



Foseco plc
Registered Number 5413927

Report and Accounts
31 December 2007

Directors' Report

The directors present their report and the Group financial statements for the year ended 31 December 2007.

Acquisition of the Company by Cookson Group plc

The Group's 2007 financial statements were impacted by the offer announced on 11 October 2007 by Cookson Group plc that was completed on 4 April 2008. The acquisition of the entire issued share capital of the Company was effected by means of a Scheme of Arrangement that was approved by the Company's shareholders at meetings held on 10 March 2008 and was sanctioned by the Court on 1 April 2008.

Cookson announced on 11 January 2008 that it had entered into a conditional agreement to sell Foseco's Carbon Bonded Ceramics ('CBC') business to companies owned by RHI AG in order to expedite anti trust clearances. No adjustments have been made in the Group's financial statements to reflect the impacts of the sale.

Principal activities and review of the business

The Group's principal activities during the year continued to be the development, manufacture and supply of metallurgical chemicals, principally to the higher quality segments of the foundry and steel industries worldwide.

The Group's key financial performance indicators for the year were as follows:

	2007	2006 at constant currency	Change	2006 at reported rates	Change
£m					
Turnover					
Foundry Europe	161.4	143.9	12.2%	143.1	12.8%
Foundry Americas	78.5	77.8	0.9%	80.5	(2.5)%
Foundry Rest of World	109.8	99.2	10.7%	103.7	5.9%
Total Foundry	349.7	320.9	9.0%	327.3	6.8%
Steel	81.6	80.0	2.0%	81.5	0.1%
Total Group	431.3	400.9	7.6%	408.8	5.5%
Operating profit *					
Foundry Europe	31.3	24.8	26.2%	24.7	26.7%
Foundry Americas	8.8	8.3	6.0%	8.2	7.3%
Foundry Rest of World	23.3	22.3	4.5%	23.5	(0.9)%
Foundry Central costs	(8.7)	(8.7)	-	(8.7)	-
Total Foundry	54.7	46.7	17.1%	47.7	14.7%
Steel	0.5	3.0	(83.3)%	3.0	(83.3)%
Central costs	(4.9)	(4.6)	6.5%	(4.6)	6.5%
Total Group	50.3	45.1	11.5%	46.1	9.1%
Operating cashflow *	31.6	31.4	0.6%	32.4	(2.5)%
Number of customer facing staff	617	598	3.2%		

* for continuing operations before exceptional items

Directors' Report (continued)

Foundry

In Foundry, turnover growth of 9.0% was well ahead of the underlying markets in all regions. The key drivers of growth came from Europe and the developing economies of China and India. North America continued to be difficult but did not worsen. For a second consecutive year operating margins improved by a full percentage point to 15.6%. This improvement was driven by the Foseco added-value selling approach, augmented by some success in passing on raw material price increases and improved overhead recovery. Operating profit was up £8.0m (17.1%) at constant rates.

Steel

In Steel, most of the business segments performed strongly, but the CBC business was significantly impacted following the announcement of the Cookson bid, mainly due to delays by customers in completion of trials and commitment to orders while the future ownership of the business was uncertain. Overall, Steel sales were 2.0% higher than last year.

Operating profit at £0.5m was well below last year, reflecting the weak CBC sales and increased overheads as production was ramped up in the CBC plant in Tianjin, China.

Group results

The Group profit for the year from continuing operations and before exceptional items and after taxation amounted to £27.9m, an increase of 13% over the previous year. Exceptional costs of £9.0m were recorded in the year, of which £7.8m related to the Cookson bid, including legal and professional fees incurred in responding to the offer. Further details are given in note 4 to the accounts on page 34. Profit for the year after exceptional items was £18.9m. Of this, £1.1m was attributable to minority interests, leaving £17.8m attributable to members of the Group.

Before exceptional items, net operating cash flows from continuing activities were just below last year at reported rates. Working capital remains well controlled and the increased outflow reflects the continued growth of the business. Interest costs rose by £0.4m due to higher interest rates on the unhedged part of the term debt, while the increase in tax paid was due to the higher Group profitability and the timing of payments in Germany.

Dividends

In view of the acquisition of the Company by Cookson, the directors recommend that no final ordinary dividend be paid, resulting in a total of 1.73 pence and £2.8m for the year. Dividends are recognised in the accounts in the year in which they are paid, or in the case of a final dividend when approved by the shareholders, such that the amount recognised in the 2007 accounts, as described in note 12, is made up of the 2006 final dividend and the 2007 interim dividend.

Principal risks and uncertainties

Foseco turnover is correlated to castings and steel production, which, in turn, are linked to movements in GDP and particularly in industrial and automotive production. However, as a niche supplier to these industries, providing real value to the customer's process whilst generally a small component of the overall cost of the finished product, Foseco suffers the volume impact of movements in production, but selling prices tend to remain relatively stable.

Foseco has an excellent reputation as a place to work within the industry and consequently an enviable employee retention record. However, over the next few years, a number of key personnel will reach their retirement age and managing the succession of these individuals represents both a risk and, at the same time, an opportunity to bring in new blood and fresh ideas.

There is a slow, but ongoing, process of migration of certain types of labour-intensive castings away from the USA and Western Europe to the Far East and Central Europe. Foseco's existing supply chain and marketing infrastructure reflects the current balance, but it is evolving to reflect the changing market circumstances. In many respects this evolution represents an opportunity as we are already established in countries to which the production is migrating. However, there is a slight risk that the speed of migration could outpace the ability of the Foseco business to move and leave it with some redundant assets and capabilities. This situation is closely monitored and is not perceived as an immediate threat.

Directors' Report (continued)

Foseco has pension schemes in a number of operating units, the most significant of which are in Germany, Japan, the UK and the USA. There is a risk that increasing life expectancy and falling equity and bond returns will result in a significant rise in the Group's liabilities. However, the major schemes are regularly reviewed in consultation with the Group's actuaries, Watson Wyatt, to ensure that costs are controlled and that employee benefits are reasonable and competitive. Actions are taken when required and the Group will continue to manage this potential risk proactively.

Financial risk management

Foseco uses a range of technologies to provide a variety of products to its customers. As such, we do not have significant price risk exposure in respect of any particular commodity and consequently do not hedge raw material prices in the commodity markets.

Credit risk is that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. Group policies are in place to minimise such losses. Credit is only granted where customers can demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual customers are monitored and subject to specific credit limits.

The Group uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates. For significant trading relationships (external and inter-company) all flows in excess of £0.2m are hedged where a firm contract is in place. The Group also uses interest rate swaps for its major borrowings in order to reduce the variable element of interest costs. Hedge accounting is used when certain criteria are met as explained in the accounting policy note on page 27.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Foseco aims to mitigate this risk by setting targets for cash generation for operating units, and manages this risk through the use of revolving credit facilities.

Cashflow risk, such as future interest payments on variable rate debt, is managed where significant by the use of derivatives as set out above.

Research and development

The Group is actively involved in research and development and works closely with its customers to develop new products and technologies. It has a number of development laboratories around the world, and collaborates with research institutes on original research projects. There are active product development programmes within both the Foundry and Steel business units.

Charitable donations

As part of the Group's commitment to the communities in which it operates, contributions totalling £33,000 were made during the year to local charities and community projects. No donations were made to political parties.

Disabled employees

The Group gives full and fair consideration to application for employment from disabled persons where the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

Employee involvement

The directors attach great importance to the maintenance and development of good labour relations and employee involvement and training. The Group's results are discussed at meetings held with senior management and the opportunity is taken to inform them of developments in the business. A database that is accessible to all employees has been set up to provide information relating to the Cookson offer and to allow employees to put forward any questions that they may have. Employees throughout the Group are encouraged to be aware of the performance of their local operating unit and of the Group as a whole. Regular consultations are held with employees or their representatives so that their views may be taken into account when making decisions that may impact upon them. The diverse nature of the Group's activities places the responsibility for such matters with local management in a manner appropriate to the

Directors' Report (continued)

particular circumstances of each business. The Group complies with the requirements of the Information and Consultation of Employees Regulations 2004 in the UK.

Employee involvement in the Group's profitability is encouraged through locally based bonus and profit related pay schemes and executive bonus schemes.

Directors

The directors at 31 December 2007 were as follows:

Mr A R Auer	
Mr P D Dean	
Mr D G Hussey	
Mr E Lindh	
Mr J R P Pike	
Mr L A Plutshack	appointed 14 March 2007
Dr K Rajagopal	
Mr F D Rosenkranz	

The Group's Nomination Committee is responsible for reviewing the balance of skills and experience of the board members and makes recommendations to the board as required in respect of the appointment or replacement of directors. Mr Lee Plutshack was appointed to the board following the recommendation of the Nomination Committee.

There were no qualifying third party indemnity provisions (as defined by s309B of the Companies Act 1985) in force at any time during the year.

Supplier payment policy and practice

There is no specific Group-wide policy in respect of payments to suppliers. Individual operating companies are responsible for agreeing terms and conditions for their transactions with suppliers. These terms are adhered to when making payments provided that the suppliers have complied with trading terms and conditions. The Group-wide average settlement term is forty-four days. Foseco plc is a holding company and had no trade creditors at the year end.

Significant contracts

The Group has no significant contracts that take effect, alter or terminate upon change of control of the Company, other than that relating to term debt raised at the time of the flotation in May 2005. Following the change of control on completion of the Cookson acquisition, the debt will become repayable on demand and has therefore been treated as a current liability in the financial statements.

The Company entered into an Implementation Agreement with Cookson on 11 October 2007 that terminated with the completion of the acquisition on 4 April 2008.

Share capital

As at 31 December 2007 the authorised share capital of the Company was £56m represented by 224,000,000 ordinary shares of 25 pence each and 166,465,000 shares were in issue. Each ordinary share carries one voting right.

Changes to the Company's share capital are detailed in note 18 to the financial statements.

At the Annual General Meeting held on 16 May 2007, shareholders authorised the Company to make market purchases of up to five per cent of its ordinary shares of 25 pence each and also to cancel shares.

Pursuant to this authority, the Company has, during the year, purchased and subsequently cancelled 2,685,000 ordinary shares of 25 pence each representing 1.6% of the issued share capital at a total cost of £5.8m. The repurchase and cancellation of shares was in line with the Company's objectives of operating an effective balance sheet and delivering shareholder value. As at 31 December 2007, the Company had authority to purchase up to 5,772,496 ordinary shares, being the balance of authority given at the 2007 Annual General Meeting.

Directors' Report (continued)

As at 31 December 2007, the Foseco Employee Benefit Trust held 2,382,400 shares that had been purchased to satisfy awards made under the Long Term Incentive Plan. These shares had no voting restrictions, but the voting rights were exercised at the discretion of the Trustees. The Trustees had waived rights to dividends on these shares.

On 1 April 2008, the Company issued 1,901,689 ordinary shares in order to satisfy awards under the Long Term Incentive Plan ('Ltip') that vested in full on Court sanction of the Scheme of Arrangement.

On 4 April 2008, under the Scheme of Arrangement, the existing shares of the Company were cancelled and the reserve arising from the cancellation was used in paying up in full and issuing new shares to Cookson Group plc equal to the number of shares cancelled.

Major interests in shares

On 4 April 2008, the Scheme of Arrangement was completed and the Company's entire share capital is now held by Cookson Group plc.

Auditors

Following the acquisition of Foseco plc by Cookson Group plc, Ernst and Young LLP will be resigning as auditors of the company and KPMG Audit Plc will be appointed.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and the Group's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

Events after the balance sheet date

On 11 October 2007, Cookson Group plc made an offer to purchase the entire issued and to be issued share capital of Foseco plc. On 10 March 2008, Foseco plc shareholders approved the Scheme of Arrangement at a Court Meeting, and approved the proposed takeover of the Company by Cookson Group plc at an extraordinary general meeting. On 11 March 2008, Cookson Group plc shareholders also approved the proposed takeover. The takeover of Foseco plc by Cookson Group plc was completed on 4 April 2008, and as a consequence the Group was de-listed from the London Stock Exchange.

On 10 April 2008, after the completion of the takeover, Cookson Group plc intends to complete the sale of Foseco's Carbon Bonded Ceramics business to companies owned by RHI AG.

On 4 April 2008, the ultimate parent undertaking of the Group became Cookson Group plc, registered in the UK at 165 Fleet Street, London EC4A 2AE.

By order of the Board

Sharon Roberts

Sharon Roberts
Company Secretary
4 April 2008

Registered office
Coleshill Road
Fazeley, Tamworth
Staffordshire
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Directors' Remuneration Report

Introduction

This report sets out the membership of the Remuneration Committee and the names of the advisers who provided services to the Committee during the year, together with the policies that have been followed by the Remuneration Committee in determining the elements of executive remuneration.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ('DRRR'), which sets out statutory requirements for the disclosure of directors' remuneration. The DRRR requires the independent auditors to report to the Company's members on the auditable parts of the Directors' Remuneration Report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Companies Act 1985.

The Board keeps under review the terms of reference for the Remuneration Committee, which are based on current best practice contained in the model terms of reference set out in the Guidance Note produced by the Institute of Chartered Secretaries and Administrators. The principal responsibility of the Committee is to determine the framework or broad policy for the Company's executive remuneration and the remuneration of the Chairman of the Board, for approval by the Board. The remuneration of non-executive directors is a matter for the Board itself.

Details of the emoluments, bonuses, benefits-in-kind, incentive arrangements, pensions and service contracts applicable to each director who served during the year are given in this report.

Membership of the Remuneration Committee and advisers (unaudited information)

The Committee is made up of three independent non-executive directors. The Board has determined that the independent non-executive directors were each found to be free from any material business or other relationship with the Company and therefore believes that there are no relationships that could interfere materially with the exercise of their independent judgement.

The members of the Committee during the year were:

Mr Einar Lindh (Chairman)
Mr Adrian Auer
Dr Raj Rajagopal

The Committee consults with the Chief Executive concerning matters of executive remuneration. The Board has appointed the following external advisers from whom the Committee has received advice during the year:

Ashurst	Ltip
Towers Perrin	Executive remuneration
Watson Wyatt	Executive remuneration
Wragge & Co	Directors' service contracts

Statement of the Company's policy on directors' remuneration (unaudited information)

The policies operated by the Company during the year are set out below:

Executive remuneration

The Company's policy on executive remuneration is that the Remuneration Committee and the Board should each satisfy themselves that executives, including executive directors, are fairly rewarded for their individual contributions to the Group's performance. The Committee has adopted a remuneration policy with the following objectives:

- performance related remuneration should seek to align the interests of executive directors with those of shareholders;
- a significant proportion of remuneration should be based on financial performance in both the short and long term, as well as the individual contributions made by the executive directors; and
- executive directors should receive a level of remuneration that will attract, motivate and retain individuals of the necessary calibre.

Directors' Remuneration Report (continued)

The only pensionable element of executive directors' remuneration is base salary.

Annual remuneration for executives

The Board recognises that one of its key objectives is to grow the value of the business for the benefit of shareholders and that such growth is strongly related, amongst other things, to the degree of motivation and entrepreneurial spirit of senior executives. Remuneration is provided through a combination of base salaries and annual bonuses that have a direct and proportionate link to total value created for shareholders. The Remuneration Committee and the Board believe that this more closely aligns the interests of shareholders and management whereby executives only receive substantial rewards when they have created high value in the business.

The Company has adopted a pay structure based on the Hay points system that is used to ensure that the remuneration of executives, including the executive directors, is fair and comparable across the Group, allowing for economic differences between countries. The Hay system provides information about market practice in individual countries linked to job groups that are based on an evaluation of the contents of a specific job.

Salary and benefits are reviewed annually and in 2007 each executive director received an inflationary increase in line with the increases awarded to other UK based employees.

Prior to the acquisition by Cookson Group plc, the Company had a long term incentive plan ('Ltip'). The performance targets for the Ltip and the annual bonus scheme ensure that a significant proportion of total remuneration is directly related to actual measurable performance. Further details of the annual bonus scheme and Ltip are set out on pages 10 and 11.

Non-executive directors' fees and Chairman's remuneration

During the year a benchmarking exercise was undertaken in respect of the fees paid to the non-executive directors including the Chairman. As a consequence the Board approved an increase in the base fees and fee for chairmanship of a committee, but removed the entitlement to an additional fee for membership of a committee. The Chairman's remuneration is determined by the Remuneration Committee and is approved by the Board. The current fees are shown in the table below, and took effect from 1 May 2007.

	Base fee	Chairman of Committee	Senior independent director	Total
	£	£	£	£
A R Auer	37,000	7,000	5,000	49,000
E Lindh	37,000	7,000		44,000
K Rajagopal	37,000			37,000
F D Rosenkranz	135,000			135,000

Service contracts

The Company's policy on directors' service contracts is that service contracts and letters of appointment for executive directors normally provide for notice periods of no longer than twelve months. Notwithstanding the provisions in an executive director's service contract or letter of appointment concerning termination payments, the Company will seek to reduce any compensation that may be payable to reflect the departing director's obligation to mitigate any loss.

External appointments

The Company's policy on external appointments is that, with the approval of the Chairman of the Board, executive directors are normally permitted to hold appointments outside of the Company and retain any fees relating thereto.

Retirement benefits

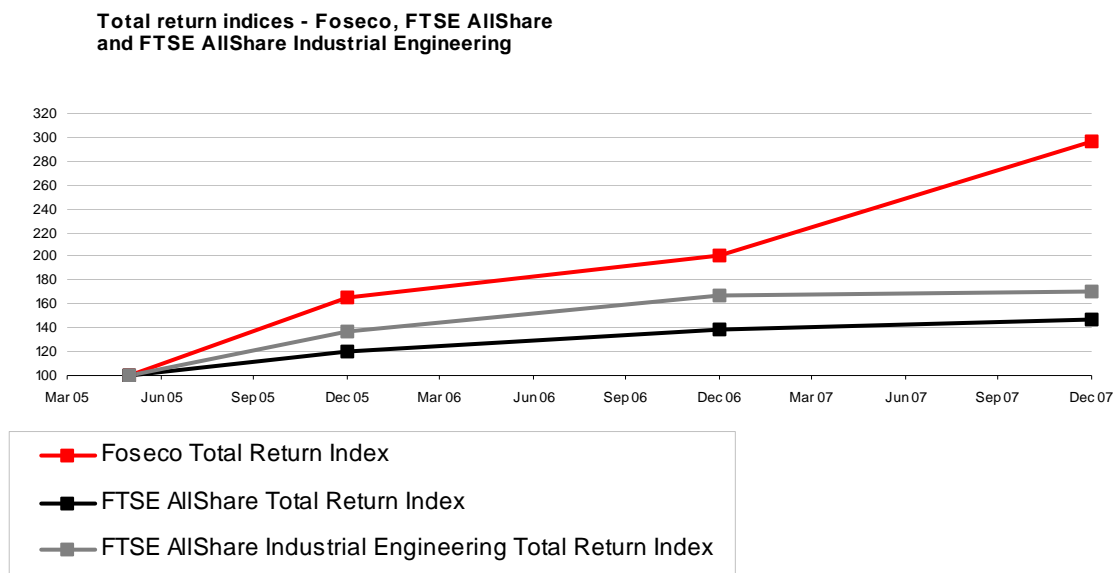
Each of the executive directors is a member of the Foseco UK retirement benefit scheme.

Directors' Remuneration Report (continued)

Performance graphs (unaudited information)

The graph set out below plots total shareholder return on a holding in the Company's shares from the date of flotation to 31 December 2007, measured against the performance of the FTSE AllShare Index and the FTSE AllShare Industrial Engineering Index. The Committee has chosen these indices as they represent broad equity market indices in which the Company is a constituent member.

Total shareholder return 12 May 2005 to 31 December 2007



Elements of remuneration (audited information)

	Salary and fees £	Performance bonus £	Benefits ¹ £	Total 2007 £	Total 2006 £
Executive directors					
P D Dean	227,500	88,725	16,186	332,411	361,959
D G Hussey	241,000	136,213	17,737	394,950	389,497
J R P Pike	335,000	130,650	21,344	486,994	532,480
L A Plutshack ²	210,000	-	19,341	229,341	-
Non-executive directors					
A R Auer	46,833	-	-	46,833	42,500
E Lindh	41,833	-	-	41,833	37,500
K Rajagopal	35,500	-	-	35,500	32,500
F D Rosenkranz	130,000	-	-	130,000	120,000
Total	1,267,666	355,588	74,608	1,697,862	1,516,436

1 The remuneration package of executive directors includes private medical insurance, permanent health insurance, family travel insurance, life assurance and car and fuel allowance.

2 The amounts disclosed in respect of Mr Lee Plutshack are from 1 January 2007 and not from 14 March 2007, his date of appointment to the board.

Annual bonus scheme

Under the terms of the Foseco bonus scheme the executive directors are entitled to a maximum bonus of 60% of base salary. For the year ended 31 December 2007 the performance targets were split between earnings before interest and, taxation ('EBIT') (60%) and operating cash flow (40%). Performance had to reach a minimum target for a bonus to be payable. For this year Mr Jamie Pike's and Mr Paul Dean's bonus payments were based on the Group results that delivered an achievement of EBIT 23.1% and cash flow 15.9%, a total of 39.0%. Mr David Hussey's bonus payment was based on the results of the Foundry business that delivered an achievement of EBIT 36.0% and cash flow 20.5%, a total of 56.5%. Mr Lee Plutshack's bonus payment was based on the results of the Steel business on which no bonus was payable.

Directors' Remuneration Report (continued)

Long term incentive plan

Prior to the acquisition by Cookson Group plc, under the Ltip, selected senior executives (including the executive directors) within the Group were awarded conditional entitlements to shares in the Company. The awards under the Ltip were made by the Company on the recommendation of the Remuneration Committee and it was intended that awards vesting will be satisfied using shares sourced by the Foseco Employee Benefit Trust.

Each Ltip award had a three year cycle. The initial market value of the shares over which any such award was made would not exceed the amount of the participant's annual base salary, except in exceptional circumstances. The number or proportion of such award shares that vest and are released to the participant were determined by reference to the extent to which preset targets were met or exceeded. The targets related to the performance of the Company over a fixed three year period beginning with that in which the award was made.

Performance targets were set by the Company on the advice of the Remuneration Committee at the time the award were made. The targets were considered to be exacting and provided transparency for both the executives and shareholders.

Ltip awards

	At 1 January 2007	Granted 24 April 2007	Vested during period	Lapsed during period	At 31 December 2007	Market price on date of April 2007 award
	Number of shares					pence
P D Dean	248,306	99,514	-	-	347,820	205
D G Hussey	315,022	105,419	-	-	420,441	205
J R P Pike	440,033	146,537	-	-	586,570	205
L A Plutshack	177,456	91,859	-	-	269,315	205

For the April 2007 award, a share value of 205.75p was used to calculate the number of shares to be awarded, being the average of the middle market quotation for the three dealing days prior to the date of grant.

Vesting of awards normally only occur in the event that the Company's total shareholder return ('TSR') during the performance period is at least equivalent to that of the company at the median position in the FTSE AllShare index (ignoring investment companies) over the same period, and the Company's cumulative cash flow per share is equal to or greater than targets set at the time of each award. For the grants made in April 2007, awards the following vesting scale was set:

Cash flow per share pence	Award vesting %
37.1	25
43.4	75
52.0	100

The Committee considers the use of two measures to be appropriate. The TSR performance measure is dependent on the Company's relative long term share price performance and dividend policy and therefore aligns the interest of directors with that of shareholders. This is balanced by a key internal measure, CPS, which is critical to the Company's long term success.

The Committee sets CPS targets after considering the Company's historic performance and future plans. The Committee believes that the targets are reasonable and that the level of CPS required to achieve maximum vesting is suitably demanding.

The mid-market price of a Foseco share as at 31 December 2007 was 283 pence with a range during the year of 181.25 pence to 286.75 pence.

Directors' Remuneration Report (continued)

In view of the Cookson bid, the Remuneration Committee recommended that Ltip awards should vest in full on court sanction of the Scheme of Arrangement and so no comparison with other companies in the FTSE AllShare index (ignoring investment companies) has been undertaken for each Ltip award at 31 December 2007. On a normal ongoing basis, taking into account the Company's view of CPS for the performance period and on the assumption that the Company's TSR would be above the median, it is estimated that the following levels of the awards would vest:

Award	% expected to vest
2005	100
2006	61
2007	81

The Group's income statement for 2007 includes charges in operating profit for the Ltip based on these vesting levels. Additional charges reflecting full vesting on completion of the Cookson offer are included in exceptional items.

The Ltip awards vested in full on 1 April 2008 on Court sanction of the Scheme of Arrangement. The total value for each director of the vested awards was as follows:

	Value based on share price of 295 pence £
P D Dean	1,026,069
D G Hussey	1,240,301
J R P Pike	1,730,381
L A Plutshack	794,479

Service contracts (unaudited information)

Mr Paul Dean, Mr David Hussey and Mr Jamie Pike each have a service contract with the Company dated 6 May 2005 and Mr Lee Plutshack has a service contract with the Company dated 30 November 2005. Each of the contracts can be terminated by either party on twelve months' notice in writing, and none has a fixed term. The contracts all contain provisions for payment in lieu of notice, which may be paid in one lump sum or in instalments over the period on which notice, if it had been served, would have expired.

Each of the non-executive directors is engaged under the terms of letters of appointment which are subject to termination by either party on one month's notice (three months in the case of Mr Danny Rosenkranz) and in accordance with the Company's Articles of Association will stand for re-election every three years.

	Date of appointment to Board
A R Auer	6 May 2005
E Lindh	6 May 2005
K Rajagopal	6 May 2005
F D Rosenkranz	6 May 2005

Sums received by executive directors from other external directorships (audited information)

Mr David Hussey was appointed non-executive director of Acertec plc on 19 January 2007, for which he receives a fee of £ 36,000 per annum. Mr Jamie Pike was a non-executive member of the Army Training and Recruitment Agency for which he received a fee of £3,000 in 2007, and is chairman of ABRO (Army Base Repair Organisation) for which he receives a fee of £40,000 per annum.

Sums paid to third parties in respect of a director's services (audited information)

No amounts are paid to third parties in respect of a director's services to the Company.

Directors' Remuneration Report (continued)

Retirement benefits (audited information)

The executive directors are members of the UK Foseco Pension Fund and with effect from 1 November 2004 benefits are based on a Career Average Revalued Earnings formula. The Remuneration Committee approved the pension arrangements for Mr Lee Plutshack when he joined the Company, but formal arrangements were not put in place until December 2007.

The disclosures below relate solely to approved benefits within the Foseco Pension Fund and take account of changes to benefits as a result of the Pensions Act 2004. In addition, Mr Jamie Pike, Mr Paul Dean, Mr David Hussey and Mr Lee Plutshack will receive payments at the rate of 32%, 25%, 52% and 52% respectively of salary in excess of the earnings cap each year. The payments are made at the end of each year with a proportionate payment having been paid in December 2007.

The pension entitlement of the executive directors is as follows:

	Accrued pension at 31.12.07 £pa	Increase in accrued pension during the year (net of inflation) £pa	Transfer value of the increase in accrued pension (net of inflation and members' contributions) at 31.12.07 £
P D Dean	23,820	2,300	21,430
D G Hussey	21,820	3,570	67,560
J R P Pike	19,980	3,130	43,390
L A Plutshack	7,350	3,590	59,350

	Accrued pension at 31.12.07 £pa	Increase in accrued pension during the year £pa	Transfer value of accrued pension at 31.12.07 £	Transfer value of accrued pension at 31.12.06 £	Directors' contributions during the year £	Increase in transfer value over the year, net of directors' contributions ¹ £
P D Dean	23,820	3,110	253,360	187,950	3,000	62,410
D G Hussey	21,820	4,250	425,500	306,810	2,010	116,680
J R P Pike	19,980	3,760	277,950	197,360	140	80,450
L A Plutshack	7,350	3,730	132,830	58,220	5,590	69,020

¹ The transfer value basis has been revised during the year to reflect the expectation of lower future investment returns and improvements in life expectancies since the previous review, undertaken in 2003. The change in transfer value shown therefore reflects the change in the basis used to calculate the value as well as increases to the accrued pension over the year.

Compliance Statement

The Company complies with the requirements of Schedule 7A of the Companies Act 1985 unless otherwise indicated. In preparing this report, the Remuneration Committee has given full consideration to the provisions set out in Schedule B to the Combined Code.

The Remuneration Committee and the Board have approved this report.

On behalf of the board

sharon roberts

Sharon Roberts
Company Secretary
4 April 2008

Registered office
Coleshill Road
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**Consolidated Income Statement
for the year ended 31 December 2007**

	Note	2007 £m	2006 £m
Continuing operations			
Revenue	3	431.3	408.8
Cost of sales		(276.5)	(258.9)
Gross profit		154.8	149.9
Distribution costs		(18.7)	(18.3)
Administration expenses		(85.8)	(85.5)
Administration expenses – Exceptional items	4	(9.9)	-
Group operating profit	5	40.4	46.1
Finance costs	8	(6.6)	(6.3)
Finance costs – Exceptional items	8	(1.0)	-
Finance income	8	0.7	0.6
Finance income – Exceptional items	8	2.1	-
Profit on ordinary activities before tax		35.6	40.4
Tax: UK	9	(0.2)	(0.2)
Tax: Overseas	9	(16.5)	(15.4)
Profit for the year		18.9	24.8
Discontinued operations			
Net profit/(loss) for the year from discontinued operations	10	-	0.1
Profit for the year		18.9	24.9
Attributable to:			
Equity holders of the parent		17.8	24.0
Minority interests		1.1	0.9
		18.9	24.9
Earnings per share			
- basic on profit for the year	11	10.8p	14.3p
- diluted on profit for the year	11	10.6p	14.2p
- basic on profit for the year from continuing operations	11	10.8p	14.2p
- diluted on profit for the year from continuing operations	11	10.6p	14.1p
- basic on profit for the year from continuing operations before exceptional items	11	16.2p	14.2p
- diluted on profit for the year from continuing operations before exceptional items	11	16.0p	14.1p
Dividends			
- declared and paid			
- pence per share	12	5.14p	4.64p
- total amount £m	12	8.5	7.8
- proposed and not yet paid (not recognised as a liability at the balance sheet date)			
- pence per share	12	-	3.41p
- total amount £m	12	-	5.7

**Consolidated Balance Sheet
at 31 December 2007**

	Note	2007 £m	2006 £m
Assets			
Non-current assets			
Property, plant and equipment	13	84.5	78.3
Intangible assets	14	24.1	24.2
Pensions	23	0.1	0.1
Deferred tax assets	9	1.2	0.7
		<u>109.9</u>	<u>103.3</u>
Current assets			
Inventories	15	45.9	39.6
Trade and other receivables	16	92.7	79.7
Income tax receivable		0.8	0.4
Other financial assets	27	2.1	2.5
Cash and short term deposits	17	27.0	29.0
		<u>168.5</u>	<u>151.2</u>
Total assets		<u>278.4</u>	<u>254.5</u>
Equity and liabilities			
Issued capital	18	0.1	0.1
Own shares held	18	(4.3)	(2.5)
Share premium	18	0.1	0.1
Capital redemption reserve	18	0.7	0.7
Foreign currency translation reserve	18	0.1	(1.4)
Hedge accounting reserve	18	0.2	1.9
Retained earnings	18	39.8	26.0
		<u>36.7</u>	<u>24.9</u>
Minority interests	18	3.4	2.9
Total equity		<u>40.1</u>	<u>27.8</u>
Non-current liabilities			
Interest-bearing loans and borrowings	19	1.2	108.2
Other long term liabilities	20	4.0	4.1
Provisions	21	1.7	1.9
Deferred tax liabilities	9	3.4	3.4
Pensions	23	22.7	28.7
		<u>33.0</u>	<u>146.3</u>
Current liabilities			
Trade and other payables	24	79.4	64.2
Interest-bearing loans and borrowings	19	118.1	6.4
Income tax payable		7.3	7.7
Provisions	21	0.5	2.1
		<u>205.3</u>	<u>80.4</u>
Total liabilities		<u>238.3</u>	<u>226.7</u>
Total equity and liabilities		<u>278.4</u>	<u>254.5</u>

Approved by the Board on 4 April 2008



P D Dean
Director

**Consolidated Cash Flow Statement
for the year ended 31 December 2007**

	Note	2007		2006	
		£m	£m	£m	£m
Cash flows from operating activities					
Profit on ordinary activities before tax			35.6		40.4
Net finance costs charged in the income statement			4.8		5.7
Group operating profit			40.4		46.1
Depreciation		10.9		10.4	
Amortisation of intangible assets		0.5		0.6	
Non-cash Ltip charge		2.8		0.8	
Non-cash movements			14.2		11.8
Increase in inventories		(3.8)		(1.5)	
Increase in trade and other receivables		(7.0)		(5.7)	
Increase in trade and other payables and provisions		8.6		2.9	
Profit on disposals of property, plant and equipment		(0.1)		-	
Interest paid	8	(6.1)		(5.7)	
Income taxation paid		(18.4)		(16.0)	
Cash movements			(26.8)		(26.0)
Net cash flows from operating activities			27.8		31.9
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		0.6		0.2	
Purchase of property, plant and equipment		(11.8)		(12.9)	
Purchase of intangible assets		(0.4)		(0.2)	
Interest received		0.7		0.6	
Net cash flows from investing activities			(10.9)		(12.3)
Cash flows from financing activities					
Purchase of own shares	25	(7.6)		(1.5)	
New borrowings		0.6		1.8	
Repayment of borrowings		(2.5)		(2.5)	
Finance lease payments		(1.1)		(1.0)	
Dividends paid to shareholders	12	(8.5)		(7.8)	
Dividends paid to minority interests		(0.8)		(1.3)	
Net cash flows from financing activities			(19.9)		(12.3)
Net (decrease)/increase in cash and cash equivalents			(3.0)		7.3
Exchange differences			1.1		(1.5)
Cash and cash equivalents at 1 January			28.6		22.8
Cash and cash equivalents at 31 December			26.7		28.6
Cash and cash equivalents are presented in the balance sheet as:					
Cash and short term deposits	17		27.0		29.0
Bank overdrafts (within current interest-bearing loans and borrowings)	19		(0.3)		(0.4)
			26.7		28.6

**Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2007**

	Note	2007 £m	2006 £m
Currency translation adjustments		1.7	(6.8)
Current tax on exchange adjustments	9	(0.3)	-
Cash flow hedge (losses)/gains taken to equity		(0.1)	1.8
Cash flow hedges gains removed from equity		(2.2)	-
Deferred tax on cash flow hedges	9	0.6	(0.4)
Actuarial adjustments on pension liabilities		8.3	5.3
Deferred tax on pension liabilities	9	(0.5)	-
Net income/(expense) recognised directly in equity		<u>7.5</u>	<u>(0.1)</u>
Profit for the period		<u>18.9</u>	<u>24.9</u>
Total recognised income and expense for the period		<u><u>26.4</u></u>	<u><u>24.8</u></u>
Attributable to:			
Equity holders of the parent		25.1	24.2
Minority interests		<u>1.3</u>	<u>0.6</u>
		<u><u>26.4</u></u>	<u><u>24.8</u></u>

Notes to the Consolidated Financial Statements

1 Statement of compliance with IFRSs

The consolidated financial statements of Foseco plc for the year ended 31 December 2007 were authorised in accordance with a resolution of the directors on 4 April 2008. Foseco plc is a public limited company incorporated and domiciled in England. The principal activities of the Group are described in note 3.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The principal accounting policies adopted by the Group are set out in note 2.

2 Accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for interest rate swaps and forward exchange contracts that have been measured at fair value.

The consolidated financial statements are presented in sterling and all values are rounded to the nearest hundred thousand (£0.1m) except when otherwise indicated.

Basis of consolidation

Acquisition of Foseco (Jersey) Limited

On 12 May 2005, Foseco plc acquired the entire issued share capital of Foseco (Jersey) Limited for a consideration of £194.6 million, of which £25.6 million was settled in cash and £169 million was settled in shares of Foseco plc.

From a legal perspective, Foseco plc acquired Foseco (Jersey) Limited, but as Foseco (Jersey) Limited had the power to govern the financial and operating activities of its legal parent at the date of the acquisition, IFRS 3 states that the transaction must be accounted for as a "reverse acquisition", i.e. Foseco (Jersey) Limited is treated as if it had acquired Foseco plc, rather than vice versa. This accounting treatment has a number of consequences for the presentation of the Group's results:

- the balance sheet shows the share capital of Foseco (Jersey) Limited rather than the capital issued by Foseco plc;
- goodwill on acquisition is calculated by reference to the net assets of Foseco plc which are deemed to be acquired by Foseco (Jersey) Limited, rather than the consideration paid by Foseco plc and Foseco (Jersey) Limited group's net assets;

Subsidiaries

The consolidated financial statements comprise the financial statements of Foseco plc and its subsidiaries as at 31 December each year. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another party. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Foseco plc has control.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Minority interests represent the interests in Foseco India Limited, Foseco (Thailand) Limited and Foseco Golden Gate Company Limited not held by the Group.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)****Foreign currency translation**

The functional and presentation currency of Foseco plc is sterling (£). Transactions in foreign currencies are recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Any resulting exchange differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

The functional currency of overseas subsidiaries is shown in note 28. As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Foseco plc at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the average exchange rates for the year.

Exchange differences arising on retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative exchange differences recognised in equity relating to that particular foreign operation shall be recognised in the income statement. The Group elected to set the currency translation reserve to zero on transition to IFRS on 1 January 2004.

Business combinations and goodwill

The Group elected not to restate business combinations which occurred prior to the date of transition to IFRS on 1 January 2004. Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie. discount on acquisition) is credited to the income statement in the period of acquisition.

Where the Group does not acquire 100% ownership of an acquired company, the interest of the minority shareholders is stated initially at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority in excess of the initial minority interest are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)****Business combinations and goodwill (continued)**

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the relevant cash-generating units monitored by management, usually at business segment level or statutory company level. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement.

When there is a disposal of a cash-generating unit, goodwill relating to that operation is taken into account in determining the gain or loss on disposal. The amount of goodwill allocated to a partial disposal is measured on the basis of the relative values of the operation disposed of and the operation retained.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of finance leases is also included within property, plant and equipment.

For property, the deemed cost as at the date of transition to IFRS was the fair value at the date of the last valuation of these assets less accumulated depreciation until the date of transition.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold Land	- nil;
Freehold buildings and long leasehold property	- over expected economic life not exceeding 50 years;
Short leasehold property	- over the term of the lease;
Plant and other equipment	- 4% to 33 1/3%.

The estimated useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives and residual values are accounted for prospectively.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Exchanges of assets are measured at the fair value of the asset given up unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount) is included in the income statement in the year the item is derecognised.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)****Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Computer software, intellectual property rights and other intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, cost will be the fair value allocated in the acquisition accounting. Where these assets have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Computer software, intellectual property rights and other intangible assets with finite lives are amortised over their useful lives on a straight-line basis. Estimated useful life is the shorter of legal duration and economic useful life. Useful lives are reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

Intangible assets with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of assets

The Group assesses at each balance sheet date whether there are indications that an asset may be impaired. If such indications exist or annual impairment testing for an asset is required by IFRSs, the Group makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to the recoverable amount. Impairment losses of continuing operations are recognised in the income statement in the expense categories consistent with the function of the asset.

Research and development costs

Research and development costs are expensed as they are incurred, except for certain development costs, which are capitalised when it is probable that a development project will generate future economic benefits and certain criteria, including commercial and technical feasibility, have been met. Costs not meeting such criteria are expensed as incurred.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	purchase cost on a first-in, first-out basis;
Finished goods and work-in-progress	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)****Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for doubtful debts. An allowance is recorded for the difference between the carrying amount and the estimated recoverable amount.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash in hand, current balances with banks and similar institutions, and short term deposits with an original maturity of three months or less which are subject to insignificant risks of changes in value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the elements defined above, less outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains and losses on the repurchase, settlement or otherwise cancellation of liabilities are recognised in finance income or expense respectively.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the inception of the leases at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement. Where discounting is used in the initial measurement of a provision, the subsequent increase in provision due to unwinding of that discount is recognised as a finance cost.

Environmental liabilities

Environmental expenditure that relates to current or future revenues is expensed or capitalised as appropriate. Expenditure relating to an existing condition caused by past operations and not contributing to current or future earnings, is expensed.

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action. The amount recognised is the best estimate of the expenditure required. Where the effect of the time value of money is material, the amount recognised is the present value of the estimated future expenditure.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)****Employee benefits**

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by employees of the Group. The accounting policy for pensions and other post-retirement benefits is described below.

Pensions

The Group operates a number of defined benefit pension schemes and defined contribution schemes, which require contributions to be made to administered funds separate from the Group.

For defined benefit pension and post-retirement benefit schemes, scheme assets are measured at fair value and scheme liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of the same currency and term as the scheme liabilities.

The service cost for the year of providing pension and other post-retirement benefits to employees is charged to the income statement. The cost of making improvements to pension and other post-retirement benefits is recognised in the income statement on a straight line basis over the period during which the increase in benefits vests. To the extent that the improvement in benefits vest immediately, the cost is recognised immediately. These costs are recognised as an expense.

A charge is recognised arising from the unwinding of the discount on the scheme liabilities. A credit representing the expected return on the scheme assets is recognised, based on the fair value of the scheme assets and expected rates of return at the beginning of the year. The charge for the unwinding of the discount, net of the credit for the expected return on scheme assets, is included within total finance costs for the year.

Actuarial gains and losses may result from: differences between the expected return and the actual return on scheme assets; differences between the actuarial assumptions underlying the scheme liabilities and actual experience during the year; or changes in the actuarial assumptions used in the valuation of scheme liabilities from one period to the next.

Actuarial gains and losses, and tax thereon, are recognised in full in the statement of recognised income and expense in the period in which they occur.

For defined contribution schemes, contributions payable for the year are charged to the income statement as an operating expense.

Tax

Tax expense represents the sum of tax payable in respect of the current period and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises on goodwill that is not tax deductible, or on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)**

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which they can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Tax relating to items recognised directly in equity are recognised in equity and not in the income statement.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the tax authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of sales tax included.

The net amount of sales tax recoverable from or payable to tax authorities is included within receivables or payables in the balance sheet.

Share-based payment transactions

Certain employees of the Group, including senior executives, receive an element of remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are awarded. Details of the fair value calculation are given in note 22. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Foseco plc ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)**

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the terms of the original awards continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of modification. No reduction is recognised if the difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised in the income statement for the award is expensed immediately. Compensation up to the fair value of the award at the cancellation or settlement date is deducted from equity, and any excess over fair value is treated as an expense in the income statement.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Own shares held

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

Interest

Interest income is recognised as the interest accrues to the net carrying amount of the financial asset (using the effective interest method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument).

Dividends

Dividend income from investments is recognised when the shareholders' right to receive the payment is established.

Exceptional items

The Group presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess trends in financial performance more readily.

Borrowing costs

All borrowing costs are recognised as finance costs in the income statement in the period in which they are incurred.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)****Financial assets**

The Group's financial assets within the scope of IAS 39 are: financial assets at fair value through profit or loss and loans and receivables. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at the end of each financial year. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus directly attributable transaction costs. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to acquire the asset, as determined in accordance with normal market practice.

The Group has financial assets designated as at fair value through profit or loss. These assets are derivative financial assets, namely interest rate swaps, which, though effective hedges on initial recognition, have subsequently been determined to be ineffective.

The Group has financial assets that are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets, and have not been designated as either fair value through profit and loss or available-for-sale financial assets. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

An allowance account is used to reduce the carrying amount of trade receivables impaired by credit losses. Impairment allowances are made when there is evidence that the Group will be unable to collect the whole invoiced amounts on normal trading terms. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)****Derivative financial instruments**

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to forward exchange rates at the balance sheet date for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. The documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value, and gains and losses from both are taken to profit or loss. For hedged items carried at amortised cost, the adjustment is amortised through the income statement such that it is fully amortised by maturity. When an unrecognised firm commitment is designate as a hedged item, this gives rise to an asset or liability in the balance sheet, representing the cumulative change in the fair value of the firm commitment attributable to the hedged risk.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedge accounting, or if the Group revokes the designation.

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires, is sold, is terminated, is exercised without replacement or rollover, or has its designation as a hedge revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs, and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above.

Notes to the Consolidated Financial Statements (continued)**2 Accounting policies (continued)****Derecognition of financial instruments**

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Use of accounting estimates, assumptions and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates, assumptions and judgements that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates. Accounting estimates, assumptions and judgements are used in the following principal areas:

Goodwill

Goodwill is tested for impairment at least on an annual basis by estimating the value in use of the cash-generating units to which the goodwill is allocated. To estimate value in use, the Group forecasts the future cash flows of its cash-generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows. Details of the underlying assumptions within the forecasts are given in note 14.

Property, plant and equipment

The depreciation rates applied to property, plant and equipment are derived by estimating both the useful lives and the residual values of individual assets. The useful lives of the Group's assets are determined by management on acquisition, based upon historical experience with similar assets and anticipation of future events such as technological change which might impact upon asset lives. Subsequently, asset lives and residual values are reviewed annually for appropriateness. Changes in asset lives or residual values would alter the depreciation charge in the income statement.

Inventories

Allowance is made for slow-moving, obsolete or damaged inventory based on management's estimates of the losses to be incurred where the cost of an item of inventory exceeds the likely sale proceeds net of the cost of disposal.

Trade receivables

Allowances made for bad and doubtful debts reflect management's estimates of the losses likely to arise from the failure or inability of customers to make payment for goods and services provided by the Group. The estimates are based upon the age of the debts, customer credit worthiness, and the Group's historical experience of such losses.

Provisions

Provisions are liabilities that are uncertain either as to timing or amount. Where the amount of a provision is uncertain, for example in respect of environmental liabilities or legal disputes, management estimates the cost based on professional external advice as to the likely outcome. If the timing of the settlement of a material liability is uncertain, management selects a suitable discount rate in order to calculate the present value of the liability. Both the amount and the maturity of these liabilities could be different from those estimated.

Pensions

Pension costs within the income statement and pension obligations as stated in the balance sheet are both dependent upon assumptions chosen by management. Advice is taken from external actuaries as to the appropriate ranges within which suitable assumptions lie. These assumptions are reconsidered annually and almost invariably generate actuarial adjustments that are taken to the statement of recognised income and expense.

Notes to the Consolidated Financial Statements (continued)

2 Accounting policies (continued)

Tax

The Group's tax charge in the income statement and tax position in the balance sheet are the sum of current tax and deferred tax. Calculation of the current tax position involves estimation and judgement in respect of certain items whose tax treatment is uncertain and which will be resolved at some future date. Management makes judgements as to the likely impact and outcome of uncertain or disputed tax treatments. Deferred tax generally recognises the future reversal of all temporary timing differences, but management exercises judgement in respect of deferred tax assets as to the likely recoverability against future taxable profits. As this judgement involves assessment of the future trading prospects of individual statutory entities, the actual outcome may vary from that anticipated.

Share-based payment

The cost of share-based incentive schemes is determined by estimating both the fair value of the shares at the date of the award and the likelihood that financial conditions applied to the award will be met. Estimation of the fair value involves the use of assumptions as to the share price volatility of the Company and of the constituents of the benchmark comparator group. Based upon the advice of external valuers, management chooses appropriate assumptions for each award, and those assumptions remain unchanged throughout the vesting period of the award. Estimation of the likelihood of achieving the financial targets applied to the awards depends upon management's forecasts of the future performance of the Group and upon progress to date towards the targets. This estimate is updated at least annually.

Amendments to standards and new interpretations applied for 2007 reporting

Where applicable, the following amendments to standards and new interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have been applied by the Group in the 2007 financial statements:

	<i>Effective date, periods commencing</i>
International Accounting Standards (IAS)	
IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007 *)
International Financial Reporting Standards (IFRS)	
IFRS 7 Financial Instruments: Disclosures	1 January 2007 *)

Adoption of these standards has increased substantially the disclosures in the financial statements but has not affect the underlying accounting.

International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 10 Interim Financial Reporting and Impairment	1 November 2006

The above interpretation has not had any impact on the Group's financial statements.

Notes to the Consolidated Financial Statements (continued)

2 Accounting policies (continued)

New standards, amendments to standards and new interpretations not applied

The IASB and IFRIC have issued the following standards, amendments to standards and new interpretations, which may be relevant to the Group, with effective dates after the date of these financial statements:

		<i>Effective date, periods commencing</i>
International Accounting Standards (IAS)		
IAS 1	Amendment – Presentation of Financial Statements: Comprehensive revision including requiring a statement of comprehensive income	1 January 2009
IAS 1	Amendment – Presentation of Financial Statements: Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
IAS 23	Amendment – Borrowing Costs: Comprehensive revision to prohibit immediate expensing	1 January 2009
IAS 27	Amendment - Consolidated and Separate Financial Statements	
IAS 28	Consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 28	Amendment – Investments in Associates	
IAS 32	Consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 32	Amendment – Financial Instruments: Presentation	
	Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
International Financial Reporting Standards (IFRS)		
IFRS 2	Share-based Payment - Amendment relating to vesting conditions and cancellations	1 January 2009
IFRS 3	Business Combinations - Comprehensive revision on applying the acquisition method	1 January 2009
IFRS 8	Operating Segments	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

*) Adopted for use in the European Union

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application, other than to substantially increase the disclosures therein. These standards and interpretations will be adopted in the financial statements commencing on or after their respective effective dates.

3 Segmental information

The Group's primary reporting format is business segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The foundry segment ("Foundry") is a supplier of technical product and service solutions to the foundry industry.

The steel mills ("Steel") segment provides high performance consumables and services to the steel-making industry.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

The Group's geographical segments are determined by the location of the Group's assets and operations.

Notes to the Consolidated Financial Statements (continued)

3 Segmental information (continued)

Business segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments.

Discontinued operations represent releases of provisions and tax charges arising from the disposal of businesses which would previously have been disclosed as discrete business segments.

2007	Foundry	Steel	Continuing operations	Discontinued operations	Total
	£m	£m	£m	£m	£m
Revenue					
Segment revenue	350.9	81.6	432.5	-	432.5
Sales between businesses	(1.2)	-	(1.2)	-	(1.2)
Revenue	<u>349.7</u>	<u>81.6</u>	<u>431.3</u>	<u>-</u>	<u>431.3</u>
Segment result before exceptional items	54.7	0.5	55.2	-	55.2
Unallocated expenses			(4.9)	-	(4.9)
Operating profit before exceptional items			<u>50.3</u>	<u>-</u>	<u>50.3</u>
Segment result	53.3	0.2	53.5	-	53.5
Unallocated expenses			(13.1)	-	(13.1)
Profit from operations before interest and tax			<u>40.4</u>	<u>-</u>	<u>40.4</u>
Finance costs			(7.6)	-	(7.6)
Finance income			2.8	-	2.8
Profit before tax			<u>35.6</u>	<u>-</u>	<u>35.6</u>
Tax			(16.7)	-	(16.7)
Profit for the year			<u>18.9</u>	<u>-</u>	<u>18.9</u>
Assets and liabilities					
Segment assets	228.4	48.4	276.8	-	276.8
Unallocated assets			1.6	-	1.6
Total assets			<u>278.4</u>	<u>-</u>	<u>278.4</u>
Segment liabilities	108.3	21.3	129.6	-	129.6
Unallocated liabilities			108.7	-	108.7
Total liabilities			<u>238.3</u>	<u>-</u>	<u>238.3</u>
Other segment information					
Capital expenditure:					
Property, plant and equipment	10.9	2.0	12.9	-	12.9
Intangible assets	0.3	0.1	0.4	-	0.4
Depreciation	7.8	3.1	10.9	-	10.9
Amortisation	0.2	-	0.2	-	0.2
Unallocated amortisation			0.3	-	0.3
Total amortisation			<u>0.5</u>	<u>-</u>	<u>0.5</u>

Notes to the Consolidated Financial Statements (continued)

3 Segmental information (continued)

2006	Foundry	Steel	Continuing operations	Discontinued operations	Total
	£m	£m	£m	£m	£m
Revenue					
Segment revenue	328.6	81.6	410.2	-	410.2
Sales between businesses	(1.3)	(0.1)	(1.4)	-	(1.4)
Revenue	<u>327.3</u>	<u>81.5</u>	<u>408.8</u>	<u>-</u>	<u>408.8</u>
Segment result before exceptional items	47.7	3.0	50.7	-	50.7
Unallocated expenses			(4.6)	-	(4.6)
Operating profit before exceptional items			<u>46.1</u>	<u>-</u>	<u>46.1</u>
Segment result	47.7	3.0	50.7	0.2	50.9
Unallocated expenses			(4.6)	-	(4.6)
Profit from operations before interest and tax			<u>46.1</u>	<u>0.2</u>	<u>46.3</u>
Finance costs			(6.3)	-	(6.3)
Finance income			0.6	-	0.6
Profit before tax			<u>40.4</u>	<u>0.2</u>	<u>40.6</u>
Tax			(15.6)	(0.1)	(15.7)
Profit for the year			<u>24.8</u>	<u>0.1</u>	<u>24.9</u>
Assets and liabilities					
Segment assets	200.7	47.5	248.2	-	248.2
Unallocated assets			6.3	-	6.3
Total assets			<u>254.5</u>	<u>-</u>	<u>254.5</u>
Segment liabilities	97.4	22.1	119.5	-	119.5
Unallocated liabilities			107.2	-	107.2
Total liabilities			<u>226.7</u>	<u>-</u>	<u>226.7</u>
Other segment information					
Capital expenditure					
Property, plant and equipment	9.9	4.5	14.4	-	14.4
Intangible assets	0.2	-	0.2	-	0.2
Depreciation	7.7	2.7	10.4	-	10.4
Amortisation	0.3	-	0.3	-	0.3
Unallocated amortisation			0.3	-	0.3
Total amortisation			<u>0.6</u>	<u>-</u>	<u>0.6</u>

Notes to the Consolidated Financial Statements (continued)
3 Segmental information (continued)
Geographical segments

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments.

2007

	UK	Americas	Europe	Rest of the world	Total
	£m	£m	£m	£m	£m
Revenue					
Segment revenue	35.2	100.4	213.0	111.2	459.8
Inter-segment sales	(19.1)	(0.2)	(8.8)	(0.4)	(28.5)
Revenue	<u>16.1</u>	<u>100.2</u>	<u>204.2</u>	<u>110.8</u>	<u>431.3</u>
Assets					
Segment assets	33.8	54.1	115.5	73.4	276.8
Unallocated assets					1.6
Total assets					<u>278.4</u>
Other segment information					
Capital expenditure:					
Property, plant and equipment	0.9	2.4	7.1	2.5	12.9
Intangible assets	0.2	-	0.1	0.1	0.4

2006

	UK	Americas	Europe	Rest of the world	Total
	£m	£m	£m	£m	£m
Revenue					
Segment revenue	36.5	104.4	191.5	104.6	437.0
Inter-segment sales	(19.2)	(0.2)	(8.5)	(0.3)	(28.2)
Revenue	<u>17.3</u>	<u>104.2</u>	<u>183.0</u>	<u>104.3</u>	<u>408.8</u>
Assets					
Segment assets	33.7	49.5	97.2	67.8	248.2
Unallocated assets					6.3
Total assets					<u>254.5</u>
Other segment information					
Capital expenditure:					
Property, plant and equipment	0.7	3.7	5.5	4.5	14.4
Intangible assets	-	-	0.2	-	0.2

Notes to the Consolidated Financial Statements (continued)

4 Exceptional items before interest and tax

	Note	2007 £m	2006 £m
Costs of proposed takeover of the Group	a)	6.7	-
Ltip charges arising from the proposed takeover of the group	b)	2.0	-
Restructuring of manufacturing facilities	c)	1.2	-
Loss before interest and tax		<u>9.9</u>	<u>-</u>

Certain items of income and expense were classified as exceptional in the financial statements due to their size, incidence or non-recurring nature:

- Various costs, including financial advisors' fees of £4.0 million, legal fees of £1.3 million, and other advisors' fees of £1.0 million, were incurred in relation to the proposed acquisition of the Group by Cookson Group plc. Certain fees which are contingent upon the completion of the acquisition have been accrued because there is believed to be a high likelihood of successful completion after the year-end, and services to which the fees relate had been substantially performed before the year-end. See note 29 for events after the balance sheet date.
- The Remuneration Committee modified the performance conditions attached to Ltip awards such that they vest in full on the Court's sanction of the Scheme of Arrangement associated with the takeover, irrespective of the performance conditions determined at the dates of the grants. This change increased the number of shares likely to vest, shortened the vesting periods of the grants, and changed the fair values of the awards, as detailed in note 22. All these effects have been classified as exceptional. See note 29 for events after the balance sheet date.
- The manufacturing operations in Western Europe have been reviewed in the light of market conditions, and it has been decided to rationalise production to fit better the ongoing requirements of the business. Due to the size and nature of the rationalisation costs, they have been classified as exceptional in these financial statements.

5 Group operating profit

Group operating profit is stated after charging/(crediting):

	2007 £m	2006 £m
Cost of inventories recognised as an expense within cost of sales	276.5	258.9
Write-down of inventories to net realisable value included above	0.4	0.3
Amounts charged in respect of bad and doubtful debtors	0.6	0.2
Depreciation of property, plant and equipment	10.9	10.4
Amortisation of intangible assets	0.5	0.6
Net foreign exchange losses	0.1	0.1
Minimum lease payments recognised as operating lease expenses	3.4	3.4
Research and development cost (all expensed as incurred)	4.9	5.2

Notes to the Consolidated Financial Statements (continued)

6 Staff costs and directors' emoluments

a) Staff costs

	2007	2006
	£m	£m
Wages and salaries	84.1	81.9
Social security costs	13.7	12.8
Pension costs	5.2	5.4
Expense of share-based payments (note 22)	2.8	0.8
	<u>105.8</u>	<u>100.9</u>

b) Directors' emoluments

	2007	2006
	£m	£m
Directors' emoluments	1.7	1.5
Aggregate contributions to defined benefit contribution schemes	0.2	0.2
	Number	Number
Number of directors accruing pensions under:		
Defined benefit schemes	4	3
Defined contribution schemes	<u>4</u>	<u>3</u>

c) Employee numbers

	2007	2006
Manufacturing	2,094	1,962
Selling & Administration	1,276	1,214
	<u>3,370</u>	<u>3,176</u>

7 Auditors' remuneration

	2007	2006
	£m	£m
Group Audit fees	<u>0.3</u>	<u>0.2</u>
Audit fees in respect of subsidiaries	0.6	0.6
Tax fees	0.1	0.2
Other fees pursuant to legislation	0.2	0.2
	<u>0.9</u>	<u>1.0</u>

Notes to the Consolidated Financial Statements (continued)

8 Finance costs and income

	Note	2007 £m	2006 £m
<i>Income statement</i>			
Interest on borrowings		6.5	5.9
Finance charges payable under finance lease and hire purchase contracts		0.1	0.1
Net interest on pensions liabilities	a)	-	0.3
Total finance costs before exceptional items		<u>6.6</u>	<u>6.3</u>
Accelerated amortisation of issue costs of long-term debt	b)	0.6	-
Ineffective hedges treated as fair value through profit or loss item	b)	0.4	-
Exceptional finance costs		<u>1.0</u>	<u>-</u>
Total finance costs	c)	<u><u>7.6</u></u>	<u><u>6.3</u></u>
<i>Cash flow</i>			
Interest on borrowings as shown above		6.5	5.9
Less: Amortisation of issue costs of long-term debt		(0.4)	(0.3)
Less: Unwinding of discount on long-term liabilities		(0.1)	-
Add: Finance charges payable under finance lease and hire purchase contracts		0.1	0.1
Interest paid		<u>6.1</u>	<u>5.7</u>

- a) The finance cost of pensions is the net of the interest cost of £5.4 million (2006: £5.0 million) on benefit obligations and the expected return of £5.4 million (2006: £4.7 million) on plan assets (see note 23).
- b) The proposed acquisition of the Group by Cookson Group plc, which is regarded as highly likely to be completed after the year-end, will trigger change of control clauses requiring the immediate repayment of the Group's secured debt. Issue costs associated with the debt therefore have to be amortised over a shorter period than the original term of the debt. Early repayment of the debt also causes interest rate swaps which had been entered into on terms and durations matching the debt to become ineffective hedges. The change in fair value of the interest rate swaps has therefore been charged to the income statement. See note 29 for events after the balance sheet date.
- c) The total finance cost for financial liabilities that are not at fair value through profit or loss is £7.2 million (2006: £6.3 million).

Notes to the Consolidated Financial Statements (continued)

8 Finance costs and income (continued)
Finance income

	Note	2007 £m	2006 £m
Bank interest receivable		0.7	0.6
Total finance income before exceptional items		<u>0.7</u>	<u>0.6</u>
Recycling of the value of an ineffective hedge previously taken to SORIE	a)	2.1	-
Total finance income	b)	<u><u>2.8</u></u>	<u><u>0.6</u></u>

- a) As noted earlier, the proposed acquisition of the Group by Cookson Group plc causes interest rate swaps which had been entered into on terms and durations matching the Group's secured debt to become ineffective hedges. The fair value of the interest rate swaps that had previously been taken to the Statement of Recognised Income and Expense has now been recycled to the income statement.
- b) The total finance income for financial assets that are not at fair value through profit or loss is £0.7 million (2006: £0.6 million).

9 Income tax

	2007 £m	2006 £m
Consolidated income statement		
<i>Current income tax</i>		
Current income tax charge	16.5	15.6
Adjustments in respect of current income tax of previous years	0.6	0.3
	<u>17.1</u>	<u>15.9</u>
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	0.6	0.5
Adjustments in respect of deferred income tax of prior years	(1.0)	(0.7)
Income tax expense reported in consolidated income statement	<u><u>16.7</u></u>	<u><u>15.7</u></u>
Consolidated statement of recognised income and expense		
<i>Current income tax</i>		
Current tax on exchange adjustments	0.3	-
<i>Deferred income tax</i>		
On cash flow hedges	(0.6)	0.4
On pension actuarial adjustments	0.5	-
Income tax expense reported within equity	<u><u>0.2</u></u>	<u><u>0.4</u></u>

Notes to the Consolidated Financial Statements (continued)

9 Income tax (continued)

The reconciliation of income tax expense at the UK income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December is as follows:

	2007	2006
	£m	£m
Accounting profit before tax from continuing operations	35.6	40.4
Profit before tax from discontinued operations	-	0.2
	<hr/>	<hr/>
Accounting profit before income tax	35.6	40.6
At Foseco plc statutory income tax rate of 30% (2006: 30%)	10.7	12.2
Expenses not deductible for tax purposes	2.1	0.1
Deferred tax asset not recognised	-	0.4
Items taxed at non-standard rates	0.3	0.2
Higher tax rates on overseas earnings	1.9	1.5
Utilisation of tax losses	(0.1)	-
Unrelieved losses	1.4	0.9
Withholding taxes on remittances from overseas	1.6	1.8
UK tax relief on withholding taxes	(0.8)	(1.0)
Adjustments to tax charge in respect of previous periods	(0.4)	(0.4)
	<hr/>	<hr/>
At effective income tax rate of 46.9% (2006: 38.7%)	<u>16.7</u>	<u>15.7</u>

The effective income tax rate of 46.9% in 2007 was increased by the non-deductible fees incurred in relation to the proposed acquisition of the Group by Cookson Group plc. In addition the rate reflects overseas tax at rates higher than the UK rate suffered by many of the Group's operations and is also impacted by losses for which no deferred tax asset has been recognised, and by unrelieved withholding taxes on remittances to the UK.

	2007	2006
	£m	£m
Income tax attributable to continuing operations	16.7	15.6
Income tax attributable to discontinued operations	-	0.1
	<hr/>	<hr/>
	<u>16.7</u>	<u>15.7</u>

Notes to the Consolidated Financial Statements (continued)

9 Income tax (continued)
Deferred income tax

	Consolidated Balance Sheet		Consolidated Income Statement
	Net assets £m	Net liabilities £m	£m
2007			
<i>Deferred income tax liabilities</i>			
Accelerated depreciation for tax purposes	(0.1)	-	(0.1)
Fair value adjustments on acquisition	(0.3)	(4.9)	(0.7)
Fair value of cash flow hedges	(0.5)	-	0.4
Gross deferred income tax liabilities	<u>(0.9)</u>	<u>(4.9)</u>	
<i>Deferred income tax assets</i>			
Post employment benefits	-	1.2	0.3
Other temporary differences	1.8	0.2	(0.8)
Fair value adjustments on acquisition	0.3	0.1	0.5
Gross deferred income tax assets	<u>2.1</u>	<u>1.5</u>	
Deferred income tax charge			<u>(0.4)</u>
Net deferred tax asset/(liability)	<u>1.2</u>	<u>(3.4)</u>	
2006			
<i>Deferred income tax liabilities</i>			
Accelerated depreciation for tax purposes	(0.1)	-	-
Fair value adjustments on acquisition	(1.4)	(4.2)	(0.3)
Fair value of cash flow hedges	-	(0.7)	-
Gross deferred income tax liabilities	<u>(1.5)</u>	<u>(4.9)</u>	
<i>Deferred income tax assets</i>			
Post employment benefits	1.4	0.4	0.6
Other temporary differences	0.8	0.3	(0.7)
Fair value adjustments on acquisition	-	0.8	0.2
Gross deferred income tax assets	<u>2.2</u>	<u>1.5</u>	
Deferred income tax charge			<u>(0.2)</u>
Net deferred tax asset/(liability)	<u>0.7</u>	<u>(3.4)</u>	

The Group has tax losses of £10.1 million (2006: £10.1 million) in the UK that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and their utilisation in future periods is not certain.

At 31 December 2007 there was no recognised deferred tax liability (2006: £nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, since the Group has no liability to additional tax because it can control the reversal of any temporary differences and has no intention to remit the earnings retained at that date.

There are no income tax consequences attaching to the payment of dividends by Foseco plc to the shareholders of the Company.

Notes to the Consolidated Financial Statements (continued)

10 Discontinued operations

Discontinued operations in 2006 comprise the release of provisions of £0.2 million and the settlement of a tax liability of £0.1 million in respect of businesses disposed of in 2003 and 2004.

11 Earnings per share

When it was formed on 12 May 2005, the Group used reverse acquisition accounting in accordance with IFRS 3. Therefore earnings per share is calculated by reference to the share capital of the legal parent rather than the legal subsidiary, whose share capital is disclosed in the consolidated balance sheet.

Basic and diluted earnings per share are calculated by dividing net profit by the weighted average number of ordinary shares outstanding during the year, excluding those held by the Foseco Employee Benefit Trust. For the diluted earnings per share calculation, dilutive potential ordinary shares arising from the vesting of Ltips are taken into account.

The following income and share data is used in the basic and diluted earnings per share computations for total operations:

	2007	2006
	£m	£m
Earnings for basic and diluted earnings per share		
Profit for the year attributable to ordinary shareholders of the parent	17.8	24.0
Basic earnings per share on year for the period	10.8p	14.3p
Diluted earnings per share on year for the period	10.6p	14.2p
Earnings for basic and diluted earnings per share from continuing operations		
Profit for the year attributable to ordinary shareholders of the parent	17.8	24.0
Less: Net profit for the year from discontinued operations	-	(0.1)
Profit for the year attributable to ordinary shareholders from continuing operations	17.8	23.9
Basic earnings per share on profit for the year from continuing operations	10.8p	14.2p
Diluted earnings per share on profit for the year from continuing operations	10.6p	14.1p
Earnings for basic and diluted earnings per share from continuing operations before exceptional items		
Profit for the year attributable to ordinary shareholders from continuing operations	17.8	23.9
Add: Exceptional items	9.0	-
Profit for the year attributable to ordinary shareholders from continuing operations before exceptional items	26.8	23.9
Basic earnings per share on profit for the year from continuing operations before exceptional items	16.2p	14.2p
Diluted earnings per share on profit for the year from continuing operations before exceptional items	16.0p	14.1p

Notes to the Consolidated Financial Statements (continued)

11 Earnings per share (continued)

Earnings for basic and diluted earnings per share from discontinued operations

	2007 £m	2006 £m
Profit for the year attributable to ordinary shareholders from discontinued operations	-	0.1

Basic and diluted earnings per share on profit for the year from discontinued operations	-	0.1p
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Weighted average number of ordinary shares

For basic earnings per share	165,488,244	168,098,116
Dilutive potential shares arising from vesting of Ltips	1,803,592	818,186
For diluted earnings per share	<u>167,291,836</u>	<u>168,916,302</u>

12 Dividends paid and proposed

	2007 £m	2006 £m
<i>Declared and paid during the year:</i>		
Interim dividend for 2007 of 1.73p per share (2006: 1.54p)	2.8	2.6
Final dividend for 2006 of 3.41p per share (2005: 3.1p)	5.7	5.2
	<u>8.5</u>	<u>7.8</u>

Declared and not yet paid (not recognised as a liability at 31 December)

Final dividend for 2006 of 3.41p	<u>-</u>	<u>5.7</u>
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The directors have recommended that no final dividend be paid in respect of 2007.

Notes to the Consolidated Financial Statements (continued)

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
<i>Cost</i>			
At 1 January 2006	47.9	57.4	105.3
Additions	1.9	12.5	14.4
Disposals	-	(0.4)	(0.4)
Reclassifications	0.3	(0.3)	-
Exchange adjustments	(3.4)	(6.6)	(10.0)
At 31 December 2006 and 1 January 2007	<u>46.7</u>	<u>62.6</u>	<u>109.3</u>
Additions	0.9	12.0	12.9
Disposals	(0.5)	(0.2)	(0.7)
Reclassifications	0.3	(0.3)	-
Exchange adjustments	2.7	7.8	10.5
At 31 December 2007	<u><u>50.1</u></u>	<u><u>81.9</u></u>	<u><u>132.0</u></u>
<i>Depreciation</i>			
At 1 January 2006	(3.8)	(21.7)	(25.5)
Charge for the year	(1.7)	(8.7)	(10.4)
Disposals	-	0.2	0.2
Exchange adjustments	0.6	4.1	4.7
At 31 December 2006 and 1 January 2007	<u>(4.9)</u>	<u>(26.1)</u>	<u>(31.0)</u>
Charge for the year	(1.7)	(9.2)	(10.9)
Disposals	0.3	-	0.3
Exchange adjustments	(0.5)	(5.4)	(5.9)
At 31 December 2007	<u><u>(6.8)</u></u>	<u><u>(40.7)</u></u>	<u><u>(47.5)</u></u>
Net book value at 1 January 2006	<u>44.1</u>	<u>35.7</u>	<u>79.8</u>
Net book value at 31 December 2006	<u>41.8</u>	<u>36.5</u>	<u>78.3</u>
Net book value at 31 December 2007	<u><u>43.3</u></u>	<u><u>41.2</u></u>	<u><u>84.5</u></u>

The net carrying amount of plant and equipment at 31 December 2007 includes £2.3 million (2006: £2.2 million) in respect of assets held under finance leases. Additions during the year include £1.1 million (2006: £1.5 million) for plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

Included in plant and equipment at 31 December 2007 is an amount of £5.2 million (2006: £3.3 million) relating to expenditure on assets in the course of construction.

Notes to the Consolidated Financial Statements (continued)

14 Intangible assets

	Goodwill £m	Intellectual property rights £m	Computer Software £m	Other £m	Total £m
<i>Cost</i>					
At 1 January 2006	18.9	6.6	2.5	0.1	28.1
Additions	-	-	0.2	-	0.2
Disposals	-	-	-	(0.1)	(0.1)
At 31 December 2006 and 1 January 2007	18.9	6.6	2.7	-	28.2
Additions	-	-	0.4	-	0.4
Disposals	-	-	(0.1)	-	(0.1)
At 31 December 2007	18.9	6.6	3.0	-	28.5
<i>Amortisation</i>					
At 1 January 2006	-	(1.4)	(2.0)	(0.1)	(3.5)
Amortisation	-	(0.3)	(0.3)	-	(0.6)
Disposals	-	-	-	0.1	0.1
At 31 December 2006 and 1 January 2007	-	(1.7)	(2.3)	-	(4.0)
Amortisation	-	(0.3)	(0.2)	-	(0.5)
Disposals	-	-	0.1	-	0.1
At 31 December 2007	-	(2.0)	(2.4)	-	(4.4)
Net book value at 1 January 2006	18.9	5.2	0.5	-	24.6
Net book value at 31 December 2006	18.9	4.9	0.4	-	24.2
Net book value at 31 December 2007	18.9	4.6	0.6	-	24.1

Intellectual property rights were purchased as part of a business combination. The useful lives of these rights are estimated to be 20 years. Computer software is amortised over its estimated useful economic life of between three and five years. Amortisation of intangible assets is charged primarily within administration expenses in the income statement.

Notes to the Consolidated Financial Statements (continued)

14 Intangible assets (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to two individual cash-generating units, which are also reportable segments, for impairment testing as follows:

- Foundry cash-generating unit; and
- Steel cash-generating unit.

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The recoverable amounts for both the Foundry and ongoing Steel units have been determined on a value in use basis, using cash flow projections from the financial budget and forecasts. Budgets and forecasts for a three year period were prepared and approved by both unit and Group management, as part of the Group's annual budgeting process. For periods beyond the three year forecast, cash flows were extrapolated using general growth rates including an annual turnover growth rate of 5% (2006: 5%) which is consistent with the underlying long term average growth rate for both Foundry and Steel. A pre-tax discount rate of 13% (2006: 15%) was applied to the cash flow projections.

Carrying amount of goodwill allocated to each of the cash-generating units:

	Foundry £m	Steel £m	Total £m
At 31 December 2006	15.7	3.2	18.9
At 31 December 2007	15.7	3.2	18.9

Key assumptions used in value in use calculation of Foundry and Steel units at 31 December 2007

The calculation of value in use for both the Foundry and Steel units is most sensitive to the following assumptions:

- Turnover growth rates;
- Gross margins;
- Discount rates; and
- Long term growth rates used in extrapolating cash flows beyond the three year budget and forecast periods.

Turnover growth rates for the three year period have been budgeted and forecast on a territory by territory basis, taking into account local economic factors and market share assumptions.

Gross margins for the three year period have been budgeted and forecast on a territory by territory basis, taking into account estimates of anticipated efficiency improvements, inflationary factors including raw material price assumptions, sales price and mix assumptions, and the effects of increasing turnover on overhead recovery rates.

Discount rates reflect management's estimate of the cost of capital in each business, adjusted to be on a pre-tax basis.

Long term growth rate assumptions for the period beyond the three year budget and forecast periods are based on the growth rates previously experienced, including an annual turnover growth rate of 5% (2005: 5%) for both the Foundry and ongoing Steel units.

Notes to the Consolidated Financial Statements (continued)

14 Intangible assets (continued)

Sensitivity to change in assumptions

Management believes that no reasonably possible change in any of the key assumptions could cause the carrying value of the Foundry unit to exceed its recoverable amount.

For the ongoing Steel unit there are reasonably possible changes in key assumptions which could cause the carrying value of the unit to exceed its recoverable amount. The Steel unit has a smaller customer base than the Foundry unit and is more dependent on its key customers. Management recognises that the loss or substantial reduction of the business from one or more key customers, or the impact of price reductions arising from consolidation in the Steel industry, could potentially have an adverse impact on the forecasts. The recoverable amount exceeds the carrying value of Steel's assets by £33.9 million. A 12% reduction in the long term gross profit per annum assumed in the projections would give a value in use equal to the carrying amount of the Steel unit. Despite the risks noted above, management are confident of the achievability of the cash flow projections.

15 Inventories

	2007	2006
	£m	£m
Raw materials	11.1	9.6
Work-in-progress	0.7	0.9
Finished goods	34.1	29.1
	<u>45.9</u>	<u>39.6</u>

The Group wrote down the value of inventories by £0.4 million during the year (2006: £0.3 million). This amount is included within the cost of inventories recognised as an expense within cost of sales in note 5.

16 Trade and other receivables

	2007	2006
	£m	£m
Trade receivables	84.5	72.4
Other receivables	6.4	5.5
Prepayments	1.8	1.8
	<u>92.7</u>	<u>79.7</u>

Trade receivables are non-interest bearing and are generally on credit terms usual for the businesses and territories in which the Group operates.

The net amount of sales tax receivable and sales tax payable is non-interest bearing and is settled with the appropriate tax authorities regularly throughout the year.

Notes to the Consolidated Financial Statements (continued)

17 Cash and short-term deposits

	2007 £m	2006 £m
Cash at bank and in hand	19.2	15.6
Short-term deposits	7.8	13.4
	27.0	29.0

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The fair value of the cash and cash equivalents at 31 December 2007 was £27.0 million (2006: £29.0 million).

At 31 December 2007 the Group had £29.4 million (2006: £29.2 million) of undrawn committed borrowing facilities available in respect of which all conditions precedent had been met.

18 Issued capital and reserves

Foseco plc share capital

	At 31 December 2007		At 31 December 2006	
	Number	£	Number	£
a) Authorised:				
Ordinary shares of £0.25 each	224,000,000	56,000,000	224,000,000	56,000,000

b) Allotted, called up and fully paid

	Number		
	At 1 January 2007	Purchased and cancelled during the year	At 31 December 2007
Equity shares:			
Ordinary shares of £0.25 each	169,150,000	(2,685,000)	166,465,000
	£		
	At 1 January 2007	Purchased and cancelled during the year	At 31 December 2007
Equity shares:			
Ordinary shares of £0.25 each	42,287,500	(671,250)	41,616,250

During the year, the Company purchased and subsequently cancelled 2,685,000 of its ordinary shares with a nominal value of £671,250 for a total consideration of £5,792,284, including transaction costs of £57,509.

Notes to the Consolidated Financial Statements (continued)**18 Issued capital and reserves (continued)***Share capital in the consolidated balance sheet*

From a legal perspective, Foseco plc acquired Foseco (Jersey) Limited, but as Foseco (Jersey) Limited had the power to govern the financial and operating activities of its legal parent at the date of the acquisition, IFRS 3 states that the transaction must be accounted for as a "reverse acquisition", i.e. Foseco (Jersey) Limited is treated as if it had acquired Foseco plc, rather than vice versa. This accounting treatment has the consequence that the balance sheet shows the share capital of Foseco (Jersey) Limited rather than the capital issued by Foseco plc.

The amounts recognised as issued capital in the consolidated financial statements has been determined by adding the issued capital of Foseco (Jersey) Limited immediately before the business combination to the cost of the combination. However, the equity structure appearing in the consolidated financial statements (i.e. the number and type of equity instruments issued, and the denominator in the earnings per share calculations) reflects the equity structure of Foseco plc, including the equity instruments issued by Foseco plc to effect the business combination.

Foseco (Jersey) Limited share capital

	At 31 December 2006 and 31 December 2007	
	Number	£
a) Authorised:		
Ordinary shares of £0.01 each	69,154,476	691,545
b) Allotted, called up and fully paid		
Ordinary shares of £0.01 each	982,495	9,825

Notes to the Consolidated Financial Statements (continued)

18 Issued capital and reserves (continued)
Reconciliation of movements in equity

2006

Note	Issued capital £m	Own shares held (note c) £m	Share premium (note d) £m	Capital redemption reserve (note e) £m	Foreign currency translation reserve (note f) £m	Hedge accounting reserve (note g) £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2006	0.1	(1.0)	0.1	0.7	5.1	0.5	3.7	9.2	3.6	12.8
Changes in equity for the period:										
Currency translation adjustments	-	-	-	-	(6.5)	-	-	(6.5)	(0.3)	(6.8)
Cash flow hedge gains taken to equity	-	-	-	-	-	1.8	-	1.8	-	1.8
Deferred taxation on cash flow hedges	-	-	-	-	-	(0.4)	-	(0.4)	-	(0.4)
Profit for the period	-	-	-	-	-	-	24.0	24.0	0.9	24.9
Actuarial adjustment on pensions	-	-	-	-	-	-	5.3	5.3	-	5.3
Total recognised income and expense for the period	-	-	-	-	(6.5)	1.4	29.3	24.2	0.6	24.8
Purchase of own shares	-	(1.5)	-	-	-	-	-	(1.5)	-	(1.5)
Credit in respect of Ltip	-	-	-	-	-	-	0.8	0.8	-	0.8
Equity dividends	-	-	-	-	-	-	(7.8)	(7.8)	(1.3)	(9.1)
Reversal of 2005 distribution to shareholders	a)	-	-	-	-	-	2.4	2.4	-	2.4
Redesignation of 2005 distribution as a dividend	a)	-	-	-	-	-	(2.4)	(2.4)	-	(2.4)
At 31 December 2006	0.1	(2.5)	0.1	0.7	(1.4)	1.9	26.0	24.9	2.9	27.8
Changes in equity for the period:										
Currency translation adjustments	-	-	-	-	1.5	-	-	1.5	0.2	1.7
Cash flow hedge losses taken to equity	-	-	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Cash flow hedge gains removed from equity	-	-	-	-	-	(2.2)	-	(2.2)	-	(2.2)
Deferred taxation on cash flow hedges	-	-	-	-	-	0.6	-	0.6	-	0.6
Profit for the period	-	-	-	-	-	-	17.8	17.8	1.1	18.9
Actuarial adjustment on pensions	-	-	-	-	-	-	8.3	8.3	-	8.3
Deferred tax on pension liabilities	-	-	-	-	-	-	(0.5)	(0.5)	-	(0.5)
Current tax on exchange adjustments	-	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Total recognised income and expense for the period	-	-	-	-	1.5	(1.7)	25.3	25.1	1.3	26.4
Purchase of own shares	-	(1.8)	-	-	-	-	-	(1.8)	-	(1.8)
Purchase and cancellation of own shares (note b)	-	-	-	-	-	-	(5.8)	(5.8)	-	(5.8)
Credit in respect of Ltip	-	-	-	-	-	-	2.8	2.8	-	2.8
Equity dividends	-	-	-	-	-	-	(8.5)	(8.5)	(0.8)	(9.3)
At 31 December 2007	0.1	(4.3)	0.1	0.7	0.1	0.2	39.8	36.7	3.4	40.1

Notes to the Consolidated Financial Statements (continued)

18 Issued capital and reserves (continued)

2006 Changes in equity

- a) As the Company was incorporated on 5 April 2005, initial financial statements should have been filed to demonstrate that the Company had sufficient distributable reserves to enable it to pay a dividend during 2005. These financial statements were filed subsequent to the declaration of a dividend, therefore legally the payment to shareholders did not constitute a dividend but rather was deemed to be a distribution. A resolution to redesignate the 2005 distribution as a dividend was approved at the annual general meeting of the Company on 17 May 2006.

2007 Changes in equity

- b) The Company purchased and subsequently cancelled 2,685,000 of its ordinary shares with a nominal value of £671,250 for a total consideration of £5,792,284, including transaction costs of £57,509.

Nature and purpose of other reserves

- c) Own shares held
The Foseco Employee Benefit Trust makes regular purchases of Foseco plc shares so that share awards made under the Long Term Incentive Plan can be distributed to employees as and when they vest. At 31 December 2007, the group held 2,382,400 of its own shares (2006: 1,547,500).
- d) Share premium
A subsidiary of Foseco (Jersey) Limited sold its shares in Foseco plc as part of the process of floating that Company on the London Stock Exchange. The excess of the consideration received over the original cost of investment has been treated as share premium and relates to equity shares.
- e) Capital redemption reserve
This reserve records the nominal value of shares redeemed by the company.
- f) Foreign currency translation reserve
This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the gains and losses on receivables and payables that form part of the net investments in these subsidiaries.
- g) Hedge accounting reserve
This reserve records movements in the fair value of forward exchange contracts and interest rate swaps that are designated as effective hedges under IAS 39.

Notes to the Consolidated Financial Statements (continued)
19 Interest-bearing loans and borrowings

2007	Effective interest rate %	Maturity	£m
Current			
Obligations under finance leases and hire purchase contracts (note 26)	5.26%	2008	1.1
Bank overdrafts	4.52%	On demand	0.3
Other financial liabilities		2008	0.1
Secured bank loans:			
€87.9m	EURIBOR + 0.70%	April 2008 *	64.4
£39.9m	LIBOR + 0.70%	April 2008 *	39.8
£8.9m	LIBOR + 0.70%	April 2008 *	8.9
Guaranteed loans:			
RMB50.5m	7.23%	2008	3.5
			118.1
Non-current			
Obligations under finance leases and hire purchase contracts (note 26)	7.07%	2009-2011	1.2
			1.2
2006			
	Effective interest rate %	Maturity	£m
Current			
Obligations under finance leases and hire purchase contracts (note 26)	4.88%	2007	0.9
Bank overdrafts	5.54%	On demand	0.4
Secured bank loans:			
£2.0m	LIBOR + 0.70%	June & December 2007	1.9
£0.5m	LIBOR + 0.70%	June & December 2007	0.4
Guaranteed loans:			
RMB40.5m	6.14%	2007	2.7
€0.1m	Nil	2007	0.1
			6.4
Non-current			
Obligations under finance leases and hire purchase contracts (note 26)	4.8%	2008-2010	1.2
Secured bank loans:			
€87.9m	EURIBOR + 0.70%	May 2010 *	58.7
£39.9m	LIBOR + 0.70%	2008-2010 *	39.5
£8.9m	LIBOR + 0.70%	2008-2010 *	8.8
			108.2

Notes to the Consolidated Financial Statements (continued)

19 Interest-bearing loans and borrowings (continued)

Bank overdrafts

The bank overdrafts are secured by floating charge over the group's net assets.

Secured bank loans

The sterling-denominated secured bank loans detailed above are secured by pledges over the shares of certain subsidiary companies held by a subsidiary of Foseco plc, and by guarantees provided by other subsidiaries.

The euro-denominated secured bank loan is secured by pledges over the shares of certain subsidiary companies held by a subsidiary of Foseco plc.

Interest rate swaps are held to fix the rates of interest payable on 75% of the euro-denominated secured loan and 50% of the sterling-denominated loans throughout the duration of the loans, as detailed in note 27.

★ The proposed acquisition of the Group by Cookson Group plc, which is regarded as highly likely to be completed after the year-end, will trigger change of control clauses requiring the immediate repayment of the Group's secured bank loans. Therefore loans which were classified as non-current liabilities in 2006 have been reclassified as current liabilities in 2007. See note 29 for events after the balance sheet date.

Analysis of changes in interest-bearing loans and borrowings

	2007	2006
	£m	£m
At 1 January	114.6	116.0
Exchange differences	5.5	(1.5)
Secured bank loans repaid	(2.5)	(2.5)
Amortisation of issue costs	1.0	0.3
New leases	1.1	1.5
Lease payments made	(1.1)	(1.0)
Increase in other financial liabilities	0.1	-
Movement in short-term borrowings	0.6	1.8
	<u>119.3</u>	<u>114.6</u>
Non-current liabilities	1.2	108.2
Current liabilities	118.1	6.4
	<u>119.3</u>	<u>114.6</u>

The Group's senior debt is subject to covenant conditions. For both the Foseco Group and for its German sub-group, earnings before interest, tax, depreciation and amortisation (EBITDA) must be greater than three times net interest, and net debt must be less than three times EBITDA. The Group has complied with these covenant conditions at all measurement dates.

Notes to the Consolidated Financial Statements (continued)

20 Other long-term liabilities

	2007 £m	2006 £m
Redundancy costs	1.8	2.2
Deferred sales taxes	1.4	1.3
Other creditors	0.8	0.6
	4.0	4.1
	4.0	4.1

21 Provisions

	Provision for environmental liabilities £m	Other provisions £m	Total £m
At 1 January 2006	2.9	2.2	5.1
Arising during the year	-	0.5	0.5
Released during the year	(0.4)	-	(0.4)
Utilised	(0.2)	(0.9)	(1.1)
Exchange adjustments	-	(0.1)	(0.1)
At 31 December 2006 and 1 January 2007	2.3	1.7	4.0
Arising during the year	-	0.3	0.3
Released during the year	(0.4)	-	(0.4)
Utilised	(0.9)	(0.5)	(1.4)
Reclassified as employee benefits	-	(0.4)	(0.4)
Exchange adjustments	-	0.1	0.1
At 31 December 2007	1.0	1.2	2.2
2006 Current	1.3	0.8	2.1
2006 Non-current	1.0	0.9	1.9
	2.3	1.7	4.0
2007 Current	0.2	0.3	0.5
2007 Non-current	0.8	0.9	1.7
	1.0	1.2	2.2

Provision for environmental liabilities

The provision for environmental liabilities represents the best estimate of the cost of remediation of sites on which the Group operates or has operated. Given the inherent difficulty of estimating the cost of remediation, the directors have taken expert advice concerning these liabilities. The provision is expected to be utilised within five years and has been discounted to its present value. Unwinding of the discount does not appear in the table above due to its immateriality.

Other provisions

Other provisions include amounts for staff benefits and holiday pay, and amounts to cover potential claims for various sales and social taxes. These provisions are expected to be utilised within three years.

Notes to the Consolidated Financial Statements (continued)

22 Share-based payment transactions

Long term incentive plan

In the light of the the proposed acquisition of the Group by Cookson Group plc, the Remuneration Committee amended the vesting conditions attached to the long term incentive plan ("Ltip") such that all awards would vest in full, contingent upon the successful completion of the acquisition, to eligible employees still employed at the completion date. The income statement expense for the year has been split between those charges which would have arisen in the absence of the proposed takeover and have been charged to operating profit before exceptional items, and those which have arisen from the change in the vesting conditions and the shortened vesting period and have been charged to exceptional items.

The charge to operating profit before exceptional items has been determined on the following basis, which is consistent with previous periods. Eligible employees or directors were awarded a number of ordinary shares in Foseco plc which was to be determined by reference to the Group's performance over three financial years. These share awards were to vest three years after the date on which they were granted, and were to be settled by distribution of shares.

Shares could vest only if the Group met two performance conditions. The Group's Total Shareholder Return ("TSR") had to at least match the median TSR of the FTSE All-share index (excluding investment companies) over the vesting period, and the Group had to pass a threshold level of cumulative cash flow per share over three financial years. If the conditions were met, the actual number of shares to vest was to be determined by reference to the cash flow per share performance, up to a pre-defined maximum.

At 31 December 2007 the maximum number of shares which could vest as a result of the 2007 award was 1,190,571 (2006: award: 1,289,926, 2005 award: 1,803,592). The income statement expense for the share awards was been estimated by applying fair values per share of £1.25p for the 2007 award, £1.18p for the 2006 award and £0.67p for the 2005 award, as calculated by an independent valuer, to the number of shares which the directors believed were likely to vest, based on current forecasts of the cumulative cash flow per share. As continuous employment by the Group over the three year vesting period was a pre-condition of eligibility to receive the shares, allowance had been made for the possibility that some employees might not meet that condition.

The fair value per share of the award was determined using principles similar to a "Monte Carlo simulation", taking into account share price volatility, correlation with a comparator group, and the plan's vesting schedule. Reinvestment of dividends is not incorporated into the valuation.

The following table lists the inputs to the model used:

	2007	2006	2005
Dividend yield (%)	2.35	3.0	3.5
Expected share price volatility (%)	26.0	30.0	35.0
Historical volatility (%)	25.0	24.0	21.0
Expected comparator group volatility (%)	11.0	11.0	15.0
Fair value per share	£1.25p	£1.18p	£0.67p

As Foseco's shares had traded for only a short period from the date of the Company's flotation to the dates of the share awards, expected share price volatilities have been estimated by reference to the experience in recent years of newly listed companies and long-established companies in similar sectors. The historical share price volatility is not yet sufficiently well established to serve as a reasonable guide to expected volatility.

Notes to the Consolidated Financial Statements (continued)

22 Share-based payment transactions (continued)

The charge to operating profit before exceptional items for the year is £1.1 million (2006: £0.8 million), representing one third of the estimated total cost of the 2005, 2006 and 2007 share awards.

The maximum number of shares which could vest as a result of Ltip awards is as follows:

	2007	2006
At 1 January	3,189,896	1,906,057
Awards made in the year	1,204,407	1,321,563
Vested during the year	-	-
Lapsed during the year	(110,214)	(37,724)
At 31 December	<u>4,284,089</u>	<u>3,189,896</u>

The charge to exceptional items was determined by evaluating the effect of increasing the number of shares likely to vest up to the maximum, and shortening the vesting periods of the awards from three years to the elapsed time between the grant dates and the anticipated date of the completion of the takeover. In addition, as the decision of the Remuneration Committee constitutes a modification to the awards, fair values of the awards both immediately before and immediately after the modification have been determined by an independent valuer. The difference between these fair values is being charged to the income statement over the period from the date of modification (17 October 2007) until the anticipated date of the completion of the takeover. The total exceptional charge was £1.7m. See note 29 for events after the balance sheet date.

23 Pensions

The Group operates a number of pension schemes throughout the world. The profit and loss account charge for 2007 for benefits under Foseco's retirement benefit schemes was £5.2 million (2006: £5.4 million), including £1.5 million (2006: £1.3 million) in respect of defined contribution schemes. Actuarial gains of £8.3 million (2006: gains of £5.3 million) have been included in the Statement of Recognised Income and Expense. The total market value of assets of the schemes was £85.5 million as at 31 December 2007 (2006: £78.3 million).

The major defined benefit schemes are subject to regular valuations based on the accepted actuarial practice and standards within the country in which the scheme is established. The largest schemes are directly invested and others are invested in insurance contracts. The remainder are unfunded schemes. The German scheme has been disclosed separately as it represents a large proportion of the unfunded liabilities.

The most recent actuarial valuations were carried out at various dates between 1 January 2007 and 31 December 2007. The results of these valuations were updated to 31 December 2007 by independent qualified actuaries.

Notes to the Consolidated Financial Statements (continued)

23 Pensions (continued)

The principal assumptions used by the actuaries were:

	2007		2006	
	Germany	Other	Germany	Other
Rate of increase of salaries	3.00%	4.33%	3.00%	4.11%
Rate of increase of pensions in payment	1.00%	2.76%	1.50%	1.56%
Discount rate	5.50%	5.89%	4.70%	5.28%
Inflation assumption	2.00%	2.88%	2.00%	2.87%
Expected return on scheme assets	-	7.34%	-	7.09%

Assumptions for schemes other than Germany are expressed as averages weighted by the defined benefit obligations or assets of the individual schemes as applicable. The overall expected rate of return on scheme assets is determined based on the market expectations prevailing at the balance sheet date.

Life expectancy assumptions for the main schemes are as follows:

	2007		2006	
	At 65 for a male now aged 65	At 65 for a male now aged 45	At 65 for a male now aged 65	At 65 for a male now aged 45
Germany	17.90	20.65	17.90	20.65
UK	19.00	20.00	18.50	19.40
USA	17.98	17.98	17.98	17.98
Japan	18.80	21.20	18.80	21.20

Net benefit expense

Recognised in the Income Statement

	Germany	Other	Total schemes in deficit	Total schemes in deficit
	£m	£m	£m	£m
2007				
Current service cost	0.8	3.0	3.8	0.1
Past service cost	-	(0.2)	(0.2)	-
Recognised in arriving at operating profit	<u>0.8</u>	<u>2.8</u>	<u>3.6</u>	<u>0.1</u>
2006				
Current service cost	0.7	3.2	3.9	0.2
Recognised in arriving at operating profit	<u>0.7</u>	<u>3.2</u>	<u>3.9</u>	<u>0.2</u>

The amounts detailed above are included within cost of sales, selling and distribution costs and administration expenses.

Notes to the Consolidated Financial Statements (continued)

23 Pensions (continued)

	Germany	Other	Total schemes in deficit	Total schemes in deficit
	£m	£m	£m	£m
2007				
Interest cost on benefit obligation	0.7	4.5	5.2	0.2
Expected return on scheme assets	-	(5.1)	(5.1)	(0.3)
	<u>0.7</u>	<u>(0.6)</u>	<u>0.1</u>	<u>(0.1)</u>
2006				
Interest cost on benefit obligation	0.6	4.2	4.8	0.2
Expected return on scheme assets	-	(4.4)	(4.4)	(0.3)
	<u>0.6</u>	<u>(0.2)</u>	<u>0.4</u>	<u>(0.1)</u>

Taken to the Statement of Recognised Income and Expense

	Germany	Other	Total schemes in deficit	Total schemes in deficit
	£m	£m	£m	£m
2007				
Actual return on scheme assets	-	5.3	5.3	(0.2)
Less: Expected return on scheme assets	-	(5.1)	(5.1)	(0.3)
	<u>-</u>	<u>0.2</u>	<u>0.2</u>	<u>(0.5)</u>
Other actuarial gains and losses	2.0	6.8	8.8	(0.2)
	<u>2.0</u>	<u>7.0</u>	<u>9.0</u>	<u>(0.7)</u>
Actuarial gains and losses taken to the Statement of Recognised Income and Expense	<u>2.0</u>	<u>7.0</u>	<u>9.0</u>	<u>(0.7)</u>
2006				
Actual return on scheme assets	-	7.9	7.9	0.6
Less: Expected return on scheme assets	-	(4.4)	(4.4)	(0.3)
	<u>-</u>	<u>3.5</u>	<u>3.5</u>	<u>0.3</u>
Other actuarial gains and losses	0.8	1.5	2.3	(0.8)
	<u>0.8</u>	<u>5.0</u>	<u>5.8</u>	<u>(0.5)</u>
Actuarial gains and losses taken to the Statement of Recognised Income and Expense	<u>0.8</u>	<u>5.0</u>	<u>5.8</u>	<u>(0.5)</u>

Notes to the Consolidated Financial Statements (continued)

23 Pensions (continued)

Benefit liabilities/(assets)

	Germany	Other	Total schemes in deficit	Total schemes in deficit
	£m	£m	£m	£m
2007				
Defined benefit obligations	15.9	88.6	104.5	3.6
Fair value of scheme assets	-	(81.8)	(81.8)	(3.7)
Benefit liabilities/(assets) – non-current	<u>15.9</u>	<u>6.8</u>	<u>22.7</u>	<u>(0.1)</u>
2006				
Defined benefit obligations	15.7	87.5	103.2	3.7
Fair value of scheme assets	-	(74.5)	(74.5)	(3.8)
Benefit liabilities/(assets) – non-current	<u>15.7</u>	<u>13.0</u>	<u>28.7</u>	<u>(0.1)</u>

Changes in the present value of the defined benefit obligation are as follows:

	Germany	Other	Total schemes in deficit	Total schemes in deficit
	£m	£m	£m	£m
2006				
Opening defined benefit obligation	16.1	86.2	102.3	-
Interest cost	0.6	4.2	4.8	0.2
Current service cost	0.7	3.2	3.9	0.2
Benefits paid	(0.6)	(2.2)	(2.8)	(0.1)
Employee contributions	-	0.4	0.4	-
Actuarial (gains)/losses on obligation	(0.8)	(1.5)	(2.3)	0.8
Transfers	-	0.2	0.2	-
Reclassifications (note a)	-	2.7	2.7	2.9
Exchange adjustments	(0.3)	(5.7)	(6.0)	(0.3)
Closing defined benefit obligation	<u>15.7</u>	<u>87.5</u>	<u>103.2</u>	<u>3.7</u>
2007				
Opening defined benefit obligation	15.7	87.5	103.2	3.7
Interest cost	0.7	4.5	5.2	0.2
Current service cost	0.8	3.0	3.8	0.1
Past service cost	-	(0.2)	(0.2)	-
Benefits paid	(0.6)	(2.4)	(3.0)	(0.1)
Employee contributions	-	0.4	0.4	-
Actuarial (gains)/losses on obligation	(2.0)	(6.8)	(8.8)	0.2
Reclassifications (note a)	-	1.5	1.5	-
Net movement between surplus and deficit	-	1.2	1.2	(1.2)
Exchange adjustments	1.3	(0.1)	1.2	0.7
Closing defined benefit obligation	<u>15.9</u>	<u>88.6</u>	<u>104.5</u>	<u>3.6</u>

Notes to the Consolidated Financial Statements (continued)
23 Pensions (continued)

Changes in the fair value of scheme assets are as follows:

	Germany	Other	Total schemes in deficit	Total schemes in deficit
	£m	£m	£m	£m
2006				
Opening fair value of scheme assets	-	66.4	66.4	-
Expected return	-	4.4	4.4	0.3
Contributions by employer	0.6	3.1	3.7	0.2
Contributions by employees	-	0.4	0.4	-
Benefits paid	(0.6)	(2.2)	(2.8)	(0.1)
Actuarial gains/(losses)	-	3.5	3.5	0.3
Transfers	-	0.2	0.2	-
Reclassifications (note a)	-	3.0	3.0	3.4
Exchange adjustments	-	(4.3)	(4.3)	(0.3)
	<u>-</u>	<u>74.5</u>	<u>74.5</u>	<u>3.8</u>
2007				
Opening fair value of scheme assets	-	74.5	74.5	3.8
Expected return	-	5.1	5.1	0.3
Contributions by employer	0.6	2.9	3.5	0.2
Contributions by employees	-	0.4	0.4	-
Benefits paid	(0.6)	(2.4)	(3.0)	(0.1)
Actuarial gains/(losses)	-	0.2	0.2	(0.5)
Reclassifications (note a)	-	0.7	0.7	-
Net movement between deficit and surplus	-	0.6	0.6	(0.6)
Exchange adjustments	-	(0.2)	(0.2)	0.6
	<u>-</u>	<u>81.8</u>	<u>81.8</u>	<u>3.7</u>

- a) Certain pension assets and liabilities which were previously classified as long-term creditors have been included within the pensions disclosures. The effect on the financial statements is not material.
- b) The Group expects to contribute approximately £5.1 million to its defined benefit pension schemes in 2008.

Major categories of scheme assets as a percentage of the fair value of total scheme assets

	2007 %	2006 %
UK equities	29.3	32.3
US equities	30.3	31.8
Japanese equities	4.8	4.0
UK bonds	14.8	14.2
US bonds	10.5	11.1
Japanese bonds	1.1	0.8
Other bonds	1.8	1.9
Other assets	7.4	3.9

The overall expected rate of return on scheme assets is determined based on the market expectations prevailing at the balance sheet date.

Notes to the Consolidated Financial Statements (continued)

23 Pensions (continued)

History of experience gains and losses

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Germany					
Fair value of scheme assets	-	-	-	-	-
Present value of defined benefit obligation	(15.9)	(15.7)	(16.1)	(16.0)	(13.5)
Deficit in the scheme	(15.9)	(15.7)	(16.1)	(16.0)	(13.5)
Experience gains/(losses) arising on scheme liabilities	2.0	0.8	0.3	(1.6)	
Experience gains/(losses) arising on scheme assets	-	-	-	-	
Other schemes					
Fair value of scheme assets	85.5	78.3	66.4	55.9	52.1
Present value of defined benefit obligation	(92.2)	(91.2)	(86.2)	(67.4)	(67.3)
Deficit in the scheme	(6.7)	(12.9)	(19.8)	(11.5)	(15.2)
Experience gains/(losses) arising on scheme liabilities	6.6	0.7	(10.8)	2.2	
Experience gains/(losses) arising on scheme assets	(0.3)	3.8	3.8	1.5	

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group Statement of Recognised Income and Expense is an overall gain of £9.0 million (2006: gain of £0.7 million). The directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken direct to equity of £1.2 million is attributable to actuarial gains and losses since the inception of those pension schemes. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group Statement of Recognised Income and Expense before 1 January 2004.

24 Trade and other payables

	2007 £m	2006 £m
Trade payables	46.2	39.0
Other payables	5.4	7.0
Other taxes and social security	5.7	4.6
Accruals	22.1	13.6
	<u>79.4</u>	<u>64.2</u>

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing. Normal settlement terms vary by country, usually being either 30 or 60 days. The Group-wide average is approximately 44 days.

Other payables are non-interest bearing and have an average term of approximately two months.

The net of sales tax payable and sales tax receivable is remitted to the appropriate tax body regularly throughout the year.

Interest payable is normally settled quarterly throughout the year.

Notes to the Consolidated Financial Statements (continued)

25 Note to the cash flow statement
Purchase of own shares

	2007 £m	2006 £m
Purchase of own shares by Foseco plc	5.8	-
Purchase of shares of Foseco plc by Foseco Employee Benefit Trust (note 18c)	1.8	1.5
	<u>7.6</u>	<u>1.5</u>

26 Commitments and contingencies
Amounts due under finance leases and hire purchase contracts

The Group has finance leases and hire purchase contracts for various items of plant and machinery and motor vehicles. Some leases have terms of renewal (at the option of the lessee) and purchase options, but not escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the net present value of the minimum lease payments are as follows:

	2007 £m	2006 £m
Amounts payable:		
Within one year	1.2	1.0
After one year but not more than five years	1.3	1.3
Total minimum lease payments	<u>2.5</u>	<u>2.3</u>
Less amounts representing finance charges	(0.2)	(0.2)
Present value of minimum lease payments	<u>2.3</u>	<u>2.1</u>
The present value of the minimum lease payments is analysed as follows:		
Within one year	1.1	0.9
After one year but not more than five years	1.2	1.2
	<u>2.3</u>	<u>2.1</u>

Notes to the Consolidated Financial Statements (continued)**26 Commitments and contingencies (continued)**
Operating lease commitments

The Group has entered into commercial leases on certain motor vehicles, small items of plant and machinery, and land and buildings, where it is not in the best interest of the group to purchase these assets. The plant and machinery has an average life of between 5 and 10 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2007	2006
	£m	£m
Amounts payable:		
Within one year	3.8	3.1
After one year but not more than five years	8.0	6.7
In over five years	3.8	2.0
	<u>15.6</u>	<u>11.8</u>

Capital commitments

At 31 December 2007, the Group has commitments of £2.1 million (2006: £1.1 million) relating to the acquisition of new plant and machinery.

27 Financial instruments

The Group's principal financial instruments, other than derivatives, comprise bank loans, overdrafts, finance leases and hire purchase contracts, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swaps and forward currency contracts, the purposes of which are to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. The Group's accounting policy in relation to derivatives is set out in note 2.

The Group's policy is that it does not trade in financial instruments.

Notes to the Consolidated Financial Statements (continued)

27 Financial instruments (continued)
Fair values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments.

	Carrying amount		Fair value	
	2007 £m	2006 £m	2007 £m	2006 £m
<i>Financial assets</i>				
Cash and short term investments	27.0	29.0	27.0	29.0
Trade and other receivables	92.7	79.7	92.7	79.7
Other financial assets - interest rate swaps	2.1	2.4	2.1	2.4
Forward exchange contracts	-	0.1	-	0.1
<i>Financial liabilities</i>				
Trade and other payables (excluding accruals)	(57.3)	(50.6)	(57.3)	(50.6)
Forward exchange contracts	(0.1)	-	(0.1)	-
Bank overdrafts	(0.3)	(0.4)	(0.3)	(0.4)
Obligations under finance leases and hire purchase contracts	(2.3)	(2.1)	(2.2)	(2.0)
Floating rate borrowings	(43.8)	(42.0)	(43.9)	(42.4)
Fixed rate borrowings *	(72.8)	(70.1)	(72.9)	(70.9)

* classified as fixed rate when including the effects of related interest rate swaps on floating rate borrowings as discussed below.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the tables below are non-interest bearing and are therefore not subject to interest rate risk.

The fair value of floating rate borrowings equates to the carrying amount before unamortised issue costs as the interest thereon is repriced at 31 December. Certain floating rate borrowings have been classified as fixed rate because hedging instruments of matching maturity and notional amount have been obtained. The fair values of interest rate swaps and forward exchange contracts have been calculated by discounting the expected future cash flows at prevailing interest rates, and are shown separately above, within financial assets and financial liabilities. For trade and other payables, bank overdrafts and cash and cash equivalents the carrying amounts equate to the fair values because of their short durations to maturity.

Other financial assets carried in the balance sheet at a value of £2.1 million include £1.7 million in respect of hedges which have become ineffective due to the change in the expected repayment profile of the underlying hedged item, because of the proposed takeover of the Group by Cookson Group plc, and are therefore treated as fair value through profit or loss assets. See note 29 for events after the balance sheet date.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

Notes to the Consolidated Financial Statements (continued)

27 Financial instruments (continued)

Interest rate risk

The Group's exposure to interest rate risk relates primarily to secured loans and cash and cash equivalents.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. To achieve this mix, the Group enters into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between variable and fixed interest amounts calculated by reference to an agreed-upon notional principal amount.

The following table sets out the carrying amounts of the Group's financial instruments that are exposed to interest rate risk:

	2007	2006
	£m	£m
<i>Floating rate</i>		
Cash and cash equivalents	27.0	29.0
Bank overdrafts	(0.3)	(0.4)
Bank loans	(116.6)	(112.1)
Less: Effect of interest rate swaps	72.8	70.1
<i>Fixed rate</i>		
Obligations under finance leases and hire purchase contracts	(2.3)	(2.1)
Effect of interest rate swaps	(72.8)	(70.1)

Interest on cash and cash equivalents is effectively earned at floating rates because of the short duration of any term deposits.

The Group has entered into five year interest rate hedges, swapping 50% of its Sterling denominated secured loans and 75% of its Euro denominated secured loans from floating rate to fixed rate interest throughout the duration of the loans. At 31 December 2007, after taking into account the effect of interest rate swaps, approximately 64% (2006: 63%) of the Group's secured loans are at a fixed rate of interest.

A change of 100 basis points from 31 December interest rates would impact profit by approximately £0.2 million in respect of euro-denominated loans and £0.2 million in respect of sterling-denominated loans (2006: £0.1 million and £0.3 million respectively), assuming constant foreign currency exchange rates, based on the unhedged portion of the Group's bank loans. The impact of such a change upon equity would be limited to the change in the fair value of the unexpired term of the interest rate swaps.

Notes to the Consolidated Financial Statements (continued)

27 Financial instruments (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank loans, overdrafts, finance leases and hire purchase contracts. At 31 December 2007 2% of the Group's secured loans were originally scheduled to mature in less than one year (2006: 2%), but they have been shown as entirely repayable within six months in the table below because the takeover of the Group by Cookson Group plc, which is expected to be completed in the second quarter of 2008, will trigger change of control clauses that demand immediate repayment of the loans. Cookson have arranged facilities to refinance the Group after the takeover. See note 29 for events after the balance sheet date.

The following are the contractual maturities of financial liabilities, including all associated interest payments calculated using rates ruling at 31 December, and assuming 31 December foreign currency exchange rates throughout.

2007	Contractual cash flows	6 months or less	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years
	£m	£m	£m	£m	£m
<i>Non-derivative financial instruments</i>					
Trade and other payables	(79.4)	(79.4)	-	-	-
Bank overdrafts	(0.3)	(0.3)	-	-	-
Obligations under finance leases and hire purchase contracts	(2.4)	(0.6)	(0.5)	(0.9)	(0.4)
Secured bank loans	(115.0)	(115.0)	-	-	-
Guaranteed loans	(3.5)	-	(3.5)	-	-
<i>Derivative financial instruments</i>					
Interest rate swaps	2.9	0.6	0.6	1.2	0.5
Forward exchange contracts used for hedging					
Outflow	(2.3)	(2.3)	-	-	-
Inflow	2.2	2.2	-	-	-
Other forward exchange contracts					
Outflow	(4.1)	(4.1)	-	-	-
Inflow	4.1	4.1	-	-	-

Notes to the Consolidated Financial Statements (continued)

27 Financial instruments (continued)

Liquidity risk (continued)

2006	Contractual cash flows	6 months or less	6 to 12 months	Between 1 and 2 years	Between 2 and 5 years
	£m	£m	£m	£m	£m
<i>Non-derivative financial instruments</i>					
Trade and other payables	(64.2)	(64.2)	-	-	-
Bank overdrafts	(0.4)	(0.4)	-	-	-
Obligations under finance leases and hire purchase contracts	(2.3)	(0.5)	(0.5)	(0.8)	(0.5)
Secured bank loans	(129.1)	(4.1)	(4.1)	(7.9)	(113.0)
Guaranteed loans	(2.9)	(0.1)	(2.8)	-	-
<i>Derivative financial instruments</i>					
Interest rate swaps	2.1	0.3	0.3	0.6	0.9
Forward exchange contracts used for hedging					
Outflow	(12.1)	(6.9)	(4.5)	(0.7)	-
Inflow	12.3	7.0	4.6	0.7	-
Other forward exchange contracts					
Outflow	-	-	-	-	-
Inflow	-	-	-	-	-

Foreign currency risk

Although the Group is based in the UK, it has significant investment in overseas operations in Mainland Europe, the Americas and Asia, whose net assets are denominated in foreign currencies. The Group has sought to mitigate the translational effect of this structural currency exposure by borrowing £64.4 million in Euro-denominated secured loans, representing 57% of total secured loans (2006: 54%).

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating company in currencies other than that company's functional currency. Approximately 11% of the Group's sales are denominated in currencies other than the functional currency of the operating company making the sale (2006: 11%), whilst approximately 16% of costs are denominated in currencies other than the operating company's functional currency (2006: 15%). It is the Group's policy that, where there are firm commitments or anticipated transactions, cash flows in excess of £0.2 million are hedged using forward currency contracts.

Notes to the Consolidated Financial Statements (continued)

27 Financial instruments (continued)

Foreign currency risk (continued)

Financial assets and liabilities denominated in currencies other than the functional currencies of the respective operating companies at 31 December were as follows:

	2007			2006		
	£m Euro	£m US Dollar	£m Other	£m Euro	£m US Dollar	£m Other
Denominated in:						
Trade receivables	1.9	3.1	0.5	1.3	3.0	0.4
Financial assets at fair value through profit or loss	1.7	-	-	-	-	-
Trade payables	(0.5)	(2.1)	(0.2)	(0.3)	(1.7)	(0.2)

If the euro had strengthened or weakened by 10% against all currencies, with all other variables held constant, post-tax profit for the year would have been £0.3 million lower or higher respectively than that reported (2006: £0.1 million). If the US dollar had strengthened or weakened by 10% against all currencies, with all other variables held constant, post-tax profit for the year would have been £0.1 million lower or higher respectively than that reported (2006: £0.1 million).

Credit risk

Credit risk for the Group arises primarily from trade receivables and other financial assets including cash and cash equivalents and derivative financial instruments. The Group's maximum amount of credit risk is the carrying value of these assets in the balance sheet. There are no significant concentrations of credit risk within the Group.

Credit policy for trade receivables varies from country to country to meet local market and risk circumstances. Some operating companies purchase bad debt insurance where the cost is appropriate given the risk covered. Overdue and large debts are monitored regularly.

Cash deposits, forward exchange contracts and interest rate swap contracts are placed only with the Group's relationship banks.

The ageing of trade receivables and the impairment thereon at 31 December was as follows:

2007	Gross £m	Impairment £m	Carrying value £m
Not past due	70.6	(1.2)	69.4
Up to 30 days overdue	10.9	(0.3)	10.6
Between 31 and 60 days overdue	2.5	(0.2)	2.3
Between 61 and 90 days overdue	0.8	-	0.8
More than 90 days overdue	4.3	(2.9)	1.4
Total	<u>89.1</u>	<u>(4.6)</u>	<u>84.5</u>

Notes to the Consolidated Financial Statements (continued)

27 Financial instruments (continued)

Credit risk (continued)

2006	Gross £m	Impairment £m	Carrying value £m
Not past due	61.7	(1.1)	60.6
Up to 30 days overdue	9.0	(0.2)	8.8
Between 31 and 60 days overdue	1.5	(0.1)	1.4
Between 61 and 90 days overdue	0.7	(0.2)	0.5
More than 90 days overdue	3.5	(2.4)	1.1
Total	<u>76.4</u>	<u>(4.0)</u>	<u>72.4</u>

Impairment allowances in respect of trade receivables not past due represent percentage allowances made against all the debts in certain countries, based on credit ratings.

The movement in the impairment allowance in respect of trade receivables during the year was as follows:

	2007 £m	2006 £m
Balance at 1 January	4.0	4.9
Impairment losses recognised	1.3	1.0
Impairment losses derecognised	(0.7)	(0.8)
Amounts written off	(0.3)	(0.8)
Exchange adjustments	0.3	(0.3)
	<u>4.6</u>	<u>4.0</u>

Hedging activities

Cash flow hedges

At 31 December 2007, the Group held foreign exchange contracts designated as hedges of highly probable forecast sales to customers, of highly probable forecast purchases, and of firm commitments to purchase. The exchange contracts were used to reduce the exposure to foreign exchange risk. The terms of the contracts were as follows:

Notional amount	Maturities	Exchange rates
<i>Sell</i>		
€1.8 million	31 January 2008 - 29 February 2008	€/£ 1.4559 - 1.4576
\$0.2 million	31 January 2008 - 29 February 2008	\$/£ 1.9462 - 1.94545
<i>Buy</i>		
\$1.6 million	22 January 2008 - 19 February 2008	\$/€ 1.41753 - 1.4671

Notes to the Consolidated Financial Statements (continued)

27 Financial instruments (continued)

Cash flow hedges (continued)

At 31 December 2006, the Group held foreign exchange contracts designated as hedges of highly probable forecast sales to customers, of highly probable forecast purchases, and of firm commitments to purchase. The exchange contracts were used to reduce the exposure to foreign exchange risk. The terms of the contracts were as follows:

Notional amount	Maturities	Exchange rates
<i>Sell</i>		
€14.1 million	29 January 2007 - 29 February 2008	€/£ 1.4451 - 1.4725
\$1.3 million	29 March 2007 - 29 February 2008	\$/£ 1.95075 - 1.94545
<i>Buy</i>		
€1.0 million	23 January 2007 - 18 December 2007	\$/€ 1.3199 - 1.3350
\$0.7million	23 January 2007 - 29 January 2007	\$/€ 1.27714 - 1.3195
\$1.6 million	23 January 2007	\$/£ 1.95
NOK2.0 million	27 February 2007	NOK/€ 8.37701

Interest rate hedges

The Group adopts a policy of limiting its exposure to changes in interest rates by ensuring that between 50 and 75 per cent of its long-term borrowings are effectively on a fixed rate basis. The following interest rate swaps (expiring May 2010), exchanging floating rate interest for fixed rate interest, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy:

Notional amount	Fixed interest rates payable	Floating interest rates receivable
€32.9 million	2.7400%	EURIBOR
€33.0 million	2.7390%	EURIBOR
£12.2 million	4.4800%	LIBOR
£12.2 million	4.4915%	LIBOR

At inception, the swap contracts had the same duration and other critical terms as the secured borrowings which they hedged. The sterling denominated hedges were to amortise in step with the scheduled repayments of sterling debt. As all the Group's secured borrowings become immediately repayable on a change of control, the proposed takeover of the Group by Cookson Group plc, which is regarded as highly likely to be successful after the year-end, will render the interest rate swaps ineffective as hedges from the date of the takeover. Consequently, £2.1 million relating to the fair value of the swaps which had previously been recognised as a credit in equity has been included within profit for the year as finance income, and £0.4 million relating to the change in fair value of the swaps during the year has been charged to finance costs. See note 29 for events after the balance sheet date.

Notes to the Consolidated Financial Statements (continued)**27 Financial instruments (continued)***Capital management*

The objectives of the Group's capital management policy are to safeguard the Groups ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. There has been no change in this policy during 2006 and 2007.

To maintain or adjust the capital structure, the Group may vary the amount of dividend paid to shareholders, return capital to shareholders, or issue new shares.

The Group monitors capital on the basis of the gearing ratio, defined as net debt divided by total equity plus net debt. The Group's policy during 2006 and 2007 was to maintain a gearing ratio of between 60% and 80%.

	2007	2006
	£m	£m
Total interest-bearing loans and borrowings	119.3	114.6
Less: cash and cash equivalents	<u>(27.0)</u>	<u>(29.0)</u>
Net debt	92.3	85.6
Total equity	40.1	27.8
Net debt plus total equity	<u>132.4</u>	<u>113.4</u>
Gearing ratio	<u>70%</u>	<u>75%</u>

Notes to the Consolidated Financial Statements (continued)

28 Related party transactions

The consolidated financial statements include the financial statements of Foseco plc and the subsidiaries listed in the following table:

Name:	Country of incorporation	Functional currency	% equity interest
Foseco (Jersey) Limited	Jersey	Sterling	100
Foseco Holding Limited	UK	Sterling	100
Foseco (UK) Limited	UK	Sterling	100
Foseco International Limited	UK	Sterling	100
Foseco Overseas Limited	UK	Sterling	100
Foseco Holding (Europe) Limited	UK	Sterling	100
New Foseco (UK) Limited	UK	Sterling	100
Foseco Austria GmbH	Austria	Euro	100
Foseco SA	Belgium	Euro	100
Foseco Ceska s.r.o	Czech Republic	Coruna	100
Foseco SAS	France	Euro	100
Foseco Holding (Deutschland) GmbH	Germany	Euro	100
Foseco GmbH	Germany	Euro	100
Foseco Srl	Italy	Euro	100
Foseco Nederland BV	Netherlands	Euro	100
Foseco Polska sp z.o.o	Poland	Zloty	100
Foseco Portugal Produtos para Fundicao Lda	Portugal	Euro	100
Foseco o.o.o	Russia	Rouble	100
Foseco Espanola SA	Spain	Euro	100
SMC - Foseco Productos Fundicion SA	Spain	Euro	100
Foseco AB	Sweden	Krona	100
Foseco (Switzerland) AG	Switzerland	S Franc	100
Foseco Dokum Sanayi ve Ticaret Limited Sirketi	Turkey	Lira	100
Foseco Industrial E Commercial Ltda	Brazil	Real	100
Foseco Canada Inc	Canada	C\$	100
Foseco Metallurgical Inc	USA	US\$	100
Foseco SA de CV	Mexico	M Peso	100
Foseco (Pty) Limited	Australia	A\$	100
Foseco Foundry (China) Limited	China	Renmimbi	100
Foseco Refractories Tianjin Co Limited	China	Renmimbi	100
Foseco India Limited	India	Rupee	66.48
PT Foseco Indonesia	Indonesia	Rupiah	100
Foseco Japan Limited	Japan	Yen	100
Foseco Korea Limited	Korea	Won	100
Foseco NZ Limited	New Zealand	NZ\$	100
Foseco Philippines Inc	Philippines	P Peso	100
Foseco (Foundry Services) Pte Limited	Singapore	S\$	100
Foseco South Africa (Pty) Limited	South Africa	Rand	100
Foseco Golden Gate Co Limited	Taiwan	T\$	51
Foseco (Thailand) Limited	Thailand	Baht	74

The Group's equity interests in its subsidiaries were the same at 31 December 2006.

Notes to the Consolidated Financial Statements (continued)**28 Related party transactions (continued)**

During the period the Group entered into transactions in the ordinary course of business with related parties. Transactions entered into and balances outstanding at each year-end are as follows:

Year ended 31 December 2006

	2007	2006
	£m	£m
Amounts due to joint ventures (note a)	0.8	0.8

- a) The joint venture is currently in liquidation. The loan will be repaid by the Group at the end of the liquidation process, and the Group will then receive an approximately equal amount by way of final dividend.

Terms and conditions of related parties:

Sales to and purchases from related parties are made priced as arm's length transactions and generally are settled on 30 day terms. Funding balances with related parties are interest bearing at variable rates based on LIBOR plus a margin. The Group provides guarantees to third parties for certain borrowings of its subsidiaries.

Compensation of key management personnel of the Group

Full details of the compensation of key management personnel are given in the audited part of the Directors' Remuneration Report.

29 Events after the balance sheet date

On 11 October 2007, Cookson Group plc made an offer to purchase the entire issued and to be issued share capital of Foseco plc. On 10 March 2008, Foseco plc shareholders approved the Scheme of Arrangement at a Court Meeting, and approved the proposed takeover of the Company by Cookson Group plc at an extraordinary general meeting. On 11 March 2008, Cookson Group plc shareholders also approved the proposed takeover. The takeover of Foseco plc by Cookson Group plc was completed on 4 April 2008, and as a consequence the Group was de-listed from the London Stock Exchange. Thereafter, the accounting impacts described in notes 4, 8, 19, 22 and 27 as being contingent upon the completion of the deal became certain.

On 10 April 2008, after the completion of the takeover, Cookson Group plc intends to complete the sale of Foseco's Carbon Bonded Ceramics business to companies owned by RHI AG.

On 4 April 2008, the ultimate parent undertaking of the Group became Cookson Group plc, registered in the United Kingdom at 165 Fleet Street, London EC4A 2AE.

Independent Auditor's Report to the members of Foseco plc

We have audited the Group financial statements of Foseco plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 29. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Foseco plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Independent Auditor's Report to the members of Foseco plc (continued)

Opinion

In our opinion :

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP
Registered auditor
Birmingham
4 April 2008

Statement of directors' responsibilities in relation to the Company financial statements

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable United Kingdom law.

Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The directors are required to prepare financial statements for each financial year. The financial statements are required by law to give a true and fair view of the state of affairs of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the Company has complied with applicable UK GAAP, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Company Profit and Loss Account
for the year ended 31 December 2007**

	Note	2007 £m	2006 £m
Administration expenses		(2.0)	(0.9)
Administration expenses – exceptional items	5	<u>(6.6)</u>	<u>-</u>
Total administration expenses		(8.6)	(0.9)
Income from investments	6	<u>40.0</u>	<u>15.0</u>
Operating profit		31.4	14.1
Interest receivable and similar income		0.4	0.4
Interest payable and similar charges	7	(2.5)	(2.5)
Interest payable and similar charges - exceptional	7	<u>(0.3)</u>	<u>-</u>
Profit on ordinary activities before tax		29.0	12.0
Tax	8	<u>-</u>	<u>-</u>
Profit for the year		<u><u>29.0</u></u>	<u><u>12.0</u></u>

The Company has no recognised gains or losses other than profit for the year.

**Company Balance Sheet
at 31 December 2007**

	Note	2007 £m	2006 £m
Fixed assets			
Intangible assets	10	0.2	-
Investments	11	84.1	84.1
		<u>84.3</u>	<u>84.1</u>
Current assets			
Debtors	12	61.1	15.5
Short-term investments		5.0	11.0
Cash at hand and in bank		1.2	-
Creditors: amounts falling due within one year	13	(70.7)	(6.0)
Net current (liabilities)/assets		<u>(3.4)</u>	<u>20.5</u>
Total assets less current liabilities		80.9	104.6
Creditors: amounts falling due after more than one year	14	-	(39.4)
Net assets		<u>80.9</u>	<u>65.2</u>
Capital and reserves			
Called-up share capital	16	41.6	42.3
Profit and loss account	17	42.9	25.4
Capital redemption reserve	17	0.7	-
Own shares held	17	(4.3)	(2.5)
Shareholders' funds	17	<u>80.9</u>	<u>65.2</u>

Approved by the Board on 4 April 2008



P D Dean
Director

Notes to the Company Financial Statements

1 Parent undertaking

The financial statements are prepared in accordance with the Companies Act 1985 and in accordance with applicable accounting standards under the historical cost convention.

These accounts present information about the Company as an individual undertaking, under UK Generally Accepted Accounting Practice, and not about its group.

2 Summary of significant accounting policies

Investments

Shares in Group Undertakings acquired on 12 May 2005 are stated individually at nominal value as permitted under merger accounting, less any provision for diminution in value. All other fixed asset investments are stated at cost less any provision for diminution in value.

Investment income

Investment income is recognised when the right to receive payment is established.

Tax

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Own shares held

When either the Company or the Foseco Employee Benefit Trust purchase the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

As Foseco plc is the sponsor of the Foseco Employee Benefit Trust, the Trust's balance sheet has been included within Foseco plc's balance sheet in these financial statements.

Notes to the Company Financial Statements (continued)**2 Summary of significant accounting policies (continued)***Share-based payment transactions*

Certain employees (including senior executives) of the Group receive an element of remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of the equity-settled transactions with employees is measured by reference to the fair value at the date of which they are granted. Further details of the fair value calculations are given in note 18. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Foseco plc ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original awards term continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of modification. No reduction is recognised if the difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. All exchange differences are taken to the profit and loss account.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains and losses on the repurchase, settlement or otherwise cancellation of liabilities are recognised in finance income or expense respectively.

Going concern basis

The financial statements have been prepared on the going concern basis.

Notes to the Company Financial Statements (continued)

3 Auditors' remuneration

Auditors' remuneration has been borne by another Group undertaking.

4 Directors' remuneration

The remuneration of the highest paid executive director amounted to £486,994 (2006: £532,480). The remuneration of the other executive directors of the Company was borne by other Group companies. Non-executive directors' remuneration for the period amounted to £254,166 (2006: £232,500). Full details of the compensation of the directors are given in the audited part of the Directors' Remuneration Report.

5 Operating exceptional items

Operating exceptional items of £6.6 million in 2007 comprise one-off costs, primarily financial, legal and other advisors' fees, associated with the proposed acquisition of the Company by Cookson Group plc. Certain fees which are contingent upon the completion of the acquisition have been accrued because there is believed to be a high likelihood of successful completion after the year-end, and services to which the fees relate had been substantially performed before the year-end. See note 21 for events after the balance sheet date.

6 Income from investments

	2007 £m	2006 £m
Dividends received from fixed asset investments	<u>40.0</u>	<u>15.0</u>

7 Interest payable and similar charges

	2007 £m	2006 £m
Interest on bank loans and overdrafts	<u>2.5</u>	<u>2.5</u>
Interest on bank loans – exceptional (note a)	<u>0.3</u>	<u>-</u>

a) The proposed acquisition of the Company by Cookson Group plc, which is regarded as highly likely to be completed after the year-end, will trigger change of control clauses requiring the immediate repayment of the Company's secured debt. Issue costs associated with the debt therefore have to be amortised over a shorter period than the original term of the debt.

Notes to the Company Financial Statements (continued)

8 Tax

The Company's tax liability for the period is nil (2006: nil). Losses computed for the purposes of UK corporation tax for the year will be surrendered free of charge to subsidiary companies as group relief.

Tax reconciliation

	2007	2006
	£m	£m
Profit on ordinary activities before tax	29.0	12.0
UK corporation tax at standard rate of 30% (2006: 30%)	8.7	3.6
Non-taxable dividends from UK companies	(12.0)	(4.5)
Expenses disallowed for corporation tax purposes	2.8	0.1
Group relief surrendered free of charge to subsidiary companies	0.5	0.8
Current tax charge (effective rate: nil)	-	-

9 Dividends paid and proposed

	2007	2006
	£m	£m
<i>Declared and paid during the year</i>		
Interim dividend for 2007 of 1.73p per share (2006: 1.54p)	2.8	2.6
Final dividend for 2006 of 3.41p per share (2005: 3.1p)	5.7	5.2
	<u>8.5</u>	<u>7.8</u>
<i>Declared and not yet paid (not recognised as a liability at the balance sheet date)</i>		
Final dividend for 2006 of 3.41p per share	<u>-</u>	<u>5.7</u>

In view of the proposed takeover of the Company by Cookson Group plc, the directors have recommended that no final dividend be paid in respect of 2007.

10 Intangible assets

	Computer Software £m
<i>Cost</i>	
At 1 January 2007	-
Additions	0.2
Cost and net book value at 31 December 2007	<u>0.2</u>

Notes to the Company Financial Statements (continued)

11 Fixed asset investments

	2007 £m	2006 £m
Cost and net book value at 1 January and 31 December 2007	<u>84.1</u>	<u>84.1</u>

On 12 May 2005, the Company acquired 100% of the issued share capital of Foseco (Jersey) Limited, registered in Jersey, for a consideration of £194.6 million, of which £169 million was settled in shares in Foseco plc and the remainder in cash. The Company has applied merger relief under the provisions of s131 of the Companies Act 1985, such that the consideration settled in shares was deemed to be the nominal value of those shares, rather than their fair value.

In the opinion of the directors, the value of the subsidiary undertaking is at least equal to the amount shown above.

The investments held either directly by the Company or through subsidiary companies are detailed in note 19.

12 Debtors

	2007 £m	2006 £m
Other debtors	0.1	-
Amounts due from subsidiary companies	61.0	15.5
	<u>61.1</u>	<u>15.5</u>

13 Creditors: amounts falling due within one year

	2007 £m	2006 £m
Current instalments due on loans (note 15)	39.8	2.0
Bank overdrafts	-	0.2
Other creditors	5.4	0.2
Amounts due to subsidiary companies	25.5	3.6
	<u>70.7</u>	<u>6.0</u>

14 Creditors: amounts falling due after more than one year

	2007 £m	2006 £m
Loans (note 15)	<u>-</u>	<u>39.4</u>

Notes to the Company Financial Statements (continued)

15 Loans

	2007 £m	2006 £m
<i>Amounts falling due:</i>		
In one year or less	39.9	2.0
In more than one year but not more than two years	-	2.0
In more than two year but not more than five years	-	37.9
	<u>39.9</u>	<u>41.9</u>
Less: issue costs	(0.1)	(0.5)
	<u>39.8</u>	<u>41.4</u>
Less: included in creditors: amounts due within one year	(39.8)	(2.0)
	<u>-</u>	<u>39.4</u>

The bank loan was originally scheduled to be repaid in six-monthly instalments of £1.022 million over five years from its drawing date of 12 May 2005, with the remaining balance repayable on 12 May 2010. The proposed acquisition of the Group by Cookson Group plc, which is regarded as highly likely to be completed after the year-end, will trigger change of control clauses requiring the immediate repayment of the Company's secured bank loan. Therefore amounts which were classified as non-current liabilities in 2006 have been reclassified as current liabilities in 2007. See note 21 for events after the balance sheet date. Interest is accrued on the loan at variable interest rates linked to LIBOR plus a margin set out by the loan agreement.

16 Share capital

a) Authorised

	At 31 December 2007 & 2006	
	Number	£
Equity shares:		
Ordinary shares of £0.25p each	<u>224,000,000</u>	<u>56,000,000</u>

b) Allotted, called-up and fully paid

	Number	£
At 1 January 2006 and 1 January 2007	169,150,000	42,287,500
Purchase and subsequent cancellation of own shares	(2,685,000)	(671,250)
At 31 December 2007	<u>166,465,000</u>	<u>41,616,250</u>

The Company was incorporated and registered in England and Wales with registered number 5413927 on 5 April 2005 as a public limited company under the Companies Act. The Company has applied merger relief under the provisions of s131 of the Companies Act 1985, and the premium arising on the issuance of shares has therefore not been recognised.

The Company purchased and subsequently cancelled 2,685,000 of its ordinary shares with a nominal value of £671,250 for a total consideration of £5,792,284, including transaction costs of £57,509.

Notes to the Company Financial Statements (continued)

17 Reconciliation of movement in shareholders equity

	Share capital	Profit & loss account	Capital redemption reserve	Own shares held	Total shareholders equity
	£m	£m	£m	£m	£m
At 1 January 2006	42.3	20.4	-	(1.0)	61.7
Profit for the year	-	12.0	-	-	12.0
Equity dividends	-	(7.8)	-	-	(7.8)
Reversal of 2005 distribution to shareholders (note a)	-	2.4	-	-	2.4
Redesignation of 2005 distribution as a dividend (note a)	-	(2.4)	-	-	(2.4)
Credit in respect of long term incentive plan	-	0.8	-	-	0.8
Purchase of own shares (note b)	-	-	-	(1.5)	(1.5)
At 31 December 2006	42.3	25.4	-	(2.5)	65.2
Profit for the year	-	29.0	-	-	29.0
Equity dividends	-	(8.5)	-	-	(8.5)
Credit in respect of long term incentive plan	-	2.8	-	-	2.8
Purchase of own shares (note b)	-	-	-	(1.8)	(1.8)
Purchase and cancellation of own shares (note c)	(0.7)	(5.8)	0.7	-	(5.8)
At 31 December 2007	41.6	42.9	0.7	(4.3)	80.9

- a) As the Company was incorporated on 5 April 2005, initial financial statements should have been filed to demonstrate that the Company had sufficient distributable reserves to enable it to pay a dividend during 2005. These financial statements were filed subsequent to the declaration of a dividend, therefore legally the payment to shareholders did not constitute a dividend but rather was deemed to be a distribution. A resolution to redesignate the 2005 distribution as a dividend was approved at the annual general meeting of the Company on 17 May 2006.
- b) The Foseco Employee Benefit trust makes regular purchases of the Company's shares to satisfy the vesting of Ltip awards.
- c) The Company purchased and subsequently cancelled 2,685,000 of its ordinary shares with a nominal value of £671,250 for a total consideration of £5,792,284, including transaction costs of £57,509.

Notes to the Company Financial Statements (continued)

18 Long term incentive plan

	2007 £m	2006 £m
Ltip cost - normal	(1.1)	(0.8)
Ltip cost - exceptional	(1.4)	-
Less: cost recovered from subsidiary companies	2.2	0.8
	(0.3)	-

In the light of the the proposed acquisition of the Group by Cookson Group plc, the Remuneration Committee amended the vesting conditions attached to the long term incentive plan ("Ltip") such that all awards would vest in full, contingent upon the successful completion of the acquisition, to eligible employees still employed at the completion date. The profit and loss account expense for the year has been split between those charges which would have arisen in the absence of the proposed takeover and have been charged to operating profit before exceptional items, and those which have arisen from the change in the vesting conditions and the shortened vesting period and have been charged to exceptional items.

The charge to operating profit before exceptional items has been determined on the following basis, which is consistent with previous periods. Eligible employees or directors were awarded a number of ordinary shares in Foseco plc which was to be determined by reference to the Group's performance over three financial years. These share awards were to vest three years after the date on which they were granted, and were to be settled by distribution of shares.

Shares could vest only if the Group met two performance conditions. The Group's Total Shareholder Return ("TSR") had to at least match the median TSR of the FTSE All-share index (excluding investment companies) over the vesting period, and the Group had to pass a threshold level of cumulative cash flow per share over three financial years. If the conditions were met, the actual number of shares to vest was to be determined by reference to the cash flow per share performance, up to a pre-defined maximum.

At 31 December 2007 the maximum number of shares which could vest as a result of the 2007 award was 1,190,571 (2006: award: 1,289,926, 2005 award: 1,803,592). The income statement expense for the share awards was been estimated by applying fair values per share of £1.25p for the 2007 award, £1.18p for the 2006 award and £0.67p for the 2005 award, as calculated by an independent valuer, to the number of shares which the directors believed were likely to vest, based on current forecasts of the cumulative cash flow per share. As continuous employment by the Group over the three year vesting period was a pre-condition of eligibility to receive the shares, allowance had been made for the possibility that some employees might not meet that condition.

The fair value per share of the award was determined using principles similar to a "Monte Carlo simulation", taking into account share price volatility, correlation with a comparator group, and the plan's vesting schedule. Reinvestment of dividends is not incorporated into the valuation.

The following table lists the inputs to the model used:

	2007	2006	2005
Dividend yield (%)	2.35	3.00	3.50
Expected share price volatility (%)	26.00	30.00	35.00
Historical volatility (%)	25.00	24.00	21.00
Expected comparator group volatility (%)	11.00	11.00	15.00
Fair value per share	£1.25p	£1.18p	£0.67p

Notes to the Company Financial Statements (continued)

18 Long term incentive plan (continued)

As Foseco's shares had traded for only a short period from the date of the Company's flotation to the dates of the share awards, expected share price volatilities have been estimated by reference to the experience in recent years of newly listed companies and long-established companies in similar sectors. The historical share price volatility is not yet sufficiently well established to serve as a reasonable guide to expected volatility.

The charge to operating profit before exceptional items for the year was £1.1 million (2006: £0.8 million), representing one third of the estimated total cost of the 2005, 2006 and 2007 share awards

The maximum number of shares which could vest as a result of Ltip awards is as follows:

	2007	2006
	£m	£m
At 1 January	3,189,896	1,906,057
Awards made in the year	1,204,407	1,321,563
Vested during the year	-	-
Lapsed during the year	(110,214)	(37,724)
At 31 December	<u><u>4,284,089</u></u>	<u><u>3,189,896</u></u>

The charge to exceptional items was determined by evaluating the effect of increasing the number of shares likely to vest up to the maximum, and shortening the vesting periods of the awards from three years to the elapsed time between the grant dates and the anticipated date of the completion of the takeover. In addition, as the decision of the Remuneration Committee constitutes a modification to the awards, fair values of the awards both immediately before and immediately after the modification have been determined by an independent valuer. The difference between these fair values is being charged to the income statement over the period from the date of modification (17 October 2007) until the anticipated date of the completion of the takeover. The total exceptional charge was £1.7m. See note 21 for events after the balance sheet date.

19 Principal subsidiary undertakings and associated undertakings

The principal activities of the Company's subsidiary and associated undertakings are the development, manufacture and supply of metallurgical chemicals to the higher quality segments of the foundry and steel industries worldwide. The principal activity of the Company is to act as an investment holding entity.

Notes to the Company Financial Statements (continued)
19 Principal subsidiary undertakings and associated undertakings (continued)

The following is a list of the principal subsidiary and associated undertakings of which Foseco plc is either directly or through subsidiary companies, the beneficial owner of the whole, or such lesser percentage as is stated, of the equity share capital:

Name:	Country of incorporation	% equity interest
Foseco (Jersey) Limited #	Jersey	100
Foseco Holding Limited	UK	100
Foseco (UK) Limited	UK	100
Foseco International Limited	UK	100
Foseco Overseas Limited	UK	100
Foseco Holding (Europe) Limited	UK	100
New Foseco (UK) Limited	UK	100
Foseco Austria GmbH	Austria	100
Foseco SA	Belgium	100
Foseco Ceska s.r.o	Czech Republic	100
Foseco SAS	France	100
Foseco Holding (Deutschland) GmbH	Germany	100
Foseco GmbH	Germany	100
Foseco Srl	Italy	100
Foseco Nederland BV	Netherlands	100
Foseco Polska sp z.o.o	Poland	100
Foseco Portugal Produtos para Fundicao Lda	Portugal	100
Foseco o.o.o	Russia	100
Foseco Espanola SA	Spain	100
SMC - Foseco Productos Fundicion SA	Spain	100
Foseco AB	Sweden	100
Foseco (Switzerland) AG	Switzerland	100
Foseco Dokum Sanayi ve Ticaret Limited Sirketi	Turkey	100
Foseco Industrial E Commercial Ltda	Brazil	100
Foseco Canada Inc	Canada	100
Foseco Metallurgical Inc	USA	100
Foseco SA de CV	Mexico	100
Foseco (Pty) Limited	Australia	100
Foseco Foundry (China) Limited	China	100
Foseco Refractories Tianjin Co Limited	China	100
Foseco India Limited	India	66.48
PT Foseco Indonesia	Indonesia	100
Foseco Japan Limited	Japan	100
Foseco Korea Limited	Korea	100
Foseco NZ Limited	New Zealand	100
Foseco Philippines Inc	Philippines	100
Foseco (Foundry Services) Pte Limited	Singapore	100
Foseco South Africa (Pty) Limited	South Africa	100
Foseco Golden Gate Co Limited	Taiwan	51
Foseco (Thailand) Limited	Thailand	74

Shares held by Foseco plc

Notes to the Company Financial Statements (continued)

20 Going concern

The Company's balance sheet shows net current liabilities because the Company's secured borrowings have been classified as current liabilities. These borrowings, which were largely due to be repaid in May 2010, are subject to change of control conditions which will require immediate repayment if the takeover of the Company by Cookson Group plc is successful. At the balance sheet date, it is believed that the takeover is highly likely to succeed. The directors consider that it is appropriate for these financial statements to be prepared on a going concern basis because Cookson Group plc has made public details of agreed borrowings facilities to refinance the Company.

21 Events after the balance sheet date

On 11 October 2007, Cookson Group plc made an offer to purchase the entire issued and to be issued share capital of Foseco plc. On 10 March 2008, Foseco plc shareholders approved the Scheme of Arrangement at a Court Meeting, and approved the proposed takeover of the Company by Cookson Group plc at an extraordinary general meeting. On 11 March 2008, Cookson Group plc shareholders also approved the proposed takeover. The takeover of Foseco plc by Cookson Group plc was completed on 4 April 2008, and as a consequence the Group was de-listed from the London Stock Exchange. Thereafter, the accounting impacts described in notes 5, 15 and 18 as being contingent upon the completion of the deal became certain.

On 4 April 2008, the ultimate parent undertaking of the Company became Cookson Group plc, registered in the United Kingdom at 165 Fleet Street, London EC4A 2AE.

Independent Auditor's Report to the members of Foseco plc

We have audited the parent company financial statements of Foseco plc for the year ended 31 December 2007 which comprise the Company Profit and Loss Account, the Company Balance Sheet, and the related notes 1 to 21. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Foseco plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Independent Auditor's Report to the members of Foseco plc (continued)

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
Birmingham
4 April 2008