



9 March 2009

Press release

ANNOUNCEMENT OF 2008 FULL YEAR RESULTS

HIGHLIGHTS

- 2008 results significantly ahead of 2007 despite weak final quarter, and slightly ahead of estimates published on 29 January 2009:
 - Revenue of £2,203 million, up 23%*
 - Trading profit of £216.3 million, up 11%*
 - Headline profit before tax of £176.2 million, up 18%
 - Headline earnings per share of 8.9 pence, up 9%**
 - Free cash flow of £73 million, up £26 million
- Successful integration of Foseco into Ceramics division, with greater synergy savings than initially anticipated
- End-market weakness continuing into Q1, as previously predicted
- Management actions continuing as planned to reduce cost base by £40 million and conserve cash; suspending expansion capex, dividends and UK pension 'top-up' payments will reduce cash outflow by greater than £85 million compared to 2008
- Rights issue successfully completed (£241 million net proceeds) on 4 March 2009, reducing indebtedness and providing more suitable capital structure for current economic environment

* at constant currency

** as restated for the effect of the rights issue in March 2009

	<u>2008</u>	<u>2007</u>	<u>Reported rates</u>	<u>Constant rates</u>
Revenue	£2,203m	£1,620m	+36%	+23%
Trading profit ¹	£216.3m	£169.6m	+28%	+11%
Return on sales ¹	9.8%	10.5%	-0.7pts	-1.0 pts
Profit before tax				
- headline ¹	£176.2m	£149.8m	+18%	
- basic	£89.6m	£151.6m	-41%	
Tax rate – headline ²	27.5%	26.9%	+0.6 pts	
Earnings per share ³				
- headline ¹	8.9p	8.2p	+9%	
- basic	3.3p	8.0p	-59%	
Dividends per share ³				
- interim	0.88p	0.64p	+38%	
- final	-	1.32p	-	
Free cash flow ¹	£73.1m	£47.6m	up £25.5m	
Net debt ¹	£731.7m	£50.6m	up £681.1m	

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

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

³ As restated for the effect of the rights issue in March 2009

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

"The outcome for 2008 reflects two very different periods of trading, with continued growth in our end-markets in the first nine months and then a rapid and significant weakening in the final quarter.

"The results benefitted from a stronger than expected contribution from Foseco, the integration of which will yield greater synergies than first expected.

"We have reacted quickly to the downturn, implementing cost reduction measures to generate £40 million of annualised savings and a cash conservation plan, which through the suspension of expansion capex, dividends and UK pension 'top-up' payments, reduces cash outflow by greater than £85 million compared to 2008. We also significantly reduced our debt and improved our capital structure through the recent £241 million (net) rights issue proceeds.

"As previously signalled, our major markets have remained weak in the first quarter and we expect only a slow improvement through the second as the de-stocking in our end-markets comes to an end.

"Longer term we believe we are well positioned, with a portfolio of businesses supplying high-technology consumable products with leading positions in markets with sound prospects for growth as the global economy recovers."

OVERVIEW

2008 Results

The results for 2008 reflect two very different periods of trading. Over the first nine months we experienced continuing growth in our main end-markets of steel, consumer electronics and automotive. However, from late September we saw a rapid and significant weakening, reflecting the severe global economic downturn. As a result, we achieved a return on sales margin of 10.7% over the first nine months but this fell to 7.3% for the last quarter of the year.

Despite the weak fourth quarter, the full year results showed a significant improvement over 2007. Revenue of £2,203 million and trading profit of £216.3 million increased 23% and 11% respectively at constant exchange rates, reflecting both the contribution from Foseco following its acquisition in April 2008 and also the positive impact on revenue of passing through higher metal prices. The weakening of sterling had a significant positive impact such that on an 'as reported' basis, revenue and trading profit increased 36% and 28% respectively. Headline profit before tax increased by 18% and headline earnings per share by 9%.

Net debt at 31 December 2008 was £732 million with a net debt to EBITDA ratio of 2.6 times (as calculated for bank covenant purposes).

Response to the economic downturn

We have reacted quickly to the economic downturn, implementing a series of cost reduction and cash conservation measures, and raising £241 million of net proceeds via a rights issue announced in January 2009. These proceeds have reduced our indebtedness and created a more suitable capital structure for the current economic environment.

During the fourth quarter of 2008, we completed the first phase of cost reductions to yield annualised savings of £17 million from early 2009 onwards. This included reducing temporary and full-time headcount by over a combined total of 550 and implementing an extensive salary freeze for the first half of 2009.

In January, we launched a second phase involving the proposed permanent closure of six Ceramics manufacturing facilities in the UK, Mexico, Belgium, Germany and the US, together with overhead staff reductions. These measures will result in a further total headcount reduction of over 700 and are expected to result in annualised savings of £23 million from mid-2009. Of the total annualised savings of £40 million arising from both phases, £30 million is anticipated to be realised in 2009 and an incremental £10 million in 2010.

We have also introduced a new Group-wide incentive programme to focus on cash generation with particular emphasis on reducing working capital in line with reduced business volumes. Further, all capacity expansion related capital expenditure projects have been postponed, pending clear signs of recovery in our end-markets. Similarly, the payment of dividends is being suspended for the time being.

More recently we have agreed with our banks to pre-pay the facility tranches due to be repaid next year in exchange for which the tightening of the net debt to EBITDA covenant from 3.5 times to 3.0 times has been deferred by a further year to 30 June 2010. We have also agreed with our UK pension trustee to suspend the monthly 'top-up' payments, which totalled £22 million in 2008, until the earlier of July 2010 or the recommencement of dividend payments.

Foseco

The acquisition of Foseco significantly expanded the existing Ceramics division and brought together the two largest worldwide specialists in ceramics for molten metal handling.

Following the completion of the acquisition on 4 April 2008 we promptly sold Foseco's Carbon Bonded Ceramics ("CBC") business to satisfy regulatory requirements, and closed its "plc" headquarters. Anti-trust requirements were finally met with the disposal of Vesuvius' Hi-Tech ceramic filters business in December 2008. The integration has progressed very well and further potential synergy opportunities have been identified such that we have increased the annual synergy savings target from the original £18 million to £24 million by 2010.

During 2008, the Foseco businesses have performed well ahead of our original expectations. On a pro-forma basis (excluding CBC and "plc" costs) for the full year 2008

they delivered revenue of £486 million and trading profit of £72.0 million, up by 18% and 24% respectively at reported exchange rates over full year 2007, despite a slowdown over the last two months of 2008.

Ceramics division

The enlarged division, which trades as Foseco in foundry markets and as Vesuvius in all other markets, recorded revenue of £1,264 million and trading profit of £167.7 million, giving a return on sales margin of 13.3%. Excluding the contribution from Foseco, underlying revenue was up 4% for the year as a whole, having been 8% ahead at the half year, but trading profit was down 8% for the year on a constant currency basis, reflecting the fourth quarter performance.

Including Foseco, the fourth quarter revenue was £326 million and trading profit £34.1 million, giving a return on sales margin for the fourth quarter of 10.5%.

Global steel production, our main end-market, when compared to the same periods in 2007 grew 5% in the first nine months but then fell 14% in October, 20% in November and 24% in December. The pattern in the foundry markets was similar but the slowdown only started in November. Our fused silica, Solar Crucible™, market continued to experience strong growth. Against this background, revenue and underlying growth for the four product lines was as follows (at constant exchange rates and including Foseco pro-forma on a full year basis); steel flow control £430 million, 1%, linings £433 million, 5%, foundry £457 million, 6% and fused silica £72 million, 20%.

Electronics division

The division's revenue of £620 million was up 11% at reported exchange rates but, at constant exchange rates and eliminating the pass through of increased metal prices, underlying revenue was down 9%. Trading profit of £51.7 million was down 11% at reported exchange rates and 22% at constant exchange rates. This again reflects a very poor fourth quarter, in which revenue was £135 million and trading profit £6.6 million, giving a return on sales margin of 4.9%.

Revenue for the Assembly Materials product line was £382 million and for the Chemistry product line was £238 million, down 10% and 9% respectively on an underlying basis. Chemistry had a particularly weak fourth quarter reflecting its exposure to the automotive as well as electronics end-markets.

Precious Metals division

Net sales value of £118 million was 3% higher than prior year at constant exchange rates. This reflected higher levels of reclaim activity in Europe and gold coin blank production in the US, both stimulated by the high price of gold, together with the additional volumes from the Leach & Garner business acquired in September 2007, offsetting the sharp decline in consumer demand for retail jewellery.

Trading profit of £4.5 million was approximately half that of the prior year reflecting a lower margin product mix in the US, particularly much reduced gold chain sales.

Outlook

Cookson's divisions predominantly supply consumable products, on short lead times, to the global steel, foundry, electronics and precious metals industries. As such, the Group's expectations of future trading are based upon an assessment of end-market conditions and these conditions are subject to greater uncertainty than usual in the current economic climate.

As predicted, our major markets have remained weak through January and February. We expect a slow improvement through the second quarter as the de-stocking in our end-markets comes to an end. Further improvements are expected in the second half reflecting the Group's normal trading seasonality and supported by the anticipated boost to infrastructure demand from the stimulus packages recently announced by governments around the world.

Actual trading performance will depend on the depth and duration of the global economic downturn. Despite the difficult trading conditions, our performance in 2009 will benefit from:

- anticipated cost savings of £30 million arising from the cost reduction actions described above;
- a full year contribution from Foseco (versus only nine months in 2008); and
- the realisation of further Foseco related integration synergies, anticipated to be £12 million in 2009.

The reported results will also benefit from significant currency translation gains if sterling remains at current levels relative to other major currencies.

For the longer term we believe that Cookson is well positioned, with a portfolio of businesses supplying high-technology consumable products and related technical services, with leading positions in markets with sound prospects for growth as the global economy recovers.

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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
First half	1,058	785	113.3	78.4	10.7	10.0
Second half	1,145	835	103.0	91.2	9.0	10.9
Year	2,203	1,620	216.3	169.6	9.8	10.5

For the first nine months of 2008, the Group's businesses generally performed well. During this period, the Ceramics division showed significant growth, including a better than expected contribution from recently-acquired Foseco, the Electronics division maintained its performance at 2007 levels and the Precious Metals division remained profitable. However, in the fourth quarter of 2008, the Group experienced a rapid and significant softening in its principal end-markets, including an unprecedented reduction in global steel production, combined with weaker automotive and consumer electronics markets. Despite prompt and decisive action to reduce the Group's cost base, this downturn had a significant negative impact on trading results in the fourth quarter and, consequently, for the year as a whole.

Group revenue in 2008 of £2,203 million was 23% ahead of 2007 at constant exchange rates and up 36% at reported exchange rates. The increase in revenue at constant exchange rates principally reflected the acquisition of Foseco on 4 April 2008 and the impact of higher metal prices being 'passed through' to customers in the Electronics and Precious Metals divisions. Once these factors are excluded, underlying revenue in 2008 decreased marginally by 2% compared to last year (at constant exchange rates). Revenue for the Group is well balanced geographically with 41% coming from the Group's operations in Europe, 27% from NAFTA and 25% from Asia-Pacific.

Trading profit increased significantly to £216.3 million, an increase of 11% at constant exchange rates and 28% at reported exchange rates. The increase in trading profit (at constant exchange rates) reflected a contribution of £52.8 million from Foseco, more than offsetting underlying trading profit reductions in all three divisions arising due to the fourth quarter market deterioration. Excluding Foseco, trading profit (at constant exchange rates) for the Group was down by 16%, with Ceramics (excluding Foseco) down by 8%, Electronics down by 22% and Precious Metals down by 59%.

The return on sales margin in 2008 decreased to 9.8% from 10.5% for 2007 (at reported exchange rates), reflecting the fourth quarter deterioration. The impact of higher metal prices, which increased reported revenue in the Electronics and Precious Metals divisions without any impact on profitability, depressed the return on sales margin in 2008 by around 0.3 percentage points compared to last year.

Headline profit before tax increased by 18% and headline earnings per share were up 9% to 8.9 pence, reflecting an 8% increase in the weighted average number of shares as a result of the October 2007 share placing associated with the acquisition of Foseco. The headline earnings per share number reflects an adjustment to reflect the impact of the rights issue completed subsequent to year-end on 4 March 2009. Prior to the effect of this adjustment, headline earnings per share were 58.8 pence.

Following the acquisition of Foseco, net debt at 31 December 2008 increased to £732 million with a pro-forma net debt to EBITDA ratio (as calculated for bank covenant purposes) of 2.6 times. On 4 March 2009, the Group completed a successful rights issue which raised cash proceeds of £241 million, net of expenses.

Foseco

The acquisition of Foseco was completed on 4 April 2008 for around £620 million in cash and assumed debt. The acquisition was financed by the combination of the net proceeds of £151 million from a share placing on 11 October 2007 and a new bank facility. To satisfy the EU and US competition authorities' requirements, Foseco's Carbon Bonded Ceramics ("CBC") business was sold to RHI AG on 16 April 2008 and Cookson's Hi-Tech ceramic filters business ("Hi-Tech") was sold to Süd-Chemie AG on 23 December 2008.

The retained Foseco businesses are now managed within Cookson's Ceramics division. Foseco's "plc" headquarters have been closed and the global integration process is proceeding well, with integration benefits to be realised by 2010 now expected to be £24 million per annum (of which £10 million has been realised in 2008), against a target of £18 million per annum at the time of announcing the acquisition.

The retained Foseco businesses traded strongly in the first ten months of 2008 (of which seven months are included in Cookson's results) and well ahead of our original expectations. However, their trading was negatively impacted by deteriorating economic conditions in the last two months of the year. On a pro-forma basis (excluding CBC and "plc" costs), for the twelve months of 2008, Foseco reported revenue of £486 million and trading profit of £72.0 million, up by 18% and 25% respectively at constant exchange rates compared with 2007.

Foseco's operations have now been integrated into three of the four product lines within the Ceramics division. Foseco's 'Foundry' division now constitutes the majority of the Foundry product line, whilst the activities of Foseco's 'Steel' division are now included in the Steel Flow Control and Linings product lines.

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 and foundry industries 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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
First half	582	386	85.1	52.6	14.6	13.6
Second half	682	395	82.6	56.8	12.1	14.4
Year	1,264	781	167.7	109.4	13.3	14.0

The acquisition of Foseco in April 2008 significantly expanded the existing Ceramics division and brought together the two largest worldwide manufacturers of specialist

ceramics for molten metal handling. The enlarged division performed satisfactorily in 2008 with revenue of £1,264 million, up 62%, and trading profit of £167.7 million, an increase of 53% (both at reported exchange rates), giving a return on sales margin of 13.3%. At constant exchange rates, revenue and trading profit were higher by 46% and 35% respectively.

Excluding the contribution from Foseco, underlying revenue was up 4%, trading profit was down 8% (both at constant exchange rates) with the return on sales margin decreasing to 12.7% (compared to 14.0% for 2007).

Following the acquisition of Foseco, the key end-markets for Vesuvius are global steel production (which accounts for just over half of the division's revenue on a pro-forma basis) and the foundry casting market (just over one-third of the division's pro-forma revenue). The division's other key end-markets are solar, glass and industrial process plants.

End-markets continued to grow satisfactorily during the first nine months of the year and then experienced a severe deterioration in the fourth quarter. Over the first nine months of the year, global steel production was up 5% on the corresponding period in 2007. However, in the last quarter of 2008, many of the larger steel producers, including ArcelorMittal, Tata Steel/Corus and Serverstal, announced their intention to cut back production in response to market conditions and to reduce inventories in the face of falling demand. During October and November 2008, the number and scale of production cut-backs continued to increase and, as a result, global steel production was 19% lower in the fourth quarter of 2008 than for the corresponding period in 2007. Compared to the corresponding months in 2007, global steel production in the months of October, November and December 2008 was lower by 14%, 20% and 24% respectively. For the year as a whole, global steel production fell by 1% to 1.3 billion tonnes, the first annual decline in ten years. China continued its position as the world's leading steel producer with year-on-year growth of 3% and accounted for 38% of the world's total production in 2008. Global production outside of China was down 3%, with growth in India (up 4%) being more than offset by reductions in the US (down 7%), the enlarged European Union (down 5%) and the CIS (down 8%).

The foundry castings market, which represents around one-third of the division's revenue on a pro-forma basis, produces castings which are used in a wide variety of engineered products and approximately 25% of the revenue from the division's foundry product line relates to the production of castings for the automotive sector (being cars and light trucks). The foundry casting market was generally strong in the first ten months of the year, particularly in Brazil, Germany, India and China. However, towards the end of the year the market deteriorated significantly largely driven by an unprecedented reduction in automotive production, particularly in the US and Europe.

The principal product in Vesuvius' fused silica product line is Solar Crucibles™, which are used in the production of photovoltaic ("solar") cells. Global solar cell production continued to grow well during 2008.

Following the 19% reduction in global steel production in the fourth quarter of 2008 and weakening end-markets for foundry castings, management took prompt action to reduce the operating cost base of the division across all product lines. In the fourth quarter of 2008, headcount was reduced with over 250 temporary workers being released (notably in Europe) along with 300 permanent positions. Overtime and premium shift working was eliminated where practicable and extended facility shutdowns were introduced over the Christmas and New Year period to match the shutdowns initiated by a number of our customers. In addition, in January 2009, the process was initiated to permanently close six manufacturing facilities, one in each of the UK, Mexico, Belgium and Germany, and two in the US. Formal employee consultation procedures are now underway and it is anticipated that the closures will be substantially completed by the end of June 2009. This, together with additional staff reductions in overhead positions during 2009, will result in a further total headcount reduction of over 600 people. A renegotiation of existing raw material contracts is also currently in progress.

Following the acquisition of Foseco, the management reporting responsibilities of the enlarged Ceramics division were restructured on a product line, rather than geographic, basis. This enables the business to better serve its increasingly global customer base and also helps facilitate the integration of the Foseco business. An overview of each product line is given below.

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, mould and tundish fluxes and ingot hot-topping systems.

Global steel production represents 100% of the end-market for steel flow control products and services. Underlying revenue in steel flow control (at constant currency and as if Foseco had been acquired with effect from the beginning of January 2007) grew by 1% for the year, marginally ahead of the 1% reduction in global steel production. For the first nine months of the year, underlying revenue grew by 7% but then fell sharply in the fourth quarter reflecting the 19% reduction in steel production in this period. This underlying growth, combined with the integration of the steel flow control operations of Foseco, resulted in reported revenue (at reported exchange rates and only including Foseco from the date of acquisition) of £427 million, a 2% increase on 2007. Underlying trading profit for the year (at constant currency and as if Foseco had been acquired with effect from the beginning of 2007) was 16% lower than for 2007 reflecting the very difficult trading environment in the fourth quarter.

Steel flow control capacity was increased in Europe with the construction of a new £8 million facility in Ostend, Belgium, which became operational at the end of 2008. Production of the more standardised steel flow control products has been reallocated from our other European factories to this new, highly automated facility to yield significant overall productivity gains.

Vesuvius' main operations in China are 100% owned. Since 2003, the division has operated a 50/50 joint venture with Wuhan Iron & Steel Corporation ("WISCO"), China's fifth largest steel producer, producing slide-gate refractories. This operation had revenue of £11 million in 2008. Based on this success, a further 50/50 joint venture with WISCO was announced in October 2007 for the production of VISO™, the division's range of isostatically-pressed alumina-carbon products used to control and protect the flow of molten metal in the enclosed continuous casting steelmaking process. The joint venture, managed by Cookson, involved the construction of a new facility in Wuhan, Hubei Province. The new facility, of which Vesuvius' share of the investment was £2 million, became operational in July 2008. Around half of the production is to be dedicated to supplying VISO™ products to satisfy the anticipated expansion of WISCO's own steel-making capacity, with the remainder available to the Ceramics division to sell to other Chinese steel producers.

Following the acquisition of Foseco, a number of complementary steel flow control products, notably mould fluxes (refractory materials used to prevent oxidation of the molten steel in the tundish and during casting) and ingot hot-topping systems, have been added to Vesuvius' existing range of products and services to further enhance our offering to steelmakers.

As part of the series of cost-cutting measures noted above, it is intended that three steel flow control facilities will be permanently closed in 2009, namely Newmilns in the UK, Fisher (Illinois) in the US and Emmerich in Germany. The headcount reduction will total around 320 employees.

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, taphole 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, petrochemical and waste incineration industries.

The linings product line continued its recent good progress with revenue (at constant currency and as if Foseco had been acquired with effect from the beginning of 2007) up 6% to £433 million compared to 2007. Strong underlying growth of 5% was complemented by the full year contribution arising from the acquisition of Bayuquan Refractories Co. Limited ("BRC") in April 2007, the acquisition of SG Blair in September 2008 and the integration of the linings operations of Foseco's Steel division in April 2008, such that reported revenue (at reported exchange rates and only including Foseco from the date of acquisition) of £415 million was up 20% on 2007. The underlying growth was driven by the growth in worldwide steel production, good growth in non-steel markets and the 'pass through' of higher raw material costs. As with the steel flow control product line, strong growth in the first nine months of the year was partially offset by a decline in the fourth quarter. Underlying trading

profit (at constant currency and as if Foseco had been acquired with effect from the beginning of 2007) remained unchanged compared to 2007, resulting in a return on sales margin (pre divisional and central cost allocations) for 2008 of 7.4% (2007: 7.8%). The reduction in the return on sales margin reflects the significant deterioration in trading in the fourth quarter. This business saw a reasonably significant increase in raw material costs (which comprise a broad range of ceramic minerals) in the first nine months of 2008, although these increases started to abate towards the end of the year. These additional costs have, to a very significant extent, been successfully passed through to customers.

Linings has been increasing its capabilities particularly in emerging markets where it is able to leverage the expertise gained from its strong presence in the more established markets in order to capture the expected growth for these products. In India, the construction of a new facility producing monolithics, pre-cast linings and taphole clay became operational at the end of 2007. Following the acquisition of BRC in China in April 2007, the facility - which manufactures brick-lining products and had been previously operating at full capacity - underwent a £1 million expansion which was completed in the second quarter of 2008.

Foseco's Steel division had a significant monolithics business, including a range of complex shaped pre-cast products (known as the Turbostop™ range) used in controlling the flow of molten steel in the tundish. These products are now being sold alongside Vesuvius' existing linings products and services.

As part of the series of cost-cutting measures noted above, it is intended that two linings facilities will be permanently closed in 2009, namely Hautrage in Belgium and Brownsville (Texas) in the US. The headcount reduction will total around 80 employees.

SG Blair, a specialist UK-based linings business, was acquired on 28 September 2008 for a maximum cash consideration of £0.4 million.

Foundry

The foundry business is a leading supplier of products, services and solutions to the foundry industry worldwide. Products include feeding systems, filters, metal treatments, metal transfer systems, crucibles, stoppers, sand binders, coatings and moulding materials.

Vesuvius' existing foundry business, which principally manufactures crucibles, was significantly expanded with the acquisition of Foseco's much larger foundry business in April 2008. As a result, reported revenue for the business grew by nearly nine times to £350 million. On a pro-forma basis (as if Foseco had been acquired with effect from the beginning of 2007 and at constant currency), the underlying growth in revenue was 6%. This growth has been driven by strong market conditions in the foundry casting market for the first ten months of 2008 and increased sales penetration, with particularly good performance in infrastructure and commodity-related markets such as mining machinery, oil and gas, railway and heavy transportation, construction and heavy machinery, and wind power generation. The automotive market (being cars and light trucks), which globally represents around one-quarter of our foundry castings market, whilst weak in the US, showed strong growth in the larger emerging markets of Brazil, India and China. Trading

conditions deteriorated significantly in the last two months of the year, driven by an unprecedented reduction in global automotive production, particularly in the US and Europe. On a pro-forma basis (as calculated above), the underlying growth in trading profit was 4% and the foundry product line now contributes one-third of the division's trading profit.

Production of crucibles was transferred from Vesuvius' Buffalo (New York) facility to an existing facility in Monterrey, Mexico, with the Buffalo facility closing in the fourth quarter of 2008. The closure will generate cost savings of approximately £1 million per annum from the beginning of 2009. The new £5 million crucible facility in Suzhou, Jiangsu Province, became operational in the third quarter of 2008. This facility produces long-life, high-performance alumina graphite crucibles for the growing non-ferrous foundry market.

Production capacity has been increased during 2008 with the completion of four new facilities in Gliwice, Poland (feeding systems and coatings), Alrode, South Africa (coatings), Pune, India (feeding systems) and Gebze, Turkey (feeding systems and coatings).

To satisfy EU authority requirements, Vesuvius' Hi-Tech ceramic filters business was sold on 23 December 2008. This business contributed £12 million of revenue and £3 million of trading profit in 2008.

The integration of Vesuvius' existing crucibles business into Foseco's foundry business, with its much wider range of products and services, is proceeding well.

As part of the series of cost-cutting measures noted above, it is intended that the foundry facility in Tlalnepantla, Mexico will be permanently closed in 2009. The headcount reduction will total around 90 employees.

Fused Silica

The principal products in the fused silica product line are Solar Crucibles™ used in the manufacture of photovoltaic ("solar") cells and tempering rollers used in the glass industry.

Underlying revenue grew by 20% to £72 million compared to 2007, driven by good market conditions in the solar cell market.

Solar Crucible™ revenue, which represents half of total fused silica revenue, grew strongly by 44% reflecting an acceleration in the solar energy industry as supply shortages of the polycrystalline silicon material used in the majority of solar panels have eased with additional capacity now coming on stream. This higher level of customer demand has been met by the increased production capacity that has been put in place by the division over the last two years.

Underlying revenue growth of 2% in tempering rollers and other speciality products reflects satisfactory growth in the glass industry, driven in particular by strong demand from the construction industry in China in the first nine months of the year. In order to meet this

increased demand, Vesuvius' principal glass roller facility in Kua Tang, China underwent a £1 million capacity expansion, which was completed in the second quarter of 2008.

Trading profit for the fused silica product line has increased by 39% on 2007 with the strong volume growth from Solar Crucibles™ more than offsetting the normal 'one-off' production start-up costs arising from the two new Solar Crucible™ facilities completed in 2008.

To enable Vesuvius to continue to benefit from the good growth in the solar energy market and maintain its leading position as a key supplier to the industry, two new Solar Crucible™ facilities were completed in 2008, with a third expected to become operational in the second quarter of 2009. In March 2008, the new £6 million facility in Moravia, Czech Republic became operational and in September 2008 the doubling of capacity of our existing facility in Wei Ting was completed for an investment of £2 million. A further new facility ("Sunrise") located in Jiangsu Province, close to Wei Ting, has recently been completed for a total investment of just over £11 million. Following start-up trials, it is expected to become operational in the second quarter of 2009.

Electronics division

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

	<u>Revenue (£m)</u>		<u>Trading Profit (£m)</u>		<u>Return on Sales (%)</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
First half	321	269	29.9	26.8	9.3	9.9
Second half	299	289	21.8	31.2	7.3	10.8
Year	620	558	51.7	58.0	8.3	10.4

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

The reduction in underlying revenue reflected a significant slowdown in the production of electronic equipment (the end-market for just under two-thirds of the division's revenue) in the fourth quarter of 2008 due to a marked 'de-stocking' by equipment manufacturers exacerbated by weakening end-user demand. Electronic equipment production worldwide, which experienced high single digit growth over the last few years, was broadly unchanged between full year 2008 and 2007, but was down 10% in the fourth quarter compared to the corresponding period last year. A similar trend was evident for two of the key products

within the consumer electronics market, namely mobile phone handsets and PCs. Mobile phone handset volumes were up 4% in 2008 compared to prior year, but were 12% down in the fourth quarter of 2008. PC volumes, including laptops, were up 10% in 2008, but were unchanged in the fourth quarter. The automotive sector, which represent around 19% of the division's end-markets, was also very weak in the fourth quarter, particularly in the US and Europe.

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

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

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

Assembly Materials

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

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

Revenue for the year at £382 million was 5% higher than 2007 at constant exchange rates (17% higher at reported exchange rates). The higher revenue reflected the 'pass through' to customers of higher metal prices, in particular for tin and silver. In 2008, the average prices of tin and silver - Assembly Materials' major raw materials - were respectively 31% and 14% higher than 2007, such that approximately £54 million of the change in the division's revenue was as a result of these higher metal prices. Excluding the impact of higher metal prices, underlying revenue was 10% lower than last year (at constant

exchange rates) reflecting the significant slowdown in the production of electronic equipment in the fourth quarter of 2008 combined with the continuation of the strategy to focus resources on higher margin, more value-added products. These products include solder paste (for which volumes were up 4% by weight due to the continuing shift from wave soldering to surface mount technology) and low-silver SACX™ solder (for which volumes were only marginally down by 3% by weight). At the same time, sales of some more commoditised products, such as leaded bar solder (for which volumes were down 21% by weight), have been selectively reduced.

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

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

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

Chemistry

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

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

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

electronics were down 7%, both reflecting the difficult trading environment in these markets towards the end of the year.

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

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

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.

	Revenue (£m)		Net Sales Value (£m)		Trading Profit (£m)		Return on Net Sales Value (%)	
	2008	2007	2008	2007	2008	2007	2008	2007
First half	155	129	55	49	1.9	3.1	3.5	6.3
Second half	163	151	63	56	2.6	6.8	4.1	12.2
Year	318	280	118	105	4.5	9.9	3.8	9.4

The Precious Metals division operates in two distinct geographic regions; the US, which constitutes 54% 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 2008 were higher than for 2007 with gold and silver higher by 27% and 14% respectively. Gold prices at the end of 2008 were 6% higher than at the beginning of the year, whilst silver prices were 23% lower.

Net sales value of £118 million was 3% higher at constant exchange rates (12% higher at reported exchange rates). This reflected a sharp downturn in the demand for jewellery due to consumer spending cutbacks, being more than offset by additional net sales from the Leach & Garner business, acquired in September 2007, and strong demand from the US Mint for gold coin blanks. The European businesses also benefitted from higher levels of precious metal reclaim activity, stimulated by the high price of gold.

Trading profit for 2008 at £4.5 million was 55% (£5.4 million) below 2007 (at reported exchange rates). The profit shortfall arose wholly in the US due to the reduction in underlying volumes and the relatively low profitability of the Leach & Garner trading activity prior to its transfer to the division's principal US production facility in Attleboro (Massachusetts) which was completed in July 2008. Actions taken to mitigate the profit

shortfall in the US included headcount reductions and the acceleration of the integration of the Leach & Garner business. Total headcount in the US was reduced by 13% (around 170 people) during 2008. A new low-cost facility was completed in the Dominican Republic in March 2008 and the manufacture of a number of product lines has been transferred from Attleboro to the new facility on a phased basis during 2008.

The performance of the European businesses has improved compared to 2007, benefiting from the restructuring initiatives undertaken in 2007 and the high level of reclaim activity. The restructuring initiatives included the downsizing of manufacturing operations in Birmingham (UK), the opening of a new low-cost facility in Thailand in the second half of 2007, and the closure of the Mauritius facility.

The return on net sales value for the division was 3.8% (2007: 9.4%).

Group corporate

The Group's corporate costs, being the costs directly related to managing the Group holding company and which now incorporate the former central operations of Foseco, were £7.6 million, in line with 2007.

FINANCIAL REVIEW

Group results highlights

	2008	2007	Change vs 2007
Profit before tax (£m)			
- headline	176.2	149.8	+18%
- basic	89.6	151.6	-41%
Earnings per share (pence)*			
- headline	8.9	8.2	+9%
- basic	3.3	8.0	-59%
Dividends per share (pence)*			
- interim	0.88	0.64	+38%
- final	-	1.32	-
Free cash flow (£m)	73.1	47.6	up £25.5m
Net debt (£m)	731.7	50.6	up £681.1m

* as restated for the effect of the rights issue in March 2009

As described in detail in the Operating Review, the significant deterioration in trading in the majority of the Group's businesses in the fourth quarter of 2008 led to a reduction in operating margins for the year which were 0.7 percentage points lower at 9.8%. However, as a result of the post-acquisition contribution from Foseco, trading profit increased to £216.3 million – an increase of 11% on that reported for 2007 at constant exchange rates.

The positive impact of currency translation resulted in trading profit at reported exchange rates increasing by 28% compared to 2007.

After net finance costs (ordinary activities) of £40.8 million, increased from last year as a result of the higher borrowings arising from the completion of the Foseco acquisition in April 2008, headline profit before tax was up 18% over last year to £176.2 million. The Group's effective tax rate remained broadly in line with 2007 at 27.5% (2007: 26.9%).

The improvement in the Group's trading profit more than offset the increase in finance costs and with a broadly unchanged effective tax rate this resulted in an 9% increase in headline earnings per share over 2007, notwithstanding an 8% increase in the weighted average number of shares as a result of the October 2007 share placing. Despite this improvement, the very significant deterioration in end-market conditions in the fourth quarter of 2008, resulted in the Board's decision to recommend to shareholders that there should be no final dividend in respect of 2008. As a result, total dividends for the year consist only of the interim dividend of 0.88 pence per ordinary share (as restated for the effect of the rights issue) which was paid in October 2008.

Following the completion of the acquisition of Foseco in April 2008 for a total consideration of around £620 million, the Group ended the year with net debt of £732 million, an increase of £681 million from 31 December 2007. In March 2009, the Group completed a successful rights issue which raised cash proceeds of £241 million, net of expenses.

Group Income Statement

Headline profit before tax

Headline profit before tax was £176.2 million for 2008, which was £26.4 million higher than for 2007. The increase in headline profit before tax arose as follows:

	2008 £m	2007 £m	<i>Change</i>	
			<i>£m</i>	<i>%</i>
Trading profit:				
- at 2008 exchange rates	216.3	194.1	22.2	+11%
- currency impact	-	(24.5)	24.5	
Trading profit – at reported exchange rates	216.3	169.6	46.7	+28%
Net finance costs (ordinary activities)	(40.8)	(21.5)	(19.3)	-90%
Post-tax income from joint ventures	0.7	1.7	(1.0)	-59%
Headline profit before tax	176.2	149.8	26.4	+18%

The £19.3 million higher charge for net finance costs (ordinary activities) arises from an increase in the average level of borrowings throughout the year resulting principally from the acquisition of Foseco in April 2008.

Items excluded from headline profit before tax

A net charge of £86.6 million was incurred in 2008 (2007: credit of £1.8 million) for the following items excluded from headline profit before tax:

Restructuring and integration costs: restructuring and integration costs of £39.6 million (2007: £5.8 million) were incurred in 2008. Of the total charge, £8.2 million related to the non-cash write-down of assets and £31.4 million to cash-related costs. The principal items included in the charge for 2008 were as follows:

- £26.1 million arose in the Ceramics division, of which £17.1 million related to the integration of Foseco (of which £10.7 million related to redundancy costs), £7.7 million to asset write-offs associated with the announcement in January 2009 of the intended closure of six manufacturing facilities, and £1.3 million to other cost-saving initiatives completed in the fourth quarter of 2008 in response to the very significant deterioration in end-markets towards the end of 2008;
- £8.8 million in the Electronics division, of which the principal elements were £3.7 million related to the relocation of the Assembly Materials solder paste business from Ashford, UK to Hungary, £3.1 million to redundancy costs in the fourth quarter of 2008 in response to the very significant deterioration in end-markets towards the end of 2008, and £0.5 million in the Chemistry product line for further rationalisation of the sales, manufacturing and distribution network in Europe; and
- £3.3 million in the Precious Metals division, principally relating to the integration of Leach & Garner, the partial transfer of manufacturing from Birmingham, UK to the new low-cost facility in Thailand, closure of the Mauritius facility and further restructuring of the US operations.

The costs of integrating Foseco into the Ceramics division are currently expected to be around £21 million in total, of which the remaining £4 million is expected to be reported as a charge (all cash-related) in full year 2009. In addition, non-Foseco related restructuring costs of around £23 million (all of which are cash-related) are currently expected in full year 2009, reflecting additional cost-saving initiatives launched in response to the difficult trading environment. Of the total cost of £23 million, £15 million relates to additional costs (principally redundancy costs) associated with the announcement in January 2009 of the intended closure of six of the Ceramics division's manufacturing facilities (two in the US and one each in the UK, Belgium, Germany and Mexico).

Inventory fair value adjustment: non-cash costs of £2.6 million (2007: £nil) have been incurred in 2008 relating to the element of Foseco's inventory that was uplifted in value as part of the fair value exercise on acquisition. Current accounting rules require the value of all acquired inventory to be uplifted from its net book value to a fair value, deemed to be its selling price less disposal costs and the portion of the total profit attributable to the selling effort. This has the effect of capitalising into inventory the expected profit earned up to the stage of production that the inventory had reached at the acquisition date. The inventory on hand at acquisition was sold during the remainder of 2008 and this exceptional cost represents that element of total manufacturing costs that related to this Foseco-related inventory valuation uplift.

Profit relating to non-current assets: a profit of £3.4 million (2007: £7.0 million) was realised in 2008, principally relating to profit arising on the disposal of investments (comprising assets held in Rabbi Trusts), being partially offset by a write-down of property, plant and equipment in the Semi-conductor Packaging Materials business, part of the Electronics division.

Amortisation and impairment of intangible assets: costs of £52.5 million (2007: £nil) were incurred in 2008, of which £12.9 million related to the amortisation of intangible assets, being principally the customer relationships, intellectual property rights and the Foseco trade name, arising on the acquisition of Foseco. These intangible assets are being amortised over lives of either 10 or 20 years. The total cost of acquiring Foseco (including the net debt acquired) was £620 million, of which £41 million has been allocated to net tangible assets, £256 million to intangible assets and £323 million to goodwill.

The remaining charge of £39.6 million related to the write-off, as a non-cash charge, of all of the goodwill relating to the Precious Metals division. The Precious Metals division has been experiencing weak end-markets and, as a result, the calculations used for impairment testing purposes indicated that the carrying value of the goodwill relating to this division was not supportable.

Curtailment gains relating to employee benefits: a credit of £6.0 million (2007: £1.0 million) was realised in the year relating to the full closure to future accruals of Foseco's US defined benefit pension plan, the disposal of Foseco's CBC business and the impact of redundancy programmes in the UK and the US.

Finance costs - exceptional items: costs of £2.2 million were incurred in 2008 (2007: £nil) relating to the write-off of up-front fees arising from the cancelled part of the bank facilities put in place to finance the acquisition of Foseco.

Profit on disposal of continuing operations: a net profit of £0.9 million was realised in 2008 (2007: loss of £0.4 million) principally relating to a profit of £8.1 million on the disposal on 23 December 2008 of the Hi-Tech ceramic filters business (formerly part of the Ceramics division's foundry product line) and a net loss of £4.0 million relating to the closure of the Chinese operations of Foseco's CBC business. The substantive part of Foseco's CBC business, namely its operations in Europe and the US, were sold on 16 April 2008. The net credit included a write-off of goodwill of £2.2 million.

Group profit before tax and *after* the items noted above was £89.6 million for 2008 compared to £151.6 million in 2007, a reduction of 41%.

Taxation

The tax charge on ordinary activities was £48.3 million. The effective tax rate on headline profit before tax from continuing operations (before share of post-tax profit of joint ventures) was 27.5%, broadly in line with the 2007 rate of 26.9%. This effective tax rate is expected to remain broadly unchanged in 2009, absent any significant changes in the future geographic split of the Group's taxable profits and any material changes, beyond those

already announced, in the statutory tax rates in those countries where the Group has significant taxable profits. The cash outflow in respect of tax in 2008 was £52.0 million (2007: £26.7 million).

A tax credit of £8.1 million (2007: charge of £3.5 million) arose in relation to all the items excluded from headline profit before tax noted above.

Profit attributable to equity holders

Headline profit attributable to equity holders for 2008 was £124.6 million (2007: £107.0 million), with the £17.6 million increase over 2007 principally arising from the significant increase in headline profit before tax. Profit attributable to minority interests of £3.3 million was broadly in line with 2007.

After taking account of all items excluded from headline profit before tax noted above (net of the related tax impact), the Group recorded a profit of £49.4 million for 2008, £58.5 million lower than the £107.9 million profit recorded in 2007.

Return on investment (ROI)

The Group's post-tax ROI in 2008 was 8.2%, below the 9.8% reported in 2007 reflecting the deterioration in end-market conditions in the fourth quarter of the year. The Group's post-tax cost of capital ("WACC") is approximately 9.0%.

Earnings per share (EPS)

The average number of shares in issue during 2008 was 1,407.8 million, 101.6 million higher than for 2007 principally reflecting the full year impact of the placing of 123.4 million new shares on 11 October 2007. The average number of shares in issue used in the calculation of EPS for all years has been multiplied by an adjustment factor to reflect the bonus element in the 2,551.3 million shares issued in respect of the rights issue announced on 29 January 2009. The adjustment factor used was 6.6391.

Headline EPS, based on the headline profit attributable to equity holders divided by the average number of shares in issue, amounted to 8.9 pence per share in 2008, an increase of 9% on the restated 8.2 pence for 2007. Excluding the impact of the rights issue made subsequent to the year-end, headline earnings per share in 2008 would have been 58.8 pence.

The Board believes the basis of calculating EPS on a 'headline' basis is an important measure of the underlying earnings per share of the Group. Basic EPS, based on the net profit attributable to parent company equity holders, was 3.3 pence (2007: 8.0 pence).

Dividend

For 2007 (adjusted for the impact of the bonus element of the rights issue in March 2009), the Company paid a total dividend of 1.96 pence per share; an interim dividend of 0.64

pence per share was paid in October 2007; and a final dividend of 1.32 pence per share was paid in June 2008.

For 2008 (and adjusted for the impact of the bonus element of the rights issue in March 2009), an interim dividend of 0.88 pence per share was paid in October 2008. Whilst the Group reported a good improvement in underlying earnings for 2008, the very significant deterioration in end-market conditions in the fourth quarter of 2008 and the beginning of 2009, has resulted in the Board's decision not to recommend a final dividend for 2008 to shareholders. As a result, total dividends for the year consist only of the interim dividend of 0.88 pence per ordinary share which was paid in October 2008.

A decision to resume dividend payments will be made once a clear recovery can be seen in our 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 2008, the Group generated £120.4 million of net cash inflow from operating activities, £51.0 million higher than in 2007. This net increase principally arose from:

	2008 £m	2007 £m	Change £m
EBITDA	263.5	204.3	59.2
Trade and other working capital	(8.9)	(44.8)	35.9
Cash outflow related to assets and liabilities held for sale	-	(1.5)	1.5
Restructuring and integration costs paid	(23.0)	(14.7)	(8.3)
Additional pension contributions	(25.0)	(28.1)	3.1
Net interest paid	(34.2)	(19.1)	(15.1)
Taxation paid	(52.0)	(26.7)	(25.3)
Net cash inflow from operating activities	120.4	69.4	51.0

The £8.9 million cash outflow in respect of trade and other working capital was significantly lower than the £44.8 million outflow in 2007 as a result of both the significantly lower level of trading activity in the fourth quarter of 2008 as a result of the deterioration in end-markets and also lower metal prices towards the end of the year (notably for silver and tin) in the Assembly Materials sector. These factors were partially offset by the build up of raw material inventories in the Ceramics division in the second half of 2008, driven by concerns over raw material shortages caused by the Beijing Olympics and the prevailing high commodity prices at the time. These higher inventory levels are expected to unwind during the first half of 2009.

The significant reduction in revenue in the fourth quarter of 2008 resulted in the ratio of average trade working capital to sales for 2008 deteriorating by 1.2 percentage points to 24.2% compared to 2007.

Cash outflow for restructuring and integration was £23.0 million related to programmes that were initiated either in 2008 or prior years. Of the total cash outflow for restructuring and integration, £14.8 million related to the Ceramics division, of which all related to Foseco. A cash outflow for restructuring and integration of around £35 million is expected in 2009 relating both to the completion of the programmes initiated in 2008 or earlier years and to the cost-saving initiatives launched at the beginning of 2009.

Net cash outflow from investing activities

Capital expenditure: payments to acquire property, plant and equipment in 2008 were £72.8 million, 22% higher than 2007 and representing 154% of depreciation (2007: 172%). Of the total payments, £57.9 million arose in the Ceramics division in respect of the completion of a number of capacity expansion projects in China, the Czech Republic, Mexico and Belgium. A cash outflow for capital expenditure of not more than £45 million is expected in 2009 reflecting the suspension of all capacity expansion projects until there is clear evidence of market recovery.

Proceeds from the sale of surplus properties: net proceeds, principally arising in Italy, were £2.2 million (2007: £10.5 million).

Sale of other investments: net proceeds of £14.7 million (2007: £nil) principally arose from the disposal of a number of investments held in the US in Rabbi Trusts. These investments were being held to fund certain non-qualified US pension plan obligations which became payable at the end of 2008.

Dividends from joint ventures: dividends of £0.4 million were received in 2008 (2007: £1.3 million) from the Chemistry product line's Japanese joint venture.

Acquisitions: net cash outflow for acquisitions in 2008 was £502.2 million and included the following:

- The acquisition of Foseco on 4 April 2008 for £484.6 million, comprising cash to acquire Foseco's shares of £496.7 million, transaction costs of £8.4 million, and cash acquired of £20.5 million. In addition to this cash outflow, Cookson also assumed Foseco's gross borrowings at the date of acquisition of £126.4 million which is detailed below;
- The acquisition of an additional 20% interest in Foseco India, an Indian publicly listed company, in February 2008 for £7.3 million, including cash consideration for the shares of £6.9 million and transaction costs of £0.4 million. This transaction was required by Indian takeover regulations as a result of Cookson's acquisition of Foseco. Following the acquisition of Foseco, Cookson holds 86% of the shares of Foseco India; and

- The acquisitions in September 2008 of Ormecon GmbH and SG Blair for a combined cost of £10.3 million.

Disposals: net cash inflow from disposals in 2008 was £21.2 million, principally relating to the disposal on 16 April 2008 of Foseco's CBC business to RHI AG (gross proceeds of £8.0 million) and the disposal on 23 December 2008 of the Ceramics division's Hi-Tech ceramic filters business to Süd-Chemie AG (gross proceeds of £16.5 million).

Other investing outflows: net cash outflow from other investing activity in 2008 was £2.1 million (2007: £11.6 million) which principally comprised trailing costs of £4.9 million 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 minority shareholders, but before additional funding contributions to Group pension plans.

Free cash inflow for 2008 was £73.1 million, £25.5 million higher than 2007, due to the £51.0 million increase in net cash flow from operating activities for the reasons described above, more than offsetting the £12.9 million increase in the payments to acquire property, plant and equipment.

As in prior years, free cash flow in the second half of the year increased strongly compared with the first half due to significantly higher cash inflows from trade working capital.

Net cash flow before financing

Net cash outflow before financing for 2008 was £418.2 million, £442.4 million higher than 2007. This arose due to the cash payments in respect of the acquisition of Foseco more than offsetting the increase in free cash flow.

Cash flow from financing activities: net cash outflow from financing activities (before movement in borrowings) was £24.3 million (2007: inflow of £104.2 million), principally comprising the following:

- Cash inflow of £18.3 million (2007: outflow of £20.0 million) relating to the settlement during the year of forward foreign exchange contracts, in particular the US dollar and euro swaps which were closed out in October and November in response to the significant weakening of sterling. These forward foreign exchange contracts had been taken out to broadly 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;
- Payments of £3.9 million to acquire Cookson Group plc shares for the purpose of satisfying the vesting of shares under the Group's Long-Term Incentive Plan;

- Payments of £6.0 million (2007: £4.8 million) in respect of the transaction costs for the £790 million committed bank facility entered into in October 2007; and
- Dividend payments to equity shareholders of £31.0 million in respect of the 2007 final dividend of 1.32 pence per share in June 2008 and the 2008 interim dividend of 0.88 pence per share in October 2008.

Net cash flow and movement in net debt: net cash outflow for 2008 (before movement in borrowings) was £442.5 million, £570.9 million higher than 2007.

With a £117.4 million negative foreign exchange adjustment, £128.1 million of gross borrowings assumed on acquisitions (of which £126.4 million was Foseco-related), and £6.9 million of other non-cash movements, the net cash outflow resulted in an increase in net debt of £681.1 million to £731.7 million. The negative translation impact arose principally as a result of the significant weakening of sterling against most major currencies between 1 January and 31 December, 2008. Between these two dates, sterling weakened 24% against the euro, 27% against the US dollar and 32% against the Chinese renminbi.

Group borrowings

The net debt of £731.7 million as at 31 December 2008 was primarily drawn on available medium to long-term committed facilities of just over £0.9 billion. The Group's net debt comprised the following:

	31 December 2008	31 December 2007
	£m	£m
US Private Placement loan notes	250.4	183.0
Committed bank facility	565.5	13.0
Lease financing	4.8	1.5
Other loans, overdrafts, other	26.8	20.5
Gross borrowings	847.5	218.0
Cash and short-term deposits	(115.8)	(167.4)
Net Debt	731.7	50.6

The US Private Placement loan notes, currently US\$365 million, are repayable in three tranches; US\$40 million in November 2009, US\$135 million in May 2010 and US\$190 million in May 2012.

In October 2007, the Group entered into a new multi-currency, committed bank facility for approximately £790 million, raised for the purpose of the acquisition of Foseco. This facility was used, in combination with the net proceeds of £151 million from the share placing on 11 October 2007, to finance the acquisition of Foseco in April 2008. This included the refinancing of the existing committed bank facilities of Cookson and Foseco. This facility was originally repayable in three tranches; £75.0 million and €37.5 million in October 2010, £75.0 million and €37.5 million in October 2011 and £500.0 million and €75.0 million in October 2012.

On 6 March 2009, the Group came to an agreement with our banks whereby the Group agreed to prepay in March 2009 the £75.0 million and €37.5 million repayments originally due in October 2010. In exchange for this the banks have rescheduled the tightening of the net debt to EBITDA covenant. As a result, the covenant test will now be 3.5 times (previously 3.0 times) at 30 June 2009 and 31 December 2009, reverting to 3.0 times as at 30 June 2010 and thereafter.

For 2008, the Group's EBITDA to interest on borrowings ratio was 7.6 times (as compared with not less than 4.0 times for bank covenant purposes) and the net debt to EBITDA ratio (on a pro-forma basis reflecting the acquisition of Foseco) was 2.6 times.

On 4 March 2009, the Group completed a rights issue which raised £241 million of cash proceeds (net of expenses of £14 million). The rights issue resulted in the issue of 2,551 million new shares at an issue price of 10 pence with the shares being issued on the basis of 12 new shares for every 1 existing share.

Currency

The weakening of sterling during 2008, particularly in the second half of the year, had a marked impact on the average exchange rates used to translate the Group's overseas results into sterling for 2007 and 2008. Between these years, the average exchange rates for sterling weakened against most European currencies (notably the euro by 14%, the Polish zloty by 20% and the Czech Republic koruna by 23%), as well as against the US dollar (by 7%), the Chinese renminbi (by 15%) and the Brazilian real (by 14%).

In 2008, the net translation impact of currency changes compared to 2007 was to increase revenue by around £175 million and trading profit by around £25 million.

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 defined benefit post-retirement arrangements, being principally healthcare plans in the US. The Group's UK defined benefit pension plans, including that of Foseco, are closed to new members and its major defined benefit pension plans in the US, including Foseco, are now closed to new members and to further accrual for existing members.

As at 31 December 2008, a net liability of £95.3 million was recognised in respect of employee benefits, a similar level to the £96.1 million as at 31 December 2007, notwithstanding the inclusion of Foseco's net employee deficit, which totalled £54.9 million as at 31 December 2008. The increase in the Group's net liability as a result of the Foseco acquisition has been more than offset in the year by the effects of the increase of the prescribed discount rates used to calculate the present value of future liabilities and, in respect of Cookson's main UK defined benefit pension plan ("the UK Plan"), the additional 'top-up' funding payments made throughout 2008.

The total Group net liability comprises a surplus of £70.6 million, relating almost entirely to the UK Plan, together with a deficit of £165.9 million, of which £89.5 million relates to the Group's defined benefit pension plans in the US, £47.3 million to pension arrangements in other countries, and £29.1 million 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). These payments had been made at a rate of £26.5 million per annum from February 2006 and became £14.0 million per annum with effect from 1 September 2008. Since the end of 2008, the Group has again consulted with the Trustee and both have agreed to a change to the existing schedule of 'top-up' payments, such that no further additional payments will be made from January 2009 until July 2010, or until such earlier time as the Group announces that it is to recommence payment of dividends to shareholders. Upon additional payments being recommenced, these will amount to a maximum of £16.3 million per annum until June 2015. A new triennial funding valuation is due for the UK Plan as at the end of 2009, based upon which the Company and Trustee expect to agree a new schedule of contributions to commence in July 2010.

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 significantly lower than the value of the actual underlying economic liabilities. As at the end of 2008, an interim funding valuation (incorporating the UK Plan's economic liabilities) showed a funding ratio of 85%, but the IAS 19 valuation reflected a funding surplus, giving a ratio of 120%. This represents a valuation difference of £141 million, of which some £30 million 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.

PRINCIPAL RISKS AND UNCERTAINTIES

Throughout its global operations, Cookson faces various risks, both internal and external, which could have a material impact on the Group's long-term performance. Cookson manages the risks inherent in its operations in order to mitigate exposure to all forms of risk, where practical, and to transfer risk to insurers, where cost effective. The risks below are not the only ones that the Group will face. Some risks are not yet known and some that are not currently deemed material could later turn out to be material. All of these risks could materially affect the Group, its business, results of future operations or financial condition.

The financial performance and financial position of Cookson may continue to be adversely affected by the recent weakening in demand in its core end-markets

With operations worldwide, the Group's businesses are subject to various risks inherent in their international operations, including economic, political and operational risks. The global financial system has been experiencing severe difficulties since August 2007 and, in particular, financial markets have deteriorated dramatically since the bankruptcy filing by Lehman Brothers in September 2008. This has led to a severe dislocation of financial markets around the world and unprecedented levels of illiquidity in the global financial system. In response to market instability and illiquidity, a number of governments, including those of the UK, other EU member states and the US, have intervened in order to inject capital into, and generate additional liquidity in, financial markets to promote stability, and, in some cases, to prevent the failure of financial institutions. Despite such measures, the volatility and disruption of the capital and credit markets have continued at unprecedented levels. The deterioration in financial markets is impacting the wider global economy and recessionary conditions are present in the UK, other EU member states and the US, as well as in other countries where Cookson operates. The deteriorating economic situation has been evidenced by the very significant reduction in global steel production which occurred during the fourth quarter of 2008 and which has had a very significant negative impact on demand for Cookson's ceramic refractory products which are consumable products used in the production of steel and which represent Cookson's largest single end-market. There is currently considerable uncertainty as to the timing and strength of any upturn in global steel production, and hence demand for Cookson's ceramic refractory products. End-market conditions in industries that are important for Cookson's other businesses, notably consumer electronics, automotive, foundry castings and retail jewellery, are also currently weak.

The precise nature of all the risks and uncertainties Cookson faces as a result of the current global financial and economic crisis cannot be predicted and many of these risks are outside Cookson's control. If these levels of market disruption and volatility continue, worsen or are extended, Cookson may experience further reductions in trading activity, a lower share price, the financial failure of one or more of its key customers and suppliers, asset impairments, lower profitability and a material adverse impact on its financial position. Even if the current market disruption and volatility abates, a global recession or deeper recessionary conditions in one or more countries significant to Cookson's businesses may adversely impact Cookson's earnings and financial position.

Cookson's main businesses have very short-term order books which limits management's visibility for forecasting purposes and hence required management actions may change

Cookson's divisions predominantly supply consumable products, on short lead times, to the global steel, foundry, electronics and precious metals industries. As such the Group's expectations of future trading are based upon the Directors' assessment of end-market conditions, which conditions are subject to greater uncertainty than usual in the current economic climate. This assessment, in turn, sets the context in which management has developed its planned cost-reduction and restructuring actions and measures to respond to market conditions. In the event that end-market conditions evolve outside the range of current expectations, the required management actions may have to be substantially modified from those currently envisaged, involving significant additional costs and adversely impacting the Group's financial position and which may include management having to deal with there being insufficient headroom under the financial covenants in Cookson's debt facilities.

Cookson's cash generation and restructuring plans may not achieve their goals and may cost more than anticipated

Cookson has initiated various cash generation and restructuring actions which are described in the Operating Review. In total, this cost saving programme is expected to result in annualised savings of £40 million (of which £30 million is anticipated to be realised in 2009 and an incremental £10 million in 2010), with associated one-off cash costs of £27 million being incurred in the first half of 2009. However, there can be no assurance that the restructuring costs will not exceed present expectations or that expected savings will be realised. Additionally, the cost savings may take longer to realise than expected. In particular, a number of issues may result in cost overruns or cost savings being reduced or taking longer to achieve than expected, for example, certain restructuring actions are subject to matters which are not within the control of the Group; such as works council consultation or labour laws which may delay redundancy plans. If

the restructuring costs escalate and/or the Group fails to achieve the expected savings in the expected timeframe, this could adversely impact the Group's future prospects and results of operations.

Financial indebtedness could limit Cookson's operational flexibility, particularly in the difficult economic and industry conditions

The existing level of Cookson's financial indebtedness and gearing, combined with covenants contained in its principal debt facility agreements, could: limit flexibility in the management of the Group; place Cookson at a competitive disadvantage compared to any competitors that have less debt; increase Cookson's vulnerability to, and limit its ability to withstand, continued adverse economic and industry conditions as well as to withstand downturns in demand for its products; and affect its ability to obtain raw materials, particularly precious metals, on a consignment basis. Cookson has no significant debt maturities in 2009 and intends to reduce and/or refinance its financial indebtedness on commercially acceptable terms when it falls due beyond the next 12 months. If it is unable to do this, its future prospects, financial position and results of operations may be materially adversely affected.

The Group's financial position and trading results may be adversely affected by fluctuations in exchange rates, interest rates or the rate of inflation

The Group has no control over changes in foreign currency exchange rates, or inflation and interest rates. In the normal course of business, many transactions are carried out by Group businesses in currencies other than their reporting currency, leading to transactional foreign exchange risk, although these are not material for the Group overall. It is Cookson's policy that foreign currency transaction exposures that are material at an individual operating unit level are hedged using appropriate instruments such as forward foreign exchange contracts. The Group does not currently hedge translation exposures arising on unremitted non-UK earnings. While the Group attempts to manage transactional and balance sheet translation risks associated with currency exchange rate fluctuations through its hedging and funding policies, fluctuations in the value of currencies in which it operates may nevertheless adversely impact the Group's financial position, results of operations and ability to comply with its financial covenants. Where appropriate, the Group manages its interest rate exposures using interest rate swap agreements or other instruments; however fluctuations in interest rates could materially adversely impact the Group's results of operations.

A withdrawal or reduction of precious metal consignment arrangements, or increased metal prices resulting in consignment lines being fully utilised, may cause a shortage of raw materials or may require precious metals to be supplied in a way which would materially increase the Group's financial indebtedness

The Group's precious metal fabrication operations utilise significant quantities of precious metals, primarily gold by value. These metals are held predominantly on consignment under arrangements the terms of which provide, inter alia, that the consignor retains title to the metal and has a right of return over the metal without penalty unless the consignee purchases such metal at a market price for such metal plus a premium. Consignors are party to either committed or uncommitted arrangements. Under uncommitted arrangements, the consignor has no obligation to supply the precious metal to the Group's fabrication operations and has the right, with limited or in some cases no notice, to demand physical return or purchase of its consigned metal. As the consignors retain title and associated risks and benefits of ownership under these arrangements, the physical metal so held is not recorded in the Group balance sheet.

The utilisation of consigned precious metals is established practice in the precious metals industry. Should precious metals consignors decide to reduce or withdraw the facilities for whatever reason, or require a return of the consigned metal, or increased metal prices lead to the consignment arrangements becoming fully utilised, the Group's precious metal fabrication operations may suffer shortages of raw materials or may require precious metals to be supplied in a way which would materially increase the Group's financial indebtedness. In either case, the Group's business, financial position and results of operations may be materially adversely affected.

The Group's worldwide operations and businesses may be adversely affected by various political, legal, regulatory and other developments in countries in which it operates

Political risks include the imposition of trade barriers, changes of regulatory requirements and the volatility of input costs, selling prices, taxes and currencies. The Group is subject to various legal and regulatory regimes, including those covering taxation and environmental matters. Future global political, legal or regulatory developments concerning the businesses may affect the businesses' ability to operate and to operate profitably in the affected jurisdictions. Should the Group's businesses fail to comply with applicable legal and regulatory requirements, this may result in a financial loss or restriction on the businesses' ability to operate.

The Group's businesses are subject to a variety of operational risks, including the risk of possible natural catastrophe, terrorist action and fraud. If any of the operational risks materialise, this could result in a substantial interruption to a facility, a potential loss of customers and revenue and financial loss, which could have a material adverse effect on the Group's future prospects, financial position and results of operations.

The Group may suffer losses should a counterparty fail to perform as contracted

The Group transacts business with and through a number of counterparties, including customers, suppliers, financial institutions and insurers. The financial failure of one or more of the Group's key customers and suppliers may result in financial loss, loss of future business and a shortage of raw material supplies. In managing the risks inherent in its operations, Cookson transfers risk to insurers where cost effective and, accordingly, the financial failure of one or more insurers used by the Group may result in a financial loss to Cookson.

Cash deposits and other financial instruments held with or through financial institutions give rise to credit risk, represented by the loss that would be recognised should a counterparty fail to perform as contracted. It is Cookson's policy to limit the latter counterparty exposure by dealing with reputable financial institutions and monitoring the credit ratings of those counterparties on a regular basis in accordance with Board-approved guidelines. However there can be no assurance that this policy will effectively eliminate such exposure. Any counterparty default may have a material adverse effect on Cookson's future prospects, results of operations and financial condition.

The Group may lose customers to competitors with new technologies if its businesses do not adequately adapt to market developments

The Group supplies materials and services primarily to the steel, foundry and electronics industries on a global basis and to the jewellery industry primarily in the US and Europe. The markets in which many of the Group's businesses operate can experience rapid changes due to the introduction of new technologies. The Group's continued success depends upon its ability to continue to develop and produce new and enhanced products and services on a cost effective and timely basis in accordance with customer demands. In addition, the markets for the Group's products are competitive in terms of pricing, product and service quality, product development and introduction time, customer service, financing terms and other similar factors. Cookson invests significant amounts in research and development to sustain its competitive advantage and takes appropriate action to ensure that its cost base remains competitive. If the Group fails to adequately adapt to market developments related to new products and technology, it could lose customers to suppliers with new technology which allows them to supply customers with better products or products which can be supplied more cheaply and/or easily than Cookson's products. Alternatively or additionally, the Group could fail to achieve its anticipated returns on the amounts it has invested in research and development. These outcomes could have a material adverse effect on the Group's future prospects, financial position and results of operations.

The Group's future prospects, financial position and results of operations could be adversely affected if it is unable to pass on to its customers fluctuations in the prices of the raw materials which it purchases

Tin, solvents, alumina, graphite, silver and gold are among the principal raw materials that the Group purchases. The Group's businesses may be affected by fluctuations in the price and supply of such raw materials. The Group's ability to pass on increases or decreases in the cost of raw materials to its customers is, to a large extent, dependent upon market conditions, established market practice and terms of trade. If the Group's ability to pass on increases in the cost of raw materials is limited, this could have a material adverse effect on the Group's future prospects, financial position and results of operations.

The Group's financial condition may be materially adversely affected by any significant liabilities for any defects of its products or services

A large proportion of the Group's products are used in the manufacturing processes of the Group's industrial customers. If a product of the Group or of one of the Group's industrial customers does not conform to agreed specifications or is otherwise defective, the Group may be subject to claims by its customers arising from end-product defects, injury to individuals or other such claims.

The Group's current and former businesses have used and/or continue to use a wide range of hazardous materials, in the manufacture of industrial and consumer products. Legal claims have been brought against certain Group companies by third parties alleging that persons have been harmed by exposure to such materials, and further claims may be brought in the future. Certain of the Group's subsidiaries are subject to suits, predominantly in the US, relating to products containing asbestos manufactured prior to the acquisition of those subsidiaries by the Group. These suits usually also name many other product manufacturers. To date, the Group is not aware of there being any liability verdicts against any of these subsidiaries. Provision is made for amounts payable in respect of known or probable costs. Management believes, taking into account legal advice received, the Group's insurance arrangements, indemnification provided by former owners of certain of the subsidiaries impacted and financial provisions, that none of the currently pending or potential claims will, either individually or in the aggregate, have a material adverse impact on the Group's financial position and results of operations. However, the outcome of legal action is uncertain and there is always the risk that it may prove more costly than expected and exceed the level of insurance cover, indemnifications and provisions made, which may have a material adverse effect on the Group's future prospects, financial position and results of operations.

The Group may suffer a loss of future revenue or an adverse impact on its cashflows if it does not successfully integrate Foseco into its existing operational structure

The acquisition of Foseco was completed on 4 April 2008. The retained Foseco businesses are now managed within Cookson's Ceramics division. The global integration process is proceeding well, resulting in the original synergy target of £18 million of annualised cost savings being increased to a synergy target of £24 million of annualised cost savings per annum to be realised by 2010. There can be no assurance that the Group will successfully integrate Foseco into its existing operational structure. There are risks associated with diversion of management's attention from other aspects of the business, unanticipated events or liabilities, and difficulties in relation to retaining key personnel or assimilating operations. If such issues did arise, they may have an adverse impact on Cookson's operating results and financial position.

If the Group fails or is unable to protect, maintain and enforce its intellectual property, the Group may lose its exclusive right to use its technologies and processes

The Group relies on a combination of trade secrets, patents, confidentiality procedures and agreements and copyright and trade mark laws to protect its proprietary rights. The existence of complex factual and legal issues may give rise to uncertainty as to the validity, scope and enforceability of a particular patent or practice. If the Group fails to or is unable to protect, maintain and enforce its existing intellectual property, this may result in the loss of the Group's exclusive right to use technologies and processes which are included or used in its businesses. In addition, the laws of certain foreign countries in which the Group operates may not protect proprietary rights to the same extent as those of the UK or the US.

The Group has applied for patents in a number of jurisdictions, including in Europe and the US. These applications are at various stages in the application process and patents may not be issued, or may be issued in a form narrower than the Group's applications. If some of the patents or patent applications are not granted, expire or are successfully attacked, the Group may be unable to exclude competitors from using the technology covered by them.

The Group has also acquired patents and patent applications from other parties. The Group could become subject to lawsuits in which it is alleged that it has infringed the intellectual property rights of others or the Group could commence lawsuits against others whom it believes are infringing upon its rights. The Group's involvement in intellectual property litigation could result in significant expense, materially adversely affecting the development of sales of the challenged product or intellectual property and/or diverting the efforts of the Group's technical and management personnel.

Future expenditure on compliance with environmental and health and safety laws and regulations may materially adversely affect the Group's future prospects, financial position and results of operations

The Group is subject to applicable laws and regulations in all of the jurisdictions in which it operates, including those relating to pollution, the protection of the environment, human health and safety, the disposal of hazardous substances and waste materials and remediation of any land or water contaminated by such substances. Violations of legal or other regulatory requirements could result in restrictions on operations, the imposition of more stringent permitting conditions, damages, fines or other sanctions all of which may have a material adverse effect on the Group's future prospects, financial position and results of operations. While the Board believes that the current and expected expenditures and risks connected with these and potential future liabilities are unlikely to impair the Group's financial position materially, there can be no assurance that the costs related to such liabilities will not exceed current or future financial and insurance provisions which may result in a material adverse effect on the Group's future prospects, financial position and results of operations.

The Group's financial position and results of operations may be materially adversely affected by any significant liabilities arising pursuant to indemnities or breaches of representations or warranties in contracts for the divestment of certain of its former companies and businesses

The Group has divested its interests in certain companies and businesses and has given indemnifications, representations and warranties with respect to the businesses of the divested companies at the time of their divestment. Management believes that sufficient provisions are in place to meet possible claims resulting from these indemnifications, representations and warranties, however, significant liabilities arising out of these transactions may arise in the future which have not been provided for and the emergence of such liabilities may have a material adverse effect on the Group's financial position and results of operations.

The funding level of the Group's pension plans and the Group's liabilities in respect of its post-retirement healthcare plans may be detrimentally affected by adverse changes in the actuarial assumptions underlying the plan liabilities and/or a decline in the market value of plan investments

The Group operates defined benefit pension and other post-retirement plans, principally in the UK and the US, the valuation of which resulted in a net deficit of £95.3 million as at 31 December 2008. The Group's largest defined benefit pension plans are in the UK and the US, each of which is closed to new members, with the Group's largest US plans also being closed to further benefit accrual for existing members. The Group's main pension plan is its UK Plan. The calculation of plan liabilities using a discount rate based on the yield on high quality corporate bonds, as required by international accounting standards, resulted in a surplus of £70.0 million being reported for the UK Plan as at 31

December 2008. The use of a lower discount rate for actuarial valuation and funding purposes results in the UK Plan being in deficit and a deficit-reduction plan has been agreed with the UK Plan Trustee under which additional future cash contributions will be made which have been calculated to reduce to zero the deficit calculated in the last formal actuarial valuation of the UK Plan. To reduce future volatility in the UK Plan deficit, the UK Plan Trustee, with support from Cookson, entered into swap arrangements and an equity hedge in 2006 to mitigate the impact of changes in interest rates and inflation on the UK Plan's liabilities and volatility in the equity performance of the plan's assets.

The funding level of the Group's pension plans and the Group's liabilities in respect of its post-retirement healthcare plans are subject to adverse change resulting from movements in the actuarial assumptions underlying the calculation of plan liabilities, including decreasing discount rates, increasing longevity of plan members and, in the case of pension plans, a decline in the market value of plan investments. Adverse changes in these underlying factors could materially impact the Group's financial position.

Additional funding contributions into the Group's main UK pension plan may need to be made in response to a request from the plan Trustee should the Group's financial position deteriorate to a level which, in the opinion of the Trustee, materially impacts its financial covenant from Cookson

The Trustee of the Group's main UK pension plan is responsible, in consultation with Cookson, for setting the level of funding contributions into the plan. The schedule of contributions currently in place aims at funding, by the end of June 2015, the plan deficit disclosed in the most recent actuarial valuation. This schedule of contributions is underwritten by the Trustee's assessment of the strength of the employer's covenant between Cookson and the Trustee, being the Trustee's assessment of Cookson's ability to meet those future funding payments as they fall due. Should Cookson's financial position deteriorate materially for whatever reason, the Trustee may demand, in consultation with Cookson, an increase in funding contributions to fund part or the whole of any outstanding funding deficit in the plan at that time. Additional funding contributions paid to meet such a demand could have a material adverse impact on the financial position of Cookson.

Depending on performance and market conditions, Cookson may not pay out cash dividends in the foreseeable future, or may pay out smaller dividends than the market expects

The Board has recently reviewed Cookson's near-term dividend policy in response to the ongoing global financial crisis and increasingly challenging trading conditions. As a consequence no final dividend for the 2008 financial year will be recommended to Shareholders. The decision as to whether to declare an interim dividend in respect of the 2009 financial year will be made in August 2009 and will be based on the Group's trading and financial position and the global economic outlook at that time. Cookson intends to suspend the payment of dividends until there is clear evidence of market recovery. There can be no assurance as to whether cash dividends or similar payments will be paid out in the foreseeable future or of their amount.

For further information please contact:

Shareholder/analyst enquiries:

Nick Salmon, Chief Executive	Cookson Group plc
Mike Butterworth, Group Finance Director	Tel: + 44 (0)20 7822 0000
Anna Hartropp, Investor Relations Manager	

Media enquiries:

John Olsen	Hogarth Partnership
	Tel: +44 (0)20 7357 9477
	+ 44 (0)7770 272082

Copies of Cookson's 2008 Annual Report are due to be posted to shareholders of the Company who have elected to receive a hard copy on 9 April 2009 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 9 March 2009 at 9.00am (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.

Cookson Group plc, 165 Fleet Street, London EC4A 2AE
Registered in England and Wales No. 251977
www.cooksongroup.co.uk

Group Income Statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue	2	2,202.5	1,619.5
Manufacturing costs - raw materials		(1,107.2)	(797.4)
- other		(508.1)	(370.6)
Administration, selling and distribution costs		(370.9)	(281.9)
Trading profit	2	216.3	169.6
Restructuring and integration costs	3	(39.6)	(5.8)
Inventory fair value adjustment	4	(2.6)	-
Profit relating to non-current assets	5	3.4	7.0
Amortisation and impairment of intangible assets	14	(52.5)	-
Curtailment gains relating to employee benefits	6	6.0	1.0
Profit from operations	2	131.0	171.8
Finance costs - ordinary activities	7	(85.3)	(50.9)
- exceptional items	7	(2.2)	-
Finance income	7	44.5	29.4
Share of post-tax profit of joint ventures		0.7	1.7
Net profit/(loss) on disposal of continuing operations	8	0.9	(0.4)
Profit before tax		89.6	151.6
Income tax costs - ordinary activities	9	(48.3)	(39.9)
- exceptional items	9	8.1	(3.5)
Discontinued operations	10	-	(0.3)
Profit for the year		49.4	107.9
Profit for the year attributable to:			
Equity holders of the parent company		46.1	105.0
Minority interests		3.3	2.9
Profit for the year		49.4	107.9
Headline profit before tax	1		
Trading profit		216.3	169.6
Net finance costs - ordinary activities		(40.8)	(21.5)
Share of post-tax profit of joint ventures		0.7	1.7
Headline profit before tax	1	176.2	149.8
Income tax costs - ordinary activities		(48.3)	(39.9)
Profit attributable to minority interests		(3.3)	(2.9)
Headline profit attributable to equity holders of the parent company		124.6	107.0
Earnings per share from continuing operations, as restated	11		
Basic earnings per share (pence)		3.3	8.0
Diluted earnings per share (pence)		3.3	8.0
Headline earnings per share from continuing operations, as restated	1, 11		
Basic earnings per share (pence)		8.9	8.2
Diluted earnings per share (pence)		8.8	8.2
Weighted average number of ordinary shares, as restated (millions)	11	1,407.8	1,306.2

Group Statement of Cash Flows

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Profit/(loss) from operations - continuing operations		131.0	171.8
- discontinued operations		-	(0.2)
Adjustments for:			
Restructuring and integration costs		39.6	5.8
Inventory fair value adjustment		2.6	-
Profit relating to non-current assets		(3.4)	(7.0)
Amortisation and impairment of intangible assets		52.5	-
Curtailement gains relating to employee benefits		(6.0)	(1.0)
Depreciation		47.2	34.9
EBITDA	1	263.5	204.3
Net increase in trade and other working capital		(8.9)	(44.8)
Net operating outflow related to assets and liabilities classified as held for sale		-	(1.5)
Outflow related to restructuring and integration costs	3	(23.0)	(14.7)
Additional funding contributions into Group pension plans		(25.0)	(28.1)
Cash generated from operations		206.6	115.2
Interest paid		(41.4)	(24.9)
Interest received		7.2	5.8
Income taxes paid		(52.0)	(26.7)
Net cash inflow from operating activities		120.4	69.4
Cash flows from investing activities			
Purchase of property, plant and equipment		(72.8)	(59.9)
Proceeds from the sale of property, plant and equipment		2.2	10.5
Proceeds from the sale of investments		14.7	-
Purchase of property classified as held for sale		-	(9.0)
Proceeds from the sale of property classified as held for sale		-	12.7
Acquisition of subsidiaries and joint ventures, net of cash acquired	13	(502.2)	(14.0)
Disposal of subsidiaries and joint ventures, net of cash disposed of		21.2	24.8
Dividends received from joint ventures		0.4	1.3
Other investing outflows, including additional costs for prior years' disposals		(2.1)	(11.6)
Net cash outflow from investing activities		(538.6)	(45.2)
Net cash (outflow)/inflow before financing activities		(418.2)	24.2
Cash flows from financing activities			
Repayment of borrowings		-	(93.0)
Increase in borrowings	16	365.6	14.2
Settlement of forward foreign exchange contracts		18.3	(20.0)
Proceeds from the issue of share capital		0.1	152.5
Purchase of treasury shares		(3.9)	-
Proceeds from the sale of treasury shares		0.3	-
Borrowing facility arrangement costs		(6.0)	(4.8)
Dividends paid to equity shareholders	12	(31.0)	(21.7)
Dividends paid to minority shareholders		(2.1)	(1.8)
Net cash inflow from financing activities		341.3	25.4
Net (decrease)/increase in cash and cash equivalents	16	(76.9)	49.6
Cash and cash equivalents (including bank overdrafts)			
Cash and cash equivalents at 1 January		153.2	105.0
Effect of exchange rate fluctuations on cash and cash equivalents		29.3	(1.4)
Net (decrease)/increase in cash and cash equivalents	16	(76.9)	49.6
Cash and cash equivalents at 31 December		105.6	153.2
Free cash flow			
Net cash inflow from operating activities		120.4	69.4
Additional funding contributions into Group pension plans		25.0	28.1
Purchase of property, plant and equipment		(72.8)	(59.9)
Proceeds from the sale of property, plant and equipment		2.2	10.5
Dividends received from joint ventures		0.4	1.3
Dividends paid to minority shareholders		(2.1)	(1.8)
Free cash flow	1	73.1	47.6

Group Balance Sheet

As at 31 December 2008

	Notes	2008 £m	2007 £m
Assets			
Property, plant and equipment		446.6	254.7
Intangible assets	14	1,187.6	430.8
Employee benefits - net surpluses	17	70.6	-
Interests in joint ventures		22.2	14.2
Investments		10.2	16.3
Income tax recoverable		-	3.0
Deferred tax assets		14.8	8.9
Other receivables		12.1	7.6
Total non-current assets		1,764.1	735.5
Cash and short-term deposits	16	115.8	167.4
Inventories		331.6	201.4
Trade and other receivables		479.0	355.9
Income tax recoverable		1.0	0.8
Derivative financial instruments		6.7	0.3
Assets classified as held for sale		0.3	-
Total current assets		934.4	725.8
Total assets		2,698.5	1,461.3
Equity			
Issued share capital		21.3	21.3
Share premium account		8.1	8.0
Other reserves		192.1	(0.2)
Retained earnings		753.1	724.9
Total parent company shareholders' equity	15	974.6	754.0
Minority interests	15	17.6	11.9
Total equity	15	992.2	765.9
Liabilities			
Interest-bearing loans and borrowings	16	786.4	199.3
Employee benefits - net liabilities	17	165.9	96.1
Other payables		23.7	13.0
Provisions		37.7	24.5
Derivative financial instruments		24.3	-
Deferred tax liabilities		134.5	23.5
Total non-current liabilities		1,172.5	356.4
Interest-bearing loans and borrowings	16	61.1	18.7
Trade and other payables		344.6	258.6
Income tax payable		59.3	41.5
Provisions		29.5	17.9
Derivative financial instruments		39.3	2.3
Total current liabilities		533.8	339.0
Total liabilities		1,706.3	695.4
Total equity and liabilities		2,698.5	1,461.3
Net debt			
Interest-bearing loans and borrowings - non-current		786.4	199.3
- current		61.1	18.7
Cash and short-term deposits		(115.8)	(167.4)
Net debt	1,16	731.7	50.6

Group Statement of Recognised Income and Expense

For the year ended 31 December 2008

	2008 £m	2007 £m
Exchange differences on translation of the net assets of foreign operations	377.8	27.3
Exchange translation differences arising on net investment hedges	(166.8)	(10.1)
Change in fair value of cash flow hedges	(11.7)	(0.3)
Actuarial gain on employee benefits plans	33.7	23.5
Change in fair value of available-for-sale investments recognised directly in equity	2.5	1.0
Change in fair value of available-for-sale investments transferred to profit for the year	(6.5)	-
Income tax on items recognised directly in equity	(20.5)	(0.3)
Net income recognised directly in equity	208.5	41.1
Profit for the year	49.4	107.9
Total recognised income and expense for the year	257.9	149.0
Total recognised income and expense for the year attributable to:		
Equity holders of the parent company	252.2	145.0
Minority interests in - profit for the year	3.3	2.9
- foreign exchange translation differences	2.4	1.1
Total recognised income and expense for the year	257.9	149.0

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 2008 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 9 March 2009. The financial information set out in this annual results announcement does not constitute the Company's statutory accounts for the year ended 31 December 2008, but is derived from those accounts. An unqualified audit report was issued on the statutory accounts for 2008, 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 2007 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 237(2) or (3) of the Companies Act 1985. 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

IFRIC 14, *The limit on a defined benefit asset, minimum funding requirements and their interaction*, came into effect on 1 January 2008 and clarifies the extent to which an asset can be recognised in respect of a surplus in a defined benefit pension plan.

IFRS 8, *Operating Segments*, which is effective for accounting periods beginning on or after 1 January 2009, has been early adopted by the Group. IFRS 8 sets out requirements for disclosure of financial information about the Group's operating segments and replaces International Accounting Standard ("IAS") 14, *Segment Reporting*. IFRS 8 requires segment information to be disclosed based upon the Group's internal reporting to management.

Neither of these changes in accounting policy has an impact upon the Group's previously reported net cash flows, financial position, total recognised income and expense or earnings per share.

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

The Directors have prepared cash flow forecasts for the Group for a period in excess of twelve months from the date of approval of these 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 our current assessment. Such measures include further reductions in costs, further reductions in capital expenditure and further reductions in those items of working capital within management's control.

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

1.4 CHANGE IN PRESENTATION

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

1.5 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 additional line items and the re-ordering of items presented on the face of the income statement when appropriate for a proper understanding of the entity's financial performance. In keeping with the spirit of this aspect of IAS 1, the Company has adopted a policy of disclosing separately on the face of its Group Income Statement the effect of any components of financial performance considered by the Directors to be exceptional, or for which separate disclosure would assist both in a better understanding of the financial performance achieved and in making projections of future results.

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

Notes to the financial statements

1.6 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 Group businesses.

(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, amortisation and impairment charges relating to intangible assets and curtailment gains or losses relating to employee benefits, is separately disclosed on the face of the Group Income Statement. The Directors believe that trading profit is an important measure of the underlying trading performance of the Group.

(e) Headline profit before tax

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

(f) Headline earnings per share

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

(g) Free cash flow

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

(h) Average working capital to sales ratio

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

(i) EBITDA

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

(j) Net interest

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

(k) Interest cover

Interest cover is the ratio of EBITDA to net interest. Net interest for bank covenant purposes is calculated as interest payable on borrowings less interest receivable, excluding any item therein considered by the Directors to be exceptional. 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 end of a period, to EBITDA for the preceding 12 month period. The Directors believe that net debt to EBITDA provides an important measure of the underlying financial position of the Group.

Notes to the financial statements

1.6 NON-GAAP FINANCIAL MEASURES (continued)

(n) Return on net assets

Return on net assets 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 return on net assets provides an important measure of the underlying financial performance of the Group's divisions.

(o) Return on investment

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

2. SEGMENT INFORMATION

For reporting purposes, the Group is organised into three main business segments: Ceramics, Electronics and Precious Metals. In addition, corporate costs, being the costs directly related to managing the parent company, are reported separately in the analysis of segment result. Segment revenue represents revenue from external customers; inter-segment revenue is not material. Segment result is equivalent to trading profit and includes items directly attributable to a segment as well as items that can be allocated on a reasonable basis.

2.1 SEGMENT REVENUE AND SEGMENT RESULT

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

Since its acquisition on 4 April 2008, Foseco plc ("Foseco") has contributed £361.4m of revenue and £52.8m of trading profit to the Ceramics results.

2.2 RECONCILIATION OF SEGMENT RESULT TO PROFIT BEFORE TAX

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

2.3 SEGMENT TOTAL ASSETS AND DEPRECIATION

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

The increase in total assets in the Ceramics division is primarily due to the impact of the acquisition of Foseco (note 13).

Notes to the financial statements

3. RESTRUCTURING AND INTEGRATION COSTS

The restructuring and integration costs of £39.6m (2007: £5.8m) comprise £17.1m of costs associated with the integration of Foseco into the Group's Ceramics division and £22.5m for the cost of a number of initiatives throughout the Group aimed at reducing the Group's cost base and re-aligning its manufacturing capacity. Cash costs of £23.0m were incurred in the year (2007: £14.7m) in respect of the restructuring and integration initiatives commenced both in 2008 and in prior years.

4. INVENTORY FAIR VALUE ADJUSTMENT

The value of the inventory acquired on the acquisition of Foseco (note 13) 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.

5. PROFIT RELATING TO NON-CURRENT ASSETS

Non-current assets were disposed of or written-down during the year for a net profit of £3.4m (2007: £7.0m), generating cash proceeds of £16.9m (2007: £10.5m).

6. CURTAILMENT GAINS RELATING TO EMPLOYEE BENEFITS

The curtailment gains of £6.0m in the year resulted from the disposal of Foseco's Carbon Bonded Ceramics business, the freezing of the Foseco defined benefit plans in the US and the impact of certain of the redundancy programmes initiated during the year. The curtailment gain of £1.0m in 2007 arose in relation to the UK post-retirement medical plan, resulting from a reduction in the Group's cost of providing benefits under the plan.

7. FINANCE COSTS AND FINANCE INCOME

Included within finance costs from ordinary activities of £85.3m (2007: £50.9m) is the interest cost associated with the liabilities of the Group's defined benefit pension and other post-retirement benefit plans of £33.4m (2007: £25.6m) and included within finance income of £44.5m (2007: £29.4m) is the expected return on the assets of the Group's defined benefit pension plans of £29.7m (2007: £22.6m).

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

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

The net profit on disposal of continuing operations of £0.9m (2007: £0.4m loss) related to the sale of the Group's Hi-Tech ceramic filters business, formerly part of the Ceramics division, and the sale of Foseco's Carbon Bonded Ceramics business, both of which disposals were required for compliance with anti-trust clearances in relation to the acquisition of Foseco (note 13), together with the net costs associated with a number of other small business disposals.

The net loss on disposal of continuing operations of £0.4m reported for 2007 arose on the disposal of a number of businesses from the Group's Ceramics and Electronics divisions, together with additional costs in relation to prior years' disposals.

9. INCOME TAX COSTS

The Group's total income tax cost of £40.2m (2007: £43.4m) comprises a tax charge on ordinary activities of £48.3m (2007: £39.9m), and a credit of £8.1m (2007: £3.5m charge) relating to exceptional items.

The effective tax rate for the year of 27.5% (2007: 26.9%) relates to continuing operations and is calculated by reference to the income tax charge on ordinary activities of £48.3m (2007: £39.9m) and headline profit before tax excluding the Group's share of post-tax joint venture income of £175.5m (2007: £148.1m).

The credit relating to exceptional items of £8.1m (2007: £3.5m charge) includes a credit of £2.9m (2007: £0.5m) in relation to restructuring and integration costs, a credit of £0.8m (2007: £nil) relating to the inventory fair value adjustment, a credit of £3.7m (2007: £nil) relating to the amortisation and impairment of intangible assets, a credit of £1.2m (2007: £2.8m charge) relating to deferred tax on goodwill, a charge of £0.2m (2007: £1.2m) relating to non-current assets and a charge of £0.3 (2007: £nil) relating to the profit/(loss) on disposal of continuing operations.

10. DISCONTINUED OPERATIONS

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

Notes to the financial statements

11. EARNINGS PER SHARE

The Company discloses basic and diluted earnings per share information in accordance with IAS 33 and additionally discloses basic and diluted earnings per share information based upon headline earnings (note 1.6), which the Directors believe provides an important measure of the underlying earnings capacity of the Group. The weighted average number of ordinary shares used in the calculation of earnings per share information for all years presented in this report has been multiplied by an adjustment factor to reflect the bonus element in the shares issued under the terms of the rights issue which completed on 4 March 2009. The adjustment factor used was 6.6391.

Basic earnings per share is based upon the profit for the year attributable to equity holders of the parent company, which for continuing operations was £46.1m (2007: £105.3m) and for discontinued operations was £nil (2007: £0.3m loss) and a weighted average number of ordinary shares of 1,407.8m (2007 restated: 1,306.2m). Basic earnings per share from discontinued operations for the year was nil (2007 restated: nil).

For the purposes of calculating diluted earnings per share, 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. The fully diluted weighted average number of ordinary shares in issue during the year was 1,409.1m (2007 restated: 1,309.4m). Diluted earnings per share from discontinued operations for the year was nil (2007 restated: nil).

Headline earnings per share is based upon the headline profit for the year attributable to equity holders of the parent company, which for continuing operations was £124.6m (2007: £107.0m) and for discontinued operations was £nil (2007: £0.2m loss).

12. DIVIDENDS

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

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders during the year:		
Interim dividend for the year ended 31 December 2008 of 0.88p per ordinary share	12.4	-
Final dividend for the year ended 31 December 2007 of 1.32p per ordinary share	18.6	-
Interim dividend for the year ended 31 December 2007 of 0.64p per ordinary share	-	8.2
Final dividend for the year ended 31 December 2006 of 1.05p per ordinary share	-	13.5
Total dividends paid in the year	31.0	21.7

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

13. ACQUISITIONS

13.1 ACQUISITION OF FOSECO

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

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

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

13.2 OTHER ACQUISITIONS

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

Notes to the financial statements

13.3 IMPACT OF ACQUISITIONS ON GROUP RESULTS

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

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

	Acquisition of Foseco			Other	Total
	Pre-	Fair value	Recognised	acquisitions	Group
	acquisition			Recognised	Recognised
	carrying	adjustments	values on	values on	values on
	amounts		acquisition	acquisition	acquisition
	£m	£m	£m	£m	£m
Property, plant and equipment	87.2	(1.6)	85.6	0.9	86.5
Intangible assets (note 14)	24.0	232.4	256.4	1.0	257.4
Employee benefits - net surpluses	2.4	-	2.4	-	2.4
Deferred tax assets	1.5	0.5	2.0	-	2.0
Cash and short-term deposits	20.5	-	20.5	0.4	20.9
Inventories	46.9	(1.4)	45.5	0.4	45.9
Trade and other receivables	104.7	(0.7)	104.0	1.5	105.5
Assets classified as held for sale	-	8.0	8.0	-	8.0
Interest-bearing loans and borrowings	(126.4)	-	(126.4)	(1.7)	(128.1)
Employee benefits - net liabilities	(31.8)	-	(31.8)	-	(31.8)
Deferred tax liabilities	(3.6)	(76.9)	(80.5)	-	(80.5)
Provisions	(2.4)	-	(2.4)	-	(2.4)
Trade and other payables	(71.6)	(3.2)	(74.8)	(0.8)	(75.6)
Income tax payable	(15.7)	-	(15.7)	-	(15.7)
Minority interests	(3.5)	1.4	(2.1)	-	(2.1)
Net identifiable assets and liabilities	32.2	158.5	190.7	1.7	192.4
Goodwill on acquisition (note 14)			323.3	9.0	332.3
Consideration			514.0	10.7	524.7
Consideration comprised:					
Cash			503.6	10.4	514.0
Directly attributable acquisition costs			10.4	0.3	10.7
Total consideration			514.0	10.7	524.7
Impact of acquisitions on Group cash flows:					
Cash paid - for shares			(503.6)	(10.4)	(514.0)
- for acquisition costs			(10.4)	(0.3)	(10.7)
Cash and cash equivalents acquired			20.5	0.4	20.9
Total impact of acquisitions on Group cash flows			(493.5)	(10.3)	(503.8)
Less: reported in 2007			1.6	-	1.6
Impact of acquisitions on Group cash flows			(491.9)	(10.3)	(502.2)

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

Notes to the financial statements

14. INTANGIBLE ASSETS

14.1 MOVEMENT IN NET BOOK VALUE

	31 December 2008			31 December 2007		
	Goodwill £m	Intangible assets £m	Total £m	Goodwill £m	Intangible assets £m	Total £m
Cost						
As at 1 January	430.8	-	430.8	429.0	-	429.0
Exchange adjustments	202.3	20.6	222.9	(1.4)	-	(1.4)
Acquisitions – businesses (note 13)	332.3	257.4	589.7	3.7	-	3.7
Disposals - businesses	(2.6)	-	(2.6)	(0.5)	-	(0.5)
As at 31 December	962.8	278.0	1,240.8	430.8	-	430.8
Amortisation and impairment						
As at 1 January	-	-	-	-	-	-
Exchange adjustments	-	0.7	0.7	-	-	-
Amortisation charge for the year	-	12.9	12.9	-	-	-
Impairment loss	39.6	-	39.6	-	-	-
As at 31 December	39.6	13.6	53.2	-	-	-
Net book value						
As at 31 December	923.2	264.4	1,187.6	430.8	-	430.8

14.2 AMORTISATION AND IMPAIRMENT

(a) Amortisation

Intangible assets recognised on the acquisition of Foseco and other acquisitions made in 2008 (note 13) are amortised over their useful lives as summarised below.

	Cost on acquisition £m	Useful life years	Charged in 2008 £m
Foseco - customer relationships	103.7	20	4.0
- trade name	72.4	20	2.7
- intellectual property rights	80.3	10	6.0
Other	1.0	5 to 15	0.2
	257.4		12.9

(b) Impairment

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

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

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

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

Notes to the financial statements

14.2 AMORTISATION AND IMPAIRMENT (continued)

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

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

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

For the Precious Metals cash-generating unit, which during 2008 continued to experience weakness in its jewellery end-markets in both Europe and the US, the recoverable amount was less than carrying value and an impairment loss of £39.6m has been recognised against the carrying value of its goodwill. The discount rate applied in this calculation was 14.8% (2007: 12.9%). After recording this impairment, goodwill recognised on the balance sheet for the Precious Metals cash-generating unit is £nil. The Precious Metals cash-generating unit is a separate reportable segment (note 2).

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

15. RECONCILIATION OF MOVEMENTS IN EQUITY

	Issued share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total parent company shareholders equity £m	Minority interests £m	Total equity £m
As at 1 January 2007	19.3	6.3	(17.0)	466.2	474.8	9.4	484.2
Recognised income and expense for the year	-	-	16.8	128.2	145.0	4.0	149.0
Shares issued in the year	2.0	-	-	-	2.0	-	2.0
Arising on the exercise of options	-	1.7	-	-	1.7	-	1.7
Recognition of share-based payments	-	-	-	3.4	3.4	-	3.4
Arising from issue of shares	-	-	-	148.8	148.8	-	148.8
Dividends paid	-	-	-	(21.7)	(21.7)	(1.5)	(23.2)
As at 1 January 2008	21.3	8.0	(0.2)	724.9	754.0	11.9	765.9
Recognised income and expense for the year	-	-	192.3	59.9	252.2	5.7	257.9
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)
Acquisition of minority interest	-	-	-	-	-	2.1	2.1
As at 31 December 2008	21.3	8.1	192.1	753.1	974.6	17.6	992.2

Notes to the financial statements

16. RECONCILIATION OF MOVEMENT IN NET DEBT

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

Cash acquired with acquisitions, amounting to £20.9m, is reported within the cash flow column in the table above, to be consistent with the requirements of IAS 7, *Cash Flow Statements*, whereby the cash paid for the acquisition of subsidiaries and joint ventures, as reported in the Group statement of cash flows, is reported net of cash and cash equivalents acquired.

On 10 October 2007, the Group entered into a new multi-currency committed syndicated bank facility for approximately £790m, raised for the purpose of the acquisition of Foseco. The facility was used during the year, in combination with the net proceeds from the share placing on 11 October 2007, to finance the acquisition of Foseco (note 13).

On 6 March 2009, the Group came to an agreement with the banks providing the syndicated facility whereby the Group agreed to prepay, in March 2009, the £75.0m and €37.5m tranches originally due to be repaid in October 2010. In exchange for this the banking syndicate has rescheduled by one year the tightening of the net debt to EBITDA covenant. As a result, the covenant test will now be 3.5 times (previously 3.0 times) at 30 June 2009 and 31 December 2009, reverting to 3.0 times as at 30 June 2010 and thereafter. As a result of this agreement, the facility is now approximately £680m of which £111m is repayable in 2011, with the balance being repayable in 2012.

17. EMPLOYEE BENEFITS

The net employee benefits balance as at 31 December 2008 of £95.3m (2007: £96.1m) 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 surpluses (assets) of £70.6m (2007: £nil), relating almost entirely to the Group's main pension plan in the UK, together with deficits (liabilities) of £165.9m (2007: £96.1m).

	31 December 2008 £m	31 December 2007 £m
Employee benefits - net surpluses		
UK defined benefit pension plans	70.0	-
US defined benefit pension plans	0.6	-
	70.6	-
Employee benefits - net liabilities		
UK defined benefit pension plans	1.3	26.0
US defined benefit pension plans	89.5	34.6
ROW defined benefit pension plans	46.0	14.0
Other post-retirement benefit obligations, mainly US healthcare arrangements	29.1	21.5
	165.9	96.1

The total net charges in 2008 in respect of the Group's defined benefit pension and other post-retirement benefit obligations were £7.6m (2007: £5.7m) in arriving at trading profit and £3.7m (2007: £3.0m) within net finance costs. Cash contributions into the Group's defined benefit pension plans amounted to £41.2m (2007: £42.8m). Actuarial gains contributed £33.7m to the reduction in the employee benefits balance in the year (2007: £23.5m).

18. EVENTS AFTER THE BALANCE SHEET DATE

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

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:

	Year end rates of exchange		Average rates of exchange	
	2008	2007	2008	2007
US dollar	1.46	1.99	1.86	2.00
Euro	1.04	1.36	1.26	1.46
Czech Republic koruna	27.99	36.26	31.44	40.60
Polish zloty	4.33	4.93	4.42	5.53
Chinese renminbi	9.95	14.58	12.92	15.23