.5)	(119.7)	(1.2)	(120.9)
Total comprehensive (loss)/income for the year	-	-	(76.5)	11.8	0.5	(104.0)	(168.2)	2.6	(165.6)
Transactions with owners:									
Shares issued in the year	255.1	(8.1)	-	-	-	(6.3)	240.7	-	240.7
Recognition of share-based payments	-	-	-	-	-	1.1	1.1	-	1.1
Dividends paid	-	-	-	-	-	-	-	(2.0)	(2.0)
Total transactions with owners for the year	255.1	(8.1)	-	-	-	(5.2)	241.8	(2.0)	239.8
As at 31 December 2009	276.4	-	125.6	(0.2)	2.5	643.9	1,048.2	18.2	1,066.4

Notes to the financial statements

1. BASIS OF PREPARATION

1.1 GENERAL INFORMATION

The audited consolidated financial statements of Cookson Group plc (the "Company") in respect of the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and were approved by the Board of Directors on 2 March 2010. The financial information set out in this annual results announcement does not constitute the Company's statutory accounts for the year ended 31 December 2009, but is derived from those accounts. An unqualified audit report was issued on the statutory accounts for 2009, which will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The comparative figures for the financial year ended 31 December 2008 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under IFRS, have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. These sections address whether proper accounting records have been kept, whether the Company's accounts are in agreement with these records and whether the auditor has obtained all the information and explanations necessary for the purposes of its audit.

1.2 CHANGES IN ACCOUNTING POLICY

The following revised and amended standards and interpretations have been adopted by the Group in its 2009 Annual Report. Their adoption has had no material impact on the Group's net cash flows, financial position, total comprehensive income or earnings per share.

- Revised IAS 1, *Presentation of Financial Statements*, effective for accounting periods beginning on or after 1 January 2009, has resulted in the Statement of Recognised Income and Expense being renamed the Statement of Comprehensive Income and the introduction of the Statement of Changes in Equity as a primary statement. IAS 1 also requires an additional Balance Sheet to be presented as at the beginning of the earliest comparative period whenever an accounting policy is applied retrospectively, or a retrospective restatement of items is made in the financial statements, or items are reclassified in the financial statements. The only restatements made in the Group's financial statements for the year ended 31 December 2009, are to those notes that contain per share amounts, following the 10 for 1 share consolidation that took effect on 14 May 2009. The Directors do not consider these restatements to be material and accordingly an additional Balance Sheet has not been presented.
- Revised IAS 23, *Borrowing Costs*, effective for accounting periods beginning on or after 1 January 2009, has removed 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 revised standard requires such borrowing costs to be capitalised as part of the cost of the asset. The Group's previous policy in relation to borrowing costs was to recognise them in the income statement using the effective interest rate method.
- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* and IFRS 7, *Improving Disclosures about Financial Instruments*, effective from 1 July 2008, in limited circumstances this amendment allows the reclassification of certain financial assets previously classified as "held-for-trading" or "available-for-sale" to another category.
- Amendments to IAS 32 and IAS 1, *Puttable Financial Instruments and Obligations Arising on Liquidation*, effective for accounting periods beginning on or after 1 January 2009, relate to puttable financial instruments and obligations arising on liquidation.
- Amendments to IFRS 1 and IAS 27, *Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate*, effective for accounting periods beginning on or after 1 January 2009, relate to the measurement of the initial cost of investment in a subsidiary.
- Amendments to IFRS 2, *Share based payment – Vesting Conditions and Cancellations*, effective for accounting periods beginning on or after 1 January 2009, 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.
- Amendment to IFRS 7, *Improving Disclosures about Financial Instruments*, effective for accounting periods beginning on or after 1 January 2009, increases the disclosure requirements for fair value measurement and reinforces existing principles for disclosure of liquidity risk.
- IFRIC 9, *Reassessment of Embedded Derivatives*, and IAS 39, *Financial Instruments: Recognition and Measurement*, effective for accounting periods ending on or after 1 July 2008, clarifies the accounting for embedded derivatives when a financial asset is reclassified out of the "fair value through profit or loss" classification.
- IFRIC 13, *Customer Loyalty Programmes*, effective for accounting periods beginning on or after 1 July 2008, addresses the accounting for loyalty award credits to customers who buy other goods or services.

Notes to the financial statements

1.3 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 Overview and Operating Review contained in this annual results announcement. The financial position of the Group, its cash flows, liquidity position and debt facilities are described in the Financial Review.

The Group has two committed debt facilities, approximately £680m of syndicated bank facilities and approximately £200m of US Private Placement loan notes. Of the latter, approximately £84m matures in May 2010. Of the remaining total facilities, of approximately £796m, the principal maturities are due in 2011 and 2012. The Group's debt facilities contain a number of financial covenants with which the Group is required to comply and with which it was fully in compliance as at 31 December 2009. In March 2009, the Group completed a rights issue which raised proceeds (net of expenses) of £241m which were used to repay gross borrowings, significantly strengthening the Company's and 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 reductions in costs, reductions in capital expenditure and 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.

1.4 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 accordance with IAS 1 (Revised), 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 relating to non-current assets, amortisation and impairment charges relating to intangible assets, exceptional gains or losses relating to employee benefits plans, 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.

1.5 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 used by the Company.

(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.

Notes to the financial statements

1.5 USE OF NON-GAAP FINANCIAL MEASURES, CONTINUED

(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 exceptional gains or losses relating to employee benefits plans, 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.

(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 headline profit before tax after income tax costs associated with ordinary activities and profit attributable to non-controlling 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 non-controlling 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) to the annualised reported revenue for the period. 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.

Notes to the financial statements

2. SEGMENT INFORMATION

For reporting purposes, the Group is organised into three main business segments: Ceramics, Electronics and Precious Metals. The Chief Executive of each of these business segments reports to the Chief Executive of the Group and it is the Cookson Board which makes the key operating decisions in respect of these segments. The information used by the Cookson Board to review performance and determine resource allocation between the business segments is presented with the Group's activities segmented between the three business segments, Ceramics, Electronics and Precious Metals. Taking into account, not only the basis on which the Group's activities are reported to the Cookson Board, but also the nature of the products and services of the product lines within each of these segments, the production processes involved in each and the nature of their end-markets, the Directors believe that these three business segments are the appropriate way to analyse the Group's results.

In addition to the Group's three business segments, corporate costs, being the costs directly related to managing the parent company, are reported separately in the reconciliation of segment result to (loss)/profit before tax.

Segment revenue represents revenue from external customers (inter-segment revenue is not material) and segment result is equivalent to trading profit prior to corporate costs. Segment assets exclude cash and short-term deposits, employee benefits net 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.

2.1 SEGMENT REVENUE AND SEGMENT RESULT

	Segment revenue		Segment result	
	2009 £m	2008 £m	2009 £m	2008 £m
Ceramics	1,130.8	1,264.3	70.9	167.7
Electronics	529.9	620.3	39.2	51.7
Precious Metals	299.9	317.9	8.9	4.5
Segment totals	1,960.6	2,202.5	119.0	223.9

2.2 RECONCILIATION OF SEGMENT RESULT TO (LOSS)/PROFIT BEFORE TAX

	2009 £m	2008 £m
Segment result	119.0	223.9
Corporate costs	(7.3)	(7.6)
Trading profit	111.7	216.3
Restructuring and integration costs	(75.6)	(39.6)
Inventory fair value adjustment	-	(2.6)
(Loss)/profit relating to non-current assets	(2.8)	3.4
Amortisation and impairment of intangible assets	(17.6)	(52.5)
Exceptional gains relating to employee benefits plans	9.7	6.0
Profit from operations	25.4	131.0
Finance costs - ordinary activities	(75.6)	(85.3)
- exceptional items	(14.0)	(2.2)
Finance income	38.6	44.5
Share of post-tax profit of joint ventures	1.0	0.7
Net profit on disposal of continuing operations	3.7	0.9
(Loss)/profit before tax	(20.9)	89.6

2.3 SEGMENT CAPITAL EXPENDITURE, DEPRECIATION AND TOTAL ASSETS

	Capital expenditure		Depreciation		Total assets	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Ceramics	28.7	57.9	40.7	34.8	1,541.7	1,761.5
Electronics	4.8	11.7	9.3	9.3	506.8	566.9
Precious Metals	1.5	3.2	3.6	3.1	92.9	120.1
Unallocated	-	-	-	-	218.1	249.7
Discontinued operations	-	-	-	-	0.5	0.3
Total Group	35.0	72.8	53.6	47.2	2,360.0	2,698.5

Notes to the financial statements

3. RESTRUCTURING AND INTEGRATION COSTS

The restructuring and integration costs of £75.6m (2008: £39.6m) comprise £4.9m (2008: £17.1m) of costs associated with the integration of Foseco into the Group's Ceramics division; £22.0m (2008: £nil) in respect of onerous lease costs; and £48.7m (2008: £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. These latter initiatives included redundancy programmes, the downsizing or closure of facilities, the streamlining of manufacturing processes and the rationalisation of product lines. The cost of these initiatives included £37.1m associated with the reduction of headcount throughout the Group by some 3,000 employees, representing nearly 20% of the workforce. Of the total charge in the year, £nil (2008: £8.2m) related to asset write-downs.

Of the costs associated with onerous leases, £16.3m arises in the Electronics division's UK operations. Consequent to the recent restructuring of the Electronics division's manufacturing operations in the UK, a significant amount of UK production has been transferred to other existing Electronics division facilities outside of the UK. As a result, there is significant unutilised space at the division's facility in Woking. This property is subject to a lease, under the terms of which the future rentals that relate to the now unutilised part of this facility represent an onerous obligation.

Cash costs of £49.3m (2008: £23.0m) were incurred in the year in respect of the restructuring and integration initiatives commenced both in 2009 and in prior years, leaving provisions made but unspent of £44.5m as at 31 December 2009 (31 December 2008: £19.5m). The net tax credit attributable to these restructuring and integration costs was £3.7m (2008: £2.9m).

4. INVENTORY FAIR VALUE ADJUSTMENT

On the acquisition of Foseco in 2008, the value of inventory acquired 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.

5. (LOSS)/PROFIT RELATING TO NON-CURRENT ASSETS

The net loss relating to non-current assets of £2.8m in 2009 principally comprised asset write-downs. The net profit of £3.4m in 2008 comprised net profits of £8.4m arising on the sale of investments and surplus property, and asset write-downs of £5.0m. The tax credit attributable to non-current assets was £1.3m (2008: £0.2m charge).

6. EXCEPTIONAL GAINS RELATING TO EMPLOYEE BENEFITS PLANS

The net exceptional gain relating to employee benefits plans of £9.7m in 2009 principally arose in relation to the reduction in the costs of providing benefits under the Group's US post-retirement medical arrangements. The exceptional gain 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.

7. FINANCE COSTS AND FINANCE INCOME

Included within finance costs from ordinary activities of £75.6m (2008: £85.3m) is the interest cost associated with the liabilities of the Group's defined benefit pension and other post-retirement benefit plans of £34.2m (2008: £33.4m) and included within finance income of £38.6m (2008: £44.5m) is the expected return on the assets of the Group's defined benefit pension plans of £29.4m (2008: £29.7m).

On 6 March 2009, the Group came to an agreement with the banks that provide its syndicated facility whereby the Group agreed to prepay, in March 2009, the £75.0m and €37.5m instalments originally due to be repaid in October 2010. The interest payable in relation to these instalments had been hedged by means of interest rate swaps, in respect of which cash flow hedge accounting had been applied.

In April 2009, the Group converted the remainder of its foreign currency-denominated borrowings under its syndicated bank facility into sterling. The interest payable in relation to these borrowings had also been hedged by means of interest rate swaps in respect of which cash flow hedge accounting had been applied.

Subsequent to the repayment of the instalments and the conversion of the remaining foreign currency-denominated borrowings into sterling, as outlined above, the associated hedge accounting was discontinued. As a result, the cumulative loss of £12.8m, that had been recognised in other reserves from changes in the fair value of the interest rate swaps during the period when they were effective hedges, was reclassified to the Group Income Statement as an exceptional finance cost, together with £0.5m of capitalised borrowing costs related to the prepaid instalments of the syndicated facility and £0.7m of early repayment break costs.

The exceptional charge of £2.2m in 2008, related to the write-off of costs associated with the arrangement of a tranche of the Group's syndicated facility, which was cancelled during the first half of 2008 without being utilised.

The tax associated with these exceptional finance costs was £nil (2008: £nil).

Notes to the financial statements

8. NET PROFIT ON DISPOSAL OF CONTINUING OPERATIONS

The net profit on disposal of continuing operations of £3.7m (2008: £0.9m) related to a number of small disposals from each of the Group's divisions, which generated £6.2m (2008: £21.2m) of net proceeds.

The net profit on disposal of continuing operations of £0.9m reported for 2008 related to the sale of the Group's Hi-Tech ceramic filters business, formerly part of the Ceramics division, and to the disposal of Foseco's Carbon Bonded Ceramics business. Both of these disposals were required for compliance with anti-trust clearances in relation to the acquisition of Foseco, together with net costs associated with a number of other small business disposals.

The tax charge associated with these disposals was £0.9m (2008: £0.3m).

9. INCOME TAX COSTS

The Group's total income tax cost of £20.4m (2008: £40.2m) includes a credit of £5.9m (2008: £8.1m) relating to exceptional items comprising a credit of £3.7m (2008: £2.9m) in relation to restructuring and integration costs, a credit of £nil (2008: £0.8m) relating to the inventory fair value adjustment, a credit of £5.1m (2008: £3.7m) relating to the amortisation and impairment of intangible assets, a charge of £3.3m (2008: credit of £1.2m) relating to deferred tax on goodwill, a credit of £1.3m (2008: charge of £0.2m) relating to non-current assets and a charge of £0.9m (2008: £0.3m) relating to the net profit on disposal of continuing operations.

Tax credited in the Group Statement of Comprehensive Income in the year amounted to £21.8m, all of which related to actuarial losses on employee benefits plans. Of the £20.5m charged in 2008, £19.9m related to actuarial gains on employee benefits plans and £0.6m related to exchange differences on translation of the net assets of foreign operations.

10. DISCONTINUED OPERATIONS

The net post-tax loss attributable to discontinued operations of £3.4m (2008: £nil) related to additional costs in respect of prior years' disposals. The tax charge associated with discontinued operations was £nil (2008: £nil).

11. EARNINGS PER SHARE ("EPS")

11.1 BASIC AND DILUTED EPS

The EPS figures for 2008 presented in the table below have been restated by multiplying those reported previously by 10 to take account of the 10 for 1 share consolidation that took effect on 14 May 2009.

	Continuing operations	Discontinued operations	Total 2009	Continuing operations	Discontinued operations	Total 2008
	pence	pence	pence	pence	pence	pence
Basic (loss)/earnings per share	(17.8)	(1.4)	(19.2)	32.7	-	32.7
Diluted (loss)/earnings per share	(17.8)	(1.4)	(19.2)	32.7	-	32.7
Headline earnings per share	18.0	-	18.0	88.5	-	88.5
Diluted headline earnings per share	18.0	-	18.0	88.4	-	88.4

11.2 EARNINGS FOR EPS

	2009 £m	2008 £m
Earnings for the purposes of calculating basic and diluted EPS	(48.5)	46.1
Adjustments:		
Restructuring and integration costs	75.6	39.6
Inventory fair value adjustment	-	2.6
Loss/(profit) relating to non-current assets	2.8	(3.4)
Amortisation and impairment of intangible assets	17.6	52.5
Exceptional gains relating to employee benefits plans	(9.7)	(6.0)
Exceptional finance costs	14.0	2.2
Net profit on disposal of continuing operations	(3.7)	(0.9)
Net post-tax loss on disposal of discontinued operations	3.4	-
Tax relating to exceptional items	(5.9)	(8.1)
Earnings for the purposes of calculating headline and diluted headline EPS	45.6	124.6

Notes to the financial statements

11.3 WEIGHTED AVERAGE NUMBER OF SHARES

The weighted average number of ordinary shares for 2008 presented in the table below has been restated by dividing the previously reported number by 10 to take account of the 10 for 1 share consolidation that took effect on 14 May 2009.

	2009 m	2008 m
Weighted average number of ordinary shares for calculating basic and headline EPS	252.8	140.8
Adjustments for dilutive weighted average number of shares relating to the Company's share schemes	-	0.1
Weighted average number of ordinary shares for calculating diluted and diluted headline EPS	252.8	140.9

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 shares shown as being dilutive in the table above, 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.

12. DIVIDENDS

The dividend per ordinary share amounts in the table below have been restated by multiplying those reported previously by 10 to take account of the 10 for 1 share consolidation that took effect on 14 May 2009.

	2009 £m	2008 £m
Amounts recognised as distributions to equity holders during the year:		
Final dividend for the year ended 31 December 2008 of nil (2007: 13.2p) per ordinary share	-	18.6
Interim dividend for the year ended 31 December 2009 of nil (2008: 8.8p) per ordinary share	-	12.4
	-	31.0

In respect of the year ending 31 December 2009, the Directors did not declare an interim dividend (2008: 8.8p per ordinary share) and will recommend to shareholders at the Company's Annual General Meeting that no final dividend is paid (2008: nil).

13. INTANGIBLE ASSETS

Intangible assets comprise goodwill and other intangible assets that have been acquired through business combinations. 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, or more frequently when there is an indication that the cash-generating unit may be impaired. Other intangible assets are initially measured at cost, which is equal to the acquisition date fair value, and subsequently measured at cost less accumulated amortisation charges and any accumulated impairment losses. Other intangible assets are subject to impairment testing when there is an indication that an impairment loss may have been incurred.

13.1 MOVEMENT IN NET BOOK VALUE

	31 December 2009			31 December 2008		
	Goodwill £m	Other intangible assets £m	Total £m	Goodwill £m	Other intangible assets £m	Total £m
Cost						
As at 1 January	962.8	278.0	1,240.8	430.8	-	430.8
Exchange adjustments	(54.3)	(5.5)	(59.8)	202.3	20.6	222.9
Business acquisitions	3.0	-	3.0	332.3	257.4	589.7
Business disposals	(2.2)	-	(2.2)	(2.6)	-	(2.6)
As at 31 December	909.3	272.5	1,181.8	962.8	278.0	1,240.8
Amortisation and impairment						
As at 1 January	39.6	13.6	53.2	-	-	-
Exchange adjustments	(3.6)	(0.3)	(3.9)	-	0.7	0.7
Amortisation charge for the year	-	17.6	17.6	-	12.9	12.9
Impairment loss	-	-	-	39.6	-	39.6
Business disposals	(0.7)	-	(0.7)	-	-	-
As at 31 December	35.3	30.9	66.2	39.6	13.6	53.2
Net book value						
As at 31 December	874.0	241.6	1,115.6	923.2	264.4	1,187.6

Notes to the financial statements

13.2 ANALYSIS OF GOODWILL BY CASH-GENERATING UNIT ("CGU")

Goodwill acquired in a business combination is allocated to each of the Group's CGUs expected to benefit from the synergies of the combination. For the purposes of impairment testing, the Directors consider that the Group has four CGUs: 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 CGUs represent the lowest level within the Group at which goodwill is monitored. For the Group's Precious Metals division CGU, after recording an impairment in 2008, goodwill recognised in the balance sheet is £nil (2008: £nil).

	2009 £m	2008 £m
Ceramics	585.5	613.9
Chemistry	227.3	242.7
Assembly Materials	61.2	66.6
Total goodwill	874.0	923.2

13.3 AMORTISATION OF OTHER INTANGIBLE ASSETS

Other intangible assets are amortised over their useful lives as summarised below.

	Fair value on acquisition £m	Remaining useful life years	Charged in 2009 £m
Foseco - customer relationships	103.7	18.3	6.0
- trade name	72.4	18.3	3.6
- intellectual property rights	80.3	8.3	8.0
	256.4		17.6

14. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

14.1 IMPAIRMENT POLICY

At each balance sheet date, the Group reviews the carrying value of its tangible and other intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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 CGU to which the asset belongs.

The Group also carries out impairment testing of the carrying value of its CGUs annually, to assess the need for any impairment of the carrying value of goodwill, and other intangible and tangible assets associated with these CGUs.

For the purpose of impairment testing, the recoverable amount of an asset or CGU is the higher of (i) its fair value less costs to sell and (ii) its value in use. If the recoverable amount of a CGU is less than the carrying amount of that 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.

The value in use calculations of the Group's CGUs are based on detailed business 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. The cash flows in the calculations are discounted to their current value using pre-tax discount rates.

14.2 KEY ASSUMPTIONS

The key assumptions used in determining value in use are returns on sales, growth rates and discount rates.

Returns on sales 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.

Growth rates are determined with reference to: current market conditions; external forecasts and historical trends for the Group's key end-markets of steel, foundry castings, automotive and electronics; and expected growth in output within the industries in which each major Group business unit operates. A perpetuity growth rate of 3% (2008: 3%) has been applied based on the long-term growth rates experienced in the Group's end-markets. The Group's projections are based on historical trends and external forecasts. End-market conditions for the fourth quarter of 2009 were considerably better than the fourth quarter of 2008 and the first three quarters of 2009. Further improvements in trading are expected in 2010 as end-markets recover.

Discount rates are calculated for each CGU, reflecting market assessments of the time value of money and the risks specific to each CGU. The pre-tax discount rate used for the Ceramics CGU was 12.9% (2008: 13.0%), for the Chemistry CGU 13.0% (2008: 12.5%) and for the Assembly Materials CGU 11.4% (2008: 11.1%).

Notes to the financial statements

14.3 GOODWILL IMPAIRMENT

In assessing goodwill for potential impairment as at 31 December 2009, the Directors made use of the most recent detailed calculations of the recoverable amount of the Group's CGUs, prepared as at 31 December 2009. Those calculations resulted in recoverable amounts that exceeded the carrying values of each of the Group's CGUs.

During the first half of 2009, the key end-markets for the Group's Chemistry CGU, which is the CGU most sensitive to risk of impairment, were weak compared to the same period in 2008, giving rise to an indication of possible impairment in the carrying value of its goodwill. In the second half of 2009, these key end-markets evidenced recovery which had a positive impact on Chemistry's results. As a result, in the December 2009 impairment test, the Chemistry CGU's recoverable amount exceeded its carrying value by £39m (2008: £4m). A change in the perpetuity growth rate from 3.0% to 1.0%, or an increase in the discount factor assumption from 13.0% to 14.6%, would result in its recoverable amount being equal to its carrying value. The Group's Ceramics and Assembly Materials CGUs each had significant headroom of recoverable amount over carrying value.

15. RECONCILIATION OF MOVEMENT IN NET DEBT

	Balance as at 1 January 2009 £m	Foreign exchange adjustment £m	Non-cash movements £m	Cash flow £m	Balance as at 31 December 2009 £m
Cash and cash equivalents					
Short-term deposits	41.5	(1.7)	-	5.0	44.8
Cash at bank and in hand	74.3	(3.5)	-	44.6	115.4
Bank overdrafts	(10.2)	0.6	-	7.1	(2.5)
				56.7	
Borrowings, excluding bank overdrafts					
Current	(53.1)	5.9	(86.2)	43.9	(89.5)
Non-current	(791.4)	20.7	86.2	240.2	(444.3)
Capitalised borrowing costs	7.2	-	(2.5)	-	4.7
				284.1	
Net debt	(731.7)	22.0	(2.5)	340.8	(371.4)

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.

Notes to the financial statements

16. EMPLOYEE BENEFITS

The net employee benefits balance as at 31 December 2009 of £137.7m (2008: £95.3m) in respect of the Group's defined benefit pension and other post-retirement benefit obligations, results from an interim actuarial valuation of the Group's defined benefit pension and other post-retirement obligations as at that date. As analysed in the following table, the net employee benefits balance comprised net surpluses (assets) of £nil (2008: £70.6m), relating almost entirely to the Group's main pension plan in the UK, together with net liabilities (deficits) of £137.7m (2008: £165.9m).

	2009 £m	2008 £m
Employee benefits - net surpluses		
UK defined benefit pension plans	-	70.0
US defined benefit pension plans	-	0.6
	<u>-</u>	<u>70.6</u>
Employee benefits - net liabilities		
UK defined benefit pension plans	22.3	1.3
US defined benefit pension plans	54.1	89.5
ROW defined benefit pension plans	46.0	46.0
Other post-retirement benefit obligations, mainly US healthcare arrangements	15.3	29.1
	<u>137.7</u>	<u>165.9</u>

The total net charge in respect of the Group's defined benefit pension and other post-retirement benefit obligations was £2.1m (2008: £5.5m), as shown in the table below.

	2009 £m	2008 £m
Charged in arriving at trading profit:		
- within other manufacturing costs	2.3	3.2
- within administration, selling and distribution costs	3.9	4.4
Charged/(credited) in arriving at profit from operations:		
- within restructuring and integration costs	0.8	0.2
- as exceptional gains relating to employee benefits plans	(9.7)	(6.0)
Charged/(credited) in arriving at profit before tax:		
- within ordinary finance costs	34.2	33.4
- within finance income	(29.4)	(29.7)
Total net charge	<u>2.1</u>	<u>5.5</u>

17. 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 £1.1m (2008: £1.5m) and made purchases of goods and services from Group joint venture companies of £12.3m (2008: £1.8m). As at 31 December 2009, amounts owed by the Group's joint ventures to Group subsidiaries was £nil (2008: £nil) and amounts owed to Group joint ventures by Group subsidiaries was £nil (2008: £nil).

18. CONTINGENT LIABILITIES

Guarantees given by the Group under property leases of discontinued operations amounted to £3.9m (2008: £4.3m).

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.

Notes to the financial statements

19. EXCHANGE RATES

The Group reports its results in pounds sterling. A substantial portion of the Group's revenue and profits are denominated in currencies other than pounds sterling. It is the Group's policy to translate the income statements and cash flow statements of its overseas operations into pounds sterling using average exchange rates for the year reported (except when the use of average rates does not approximate the exchange rate at the date of the transaction, in which case the transaction rate is used) and to translate balance sheets using year end rates. The principal exchange rates used were as follows:

	<u>Year end rates of exchange</u>		<u>Average rates of exchange</u>	
	2009	2008	2009	2008
US dollar	1.61	1.46	1.57	1.86
Euro	1.13	1.04	1.12	1.26
Czech Republic koruna	29.69	27.99	29.70	31.44
Polish zloty	4.63	4.33	4.86	4.42
Chinese renminbi	11.03	9.95	10.70	12.92