Tuesday 17 February 2009

CRODA

Croda International Plc

Preliminary results for the year to 31 December 2008 (unaudited)

RECORD RESULTS DESPITE TOUGH ECONOMIC CONDITIONS

ROBUST UNDERLYING BUSINESS AND POSITIVE OUTLOOK

Highlights	**2008**	2007	change
Sales - continuing operations	**£956.4m**	£804.8m	+18.8%
Profit before tax - before exceptional items			
- Continuing	**£98.4m**	£60.8m	+61.8%
- Total including discontinued activities	**£103.1m**	£74.7m	+38.0%
Profit before tax	**£98.4m**	£55.2m	+78.3%
Earnings per share – before exceptional items	**51.7p**	37.1p	+39.4%
Earnings per share – basic	**45.3p**	64.8p	
Dividend per share	**19.75p**	15.75p	+25.4%

- Strong demand in Croda's core markets continues to drive growth
- Results confirm the resilience of Group's business model and strategy
  - Consumer Care sales up 28.0% to £442.4m
  - Industrial Specialities sales up 11.9% to £514.0m
- Q4 trading robust despite volume declines in Industrial Specialities
  - Consumer Care sales up 46.4% to £113.9m
  - Industrial Specialities sales down 15.7% to £107.1m
  - Pre tax profits of £20.9m ahead of last year by 11.2%
- Input cost inflation fully recovered, demonstrating Croda's pricing power
- Chicago and share of Baxenden sold, total proceeds of £60m, £52m received in 2008
  - Disposals have reduced Industrial Specialities' sales volumes by 50% since the Uniqema acquisition
- Continued focus on innovation ensuring new product pipeline remains strong
- Committed debt headroom increased despite effect of £60.5m adverse currency movement on borrowings

Commenting on these results, Chairman, Martin Flower said:

"2008 was another year of excellent progress for Croda. The Group's ability to weather turbulent economic conditions and produce record sales and profits demonstrates the robustness of the underlying business and the continuing resilience of our chosen market sectors. Furthermore, these results were achieved despite steeply rising raw material costs in the first half and weak industrial markets, particularly in the second half.

We have started 2009 in line with expectations. The broad trading trends of resilient Consumer Care demand, weaker industrial markets and favourable currency translation are continuing. We are confident of making further progress in the year ahead."

Chairman's Statement

Introduction

I am very pleased to announce that 2008 was another year of excellent progress for Croda. The Group's ability to produce record sales and profits demonstrates the robustness of the underlying business and the continuing strength in our core market sectors. Furthermore, these results were achieved despite a difficult economic environment with steeply rising raw material costs in the first half and weak industrial markets, particularly in the second half. Overall, the Group saw double digit sales and profit growth in every quarter, with our Consumer Care business trading particularly well.

Results

Turnover increased by 18.8% to £956.4m (2007: £804.8m). Average selling prices were up 18.5%, more than compensating for the 11.2% volume shortfall caused by our deliberate strategy of reducing the ex Uniqema commodity business and weak industrial markets in the second half. Currency translation added a further 11.5% to the growth. Turnover in our core Consumer Care division was up 28.0% and up 11.9% in Industrial Specialties.

Continuing pre-tax profit before exceptional items increased by 61.8% to £98.4m (2007: £60.8m). Earnings per share before exceptional items increased by 39.4% to 51.7p (2007: 37.1p), despite the dilution from the business disposals discussed below.

Disposals

We disposed of our associate, Baxenden Chemicals, in February 2008 to Chemtura for £13.0m and our Chicago Oleochemical business was sold to HIG Capital in May 2008 for £46.8m. These disposals further reduced Croda's exposure to commodity and industrial markets.

Dividend

In 2007, we changed our dividend policy from one of modest dividend growth, whilst building dividend cover, to payouts growing more in line with earnings. As a consequence of the strong trading performance, the Board has increased the final dividend by 25.5% to 13.55p, making a total of 19.75p for the year. This represents an increase of 25.4% versus the 15.75p paid out for 2007.

Outlook

We have started 2009 in line with expectations. The broad trading trends of resilient Consumer Care demand, weaker industrial markets and favourable currency translation are continuing. We are confident of making further progress in the year ahead.

Operating Review 2008

2008 was the most tumultuous and difficult year in living memory for the global chemical industry. The first half was characterised by unprecedented rises in raw material and energy costs. The second half saw a precipitous fall in demand in markets related to vehicles, consumer durables and construction. Ten years ago we decided to focus on markets that had intrinsic growth in good times and bad, and it is this strategic focus that has enabled Croda to weather the storms and produce records sales and profits.

Full Year Results

For the full year, we increased continuing pre-tax profit before exceptionals by 61.8% to a record £98.4m. This was achieved by the hard work of the whole team in completing the integration of Uniqema, in the timely disposal of non-core businesses and our relentless focus on pricing in the face of rampant raw material cost inflation. In our Consumer Care business we maintained our target margins and improved turnover by 28.0%. Innovation is the key driver in these attractive markets, coupled with the unrivalled quality of our product offering and the strong technical sales and marketing teams across the world.

The result from Industrial Specialities was even further ahead, with profits up from £8.9m to £24.8m. As discussed elsewhere some of this increase came from the abnormally high glycerine prices, which have now fallen back. Also, most of the markets served by this business were substantially depressed in the second half of 2008.

Quarter Four Trading

Consumer Care sales in the fourth quarter were up by 46.4% year on year, with strong underlying trading augmented by price and favourable currency translation. There were significant, but inevitable, volume declines in Industrial Specialities due to the large fall in demand in some end markets. However, the largest falls were in the more commoditised business areas where we have been reducing our exposure ever since we acquired Uniqema in 2006. This process was assisted by the sale of our Chicago plant in May, which followed the sale of the plant in Malaysia in 2007. In quarter four, the turnover of the Consumer Care business exceeded that of the Industrial Specialities business for the first time since the new structure was implemented. Overall we have reduced underlying sales volumes in Industrial Specialities by 50% since the acquisition.

In spite of the deepening recession, the margin driven profit gains in Consumer Care outweighed the lower profitability in Industrial Specialities. The fourth quarter return on sales for Consumer Care was the highest in 2008. Operating profit growth year on year was 18.2%, despite the high figure in the fourth quarter of 2007. Profits in Industrial Specialities fell from £3.3m in 2007 to £0.8m in 2008.

With some benefit from reduced interest costs, fourth quarter pre-tax profit increased by 11.2% to £20.9m compared to £18.8m in 2007. This was a very pleasing result, which confirms the resilience of the Croda business model and strategy.

The results for the fourth quarter by division are set out below:

	2008	2007
	£m	£m
Consumer Care	**113.9**	77.8
Industrial Specialities	**107.1**	127.0
Continuing Sales	**221.0**	204.8
Consumer Care	**24.0**	20.3
Industrial Specialities	**0.8**	3.3
Continuing Operating Profit	**24.8**	23.6
Interest	**(3.9)**	(4.8)
Continuing Pre Tax Profit	**20.9**	18.8

Current and Future Market Trends

Consumer Care

In spite of strong macro economic headwinds, sales rose 28.0% in 2008, with the strongest growth in the fourth quarter. Within Consumer Care, there are four sectors – Personal Care, Health Care, Home Care and Crop Care.

Personal Care

The main drivers of the continued global growth in this market are vanity and an ageing population. Other major drivers include a move to “naturals” and ever more stringent quality standards. The industry has a growing appetite for innovation and Croda is recognised as a world leader in speciality ingredients for the whole range of Personal Care products. Added impetus to growth is provided by the rapid evolution of developing markets such as Asia and Latin America. We expect these factors to continue to underpin growth in global personal care markets for the foreseeable future. Croda’s ingredients represent a very small proportion of the final selling price of a personal care product, but they are often the reason the product has an effect and, perhaps, more importantly, sells. The pipeline of new products continues to grow from our research teams across the world, which gives us great confidence that we can maintain our position of leadership in this vibrant market.

Health Care

The main drivers in this market are the developed world’s increasing focus on well-being, the ageing population demographic and a move to “natural” self medication. These factors have meant high growth rates and we expect these to continue even during a global slowdown. Croda’s two main areas of expertise are in excipients and in essential fatty acids. Excipients are the vehicles for topical medicaments which may also aid recovery, such as high purity lanolin in wound care. Croda is also a world leader in the production of high purity Essential Fatty Acids, such as Omega 3 lipids for nutritional supplements and, increasingly, for therapeutic treatment of heart and inflammatory problems.

Home Care

The global market for household products has seen many years of growth. The market is driven by a growing global population, hygiene and pride in the appearance of one's home. Croda provide natural solutions to a market that is moving inexorably towards more biodegradable and concentrated products with lower environmental impact. Innovation is at the forefront of the major household product companies and Croda's historic expertise in natural ingredients makes us an ideal partner in formulating products ranging from fabric softeners to toilet cleaners.

Crop Care

The key drivers in this market are the growing food demands of a rapidly expanding global population, coupled with the pressure on agrochemical companies to constantly reduce their environmental impact. Croda is a world leader in the design and production of adjuvants and vehicles for a variety of agrochemical actives and works with all the major companies in the market. This was one of our fastest growing sectors in 2008 and the market is expected to show good progress in the future.

Industrial Specialities

The main parts of this business are Polymer Additives, Lubricant Additives and Coatings Additives plus a number of smaller market areas such as water treatment.

These businesses are more exposed to the industries most affected by the current recession. Demand in the second half of 2008 was reduced and we expect this to continue in the first half of 2009. In spite of the second half severe downturn in the more industrial markets, the business overall grew sales by 11.9% in 2008. Sales in the fourth quarter actually declined by 15.7%. Our strategy has been to reduce our exposure to the more commoditised products in the portfolio and the recent market shocks have convinced us that we are moving in the right direction. These operations are more exposed to global GDP trends, but our focus on innovating the product range and on more speciality products has helped soften the blow of the global downturn. Operating profits for 2008 in Industrial Specialities almost trebled and, although boosted to a certain extent by favourable glycerine pricing, this result is a testament to our plan to improve the product mix and adhere strictly to a price before volume policy.

We expect these markets to remain depressed during the first half of 2009. We will continue the planned restructuring in this business to ensure its exposure to the more commodity oleochemicals markets is substantially reduced.

Strategy

Our strategy has been unchanged for ten years. We aim to be a leading, independent, global speciality chemicals company. We only invest in businesses if they can be truly global, can create innovative technology, can operate in markets with long term growth significantly higher than global GDP and can realistically sustain high operating margins.

Our success is predicated on choosing the right markets and our focus markets have been selected based on these criteria. But choosing correctly is not enough. We have also invested in innovative plant and processes to enhance our leadership position. We have an innovation culture deeply embedded in the whole Croda organisation, especially in our Research teams and our global Sales and Marketing units. We are also innovative in our responses to the global challenges to society and the environment.

Our operating companies are set sales, profit growth and operating margin targets that form the basis of our budgets and strategic plans. We report annually on our progress against five key financial performance indicators:

- Return on sales
- EPS growth
- Post tax ROIC
- Net debt to EBITDA
- EBITDA to interest cover

Our relentless focus on our customers and on innovation has brought us success in the past and we will continue this focus to create our future success.

Financial review

Pre-tax profit

The operating results for the continuing businesses are discussed in the Chairman's Statement and the Operating Review.

Continuing operating profit before exceptionals was up 38.2% at £114.7m (2007: £83.0m). Currency translation accounted for £10.2m of the increase and £6.2m came from favourable glycerine pricing.

Net financial expenses were lower in 2008 at £16.3m due to lower interest rates and a higher pension funding credit which resulted in a pre tax profit figure before exceptionals of £98.4m, up 61.8% on 2007. Pre tax profit including discontinued activities was £103.1m (2007: £74.7m) an increase of 38.0%.

Glycerine

Our results for the year were enhanced by very favourable glycerine pricing, worth £6.2m versus 2007. The major part (£4.9m) of this benefit came in the first half. Of the £1.3m benefit accruing to the second half, £1.7m occurred in the third quarter with a £0.4m adverse variance in the fourth quarter. As discussed in the interim results, this windfall benefit is not expected to be repeated in 2009.

Exceptional Items

Apart from the £8.6m net loss on sale from the disposals of Baxenden and Chicago (2007: £41.0m profit), there was no other impact on the income statement from exceptional items in 2008 (2007: £5.6m charge).

Earnings per share

Across the Group we incurred a slightly lower tax rate of 32.0% (2007: 33.9%) helped by reducing rates in the United Kingdom, Germany and Italy. This enhanced the growth in earnings per share before exceptional items, which increased by 39.4% to 51.7p (2007: 37.1p).

Dividend

The final dividend will be increased by 25.5% to 13.55p making a total of 19.75p for the year, an increase of 25.4% versus the 15.75p paid out for 2007. Dividend cover increases to 2.6x.

Debt and liquidity

Despite strong underlying cash generation and disposals our net debt increased to £398.1m from £366.0m last year due to £60.5m currency translation and the effect of raw material price inflation on inventories.

At year end exchange rates we have £476m of committed bank facilities plus a number of uncommitted credit lines. The majority of the committed facilities run to June 2011.

Debt/EBITDA for 2008 stood at 2.6x (2007: 2.8x) despite the adverse year end currency translation. This is well within our covenanted level of 3x. EBITDA interest cover was 9.4x for the year (2007: 5.8x), again exceeding the covenanted level of 4x.

Pensions

On an IAS19 basis, our pension deficit stood at £88.5m at the year end (2007: £59.3m). This is little changed from the half year despite volatile financial markets. The currency benefit from having a proportion of our assets overseas has softened the effect of falling equity markets. Within the total, the main scheme in the UK has a small surplus of £1.8m (2007: £7.5m deficit). The main deficits are in the US schemes (£43.2m) and the unfunded German schemes (£34.1m).

In 2008 interest costs in the income statement (but not the cash flow) benefited from a pension funding credit of £7.1m (2007: £5.0m). As a result of the increased pension deficit and fall in gross asset and liability values, the figure for 2009 is expected to be close to zero.

The triennial valuation of the UK fund is underway with 1 October 2008 as the reference date. The increased deficit versus 2005 is likely to result in a moderately higher cash contribution to the pension fund in 2009 than that seen in 2008.

Financial KPIs

Performance on our 5 key KPIs (before exceptionals) is shown in the following table:

	Target	2008	2007
Return on Sales	>15%	12.0%	10.3%
EPS Growth	+5-10%	+39.4%	+28.4%
Post tax ROIC	>WACC	9.8%	8.1%
Debt/EBITDA	<3x	2.6x	2.8x
EBITDA Interest cover	>4x	9.4x	5.8x

All KPIs showed a substantial improvement over 2007 and all were ahead of target except Return on Sales where we continue to make significant progress towards our target. The return on sales target subdivides into 20% for Consumer Care, which we are achieving and 10% for Industrial Specialities which is where the shortfall arises. As Croda moves away from commodities (apart from by-products arising from speciality manufacture) we will move closer to our target margin in this division.

Croda International Plc

Preliminary announcement of trading results for the year ended 31 December 2008

Group income statement

	Note	2008 £m Before exceptional items	2008 £m Exceptional items	2008 £m Total	2007 £m Before exceptional items	2007 £m Exceptional items	2007 £m Total
Continuing operations							
Revenue	2	**956.4**	**-**	**956.4**	804.8	-	804.8
Cost of sales		**(741.9)**	**-**	**(741.9)**	(617.9)	(7.0)	(624.9)
Gross profit		**214.5**	**-**	**214.5**	186.9	(7.0)	179.9
Operating expenses		**(99.8)**	**-**	**(99.8)**	(103.9)	1.4	(102.5)
Operating profit	2	**114.7**	**-**	**114.7**	83.0	(5.6)	77.4
Financial expenses	3	**(25.5)**	**-**	**(25.5)**	(31.1)	-	(31.1)
Financial income	3	**9.2**	**-**	**9.2**	8.9	-	8.9
Profit before tax		**98.4**	**-**	**98.4**	60.8	(5.6)	55.2
Tax	4	**(31.5)**	**-**	**(31.5)**	(20.6)	1.9	(18.7)
Profit after tax from continuing operations		**66.9**	**-**	**66.9**	40.2	(3.7)	36.5
Profit/(loss) after tax from discontinued operations	7	**2.9**	**(8.6)**	**(5.7)**	9.9	41.0	50.9
Profit for the year		**69.8**	**(8.6)**	**61.2**	50.1	37.3	87.4
Attributable to:							
Minority interest				**0.2**			0.1
Equity shareholders				**61.0**			87.3
				61.2			87.4
				pence per share			pence per share
Earnings per share of 10p (note 5)							
Basic							
Total				**45.3**			64.8
Total before exceptional items				**51.7**			37.1
Continuing operations				**49.6**			27.0
Continuing operations before exceptional items				**49.6**			29.7
Diluted							
Total				**44.6**			63.6
Continuing operations				**48.7**			26.5
Ordinary dividends (note 6)							
Interim				**6.20**			4.95
Final				**13.55**			10.80

Group statement of recognised income and expense

	2008 £m	2007 £m
Profit for the year	**61.2**	87.4
Exchange differences	**26.1**	6.6
Movement in fair value of cash flow hedges	**(2.8)**	(0.4)
Actuarial movement on retirement benefit obligations (net of deferred tax)	**(18.2)**	21.0
Total recognised income and expense	**66.3**	114.6

Attributable to:

Minority interest	**0.2**	0.1
Equity shareholders	**66.1**	114.5
	66.3	114.6

Group balance sheet at 31 December

	Note	2008 £m	2007 £m
Assets			
Non-current assets			
Intangible assets		**203.4**	203.5
Property, plant and equipment		**392.4**	342.2
Investments:			
Associated undertaking		**-**	9.2
Other		**12.7**	0.9
Deferred tax assets		**49.4**	43.1
		657.9	598.9
Current assets			
Inventories		**201.9**	161.4
Trade and other receivables		**184.6**	186.4
Cash and cash equivalents		**42.3**	43.4
Other financial assets		**-**	0.4
Assets classified as held for sale		**1.1**	1.2
		429.9	392.8
Liabilities			
Current liabilities			
Trade and other payables		**(178.6)**	(175.5)
Borrowings and other financial liabilities	8	**(87.2)**	(83.5)
Provisions	9	**(7.0)**	(14.2)
Current tax liabilities		**(10.2)**	(11.5)
		(283.0)	(284.7)
Net current assets		**146.9**	108.1
Non-current liabilities			
Borrowings and other financial liabilities	8	**(355.6)**	(325.9)
Other payables		**(4.7)**	(3.3)
Retirement benefit liabilities		**(88.5)**	(59.3)
Provisions	9	**(41.5)**	(45.0)
Deferred tax liabilities		**(49.2)**	(53.8)
		(539.5)	(487.3)
Net assets		**265.3**	219.7
Equity shareholders' funds	10	**263.3**	218.0
Minority interests		**2.0**	1.7
Total equity		**265.3**	219.7

Group cash flow statement

	Note	2008 £m	2007 £m
Cash flows from operating activities			
Continuing operations			
Operating profit		**114.7**	77.4
Adjustments for:			
Depreciation, amortisation and loss on disposal of fixed assets		**32.7**	28.6
Exceptional provision		**-**	5.6
Other provisions		**0.4**	0.4
Cash paid against operating provisions		**(17.1)**	(17.5)
Changes in working capital		**(4.9)**	(59.1)
Pension fund contributions in excess of service costs		**(8.9)**	(70.0)
Share based payments		**1.6**	1.1
Cash absorbed by continuing operations		**118.5**	(33.5)
Discontinued operations		**2.3**	18.3
Interest paid		**(22.5)**	(26.8)
Tax paid		**(41.3)**	(14.2)
Net cash generated/(absorbed) by operating activities		**57.0**	(56.2)
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)		**(4.1)**	7.7
Purchase of property, plant and equipment		**(51.9)**	(37.5)
Purchase of computer software		**(0.1)**	(0.6)
Proceeds from sale of property, plant, equipment and other investments		**0.8**	0.2
Proceeds from sale of businesses (net of costs)		**49.4**	75.7
Cash paid against non-operating provisions		**(1.2)**	(0.6)
Interest received		**1.6**	3.1
Net cash (absorbed)/generated from investing activities		**(5.5)**	48.0
Cash flows from financing activities			
Additional borrowings		**67.5**	66.6
Repayment of borrowings		**(85.4)**	(63.9)
Capital element of finance lease repayments		**(0.3)**	(0.1)
Net purchases of own shares		**0.6**	(2.4)
Dividends paid	6	**(23.1)**	(20.0)
Net cash absorbed by financing activities		**(40.7)**	(19.8)
Net movement in cash and cash equivalents		**10.8**	(28.0)
Cash and cash equivalents brought forward		**1.2**	28.0
Exchange differences		**5.3**	1.2
Cash and cash equivalents carried forward		**17.3**	1.2
Cash and cash equivalents carried forward comprise			
Cash at bank and in hand		**42.3**	43.4
Bank overdrafts		**(25.0)**	(42.2)
		17.3	1.2
Reconciliation to net debt			
Net movement in cash and cash equivalents		**10.8**	(28.0)
Movement in debt and lease financing		**18.2**	(2.6)
Change in net debt from cash flows		**29.0**	(30.6)
New finance lease contracts		**(0.6)**	(0.1)
Exchange differences		**(60.5)**	(5.4)
		(32.1)	(36.1)
Net debt brought forward		**(366.0)**	(329.9)
Net debt carried forward		**(398.1)**	(366.0)

Notes to the preliminary announcement

1. Basis of preparation

In preparing this financial information, management has used the principal accounting policies that will be detailed in the Group's annual report and which are unchanged from the prior year. The results shown for 2008 are unaudited. The financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 240(3) of the Companies Act 1985. Statutory accounts of the Company in respect of the financial year ended 31 December 2007, upon which the Company's auditors have given a report which was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of that Act, have been delivered to the Registrar of Companies.

2. Segmental information

Primary reporting format – business segments

At 31 December 2008 the Group continued to be organised on a worldwide basis into two main business segments, relating to the manufacture and sale of the Group's products which are destined for either the Consumer Care market or the market for Industrial Specialities. There is no material trade between segments. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

	2008 £m	2007 £m
Revenue – continuing operations		
Consumer Care	**442.4**	345.6
Industrial Specialities	**514.0**	459.2
	956.4	804.8
Operating profit – continuing operations before exceptional items		
Consumer Care	**89.9**	74.1
Industrial Specialities	**24.8**	8.9
	114.7	83.0

Secondary reporting format – geographical segments

The sales analysis in the table below is based on the location of the customer.

	2008 £m	2007 £m
Revenue by destination – continuing operations		
Europe	**496.2**	419.2
Americas	**279.8**	227.7
Asia	**133.2**	116.4
Rest of World	**47.2**	41.5
	956.4	804.8

3. Net financial expenses

	2008	2007
	£m	£m
Financial expenses		
Bank interest payable	**25.5**	31.1
Financial income		
Bank and other interest receivable	**(2.1)**	(3.9)
Expected return on pension scheme assets less interest on scheme liabilities	**(7.1)**	(5.0)
	(9.2)	(8.9)
Net financial expenses	**16.3**	22.2

4. Tax

	2008	2007
	£m	£m
Analysis of tax charge for the year		
United Kingdom current tax	**-**	(3.7)
Overseas current tax	**26.6**	16.1
Deferred tax	**4.9**	6.3
	31.5	18.7

5. Earnings per share

	2008	2007
	p	p
Earnings per share - continuing operations before exceptional items	**49.6**	29.7
Impact of discontinued operations trading	**2.1**	7.4
Earnings per share before exceptional items	**51.7**	37.1
Impact of exceptional items	**(6.4)**	27.7
Earnings per share – basic	**45.3**	64.8

6. Dividends paid

	Pence Per share	2008 £m	2007 £m
Ordinary			
2006 Final – paid June 2007	**9.65**	**-**	13.0
2007 Interim – paid October 2007	**4.95**	**-**	6.7
2007 Final – paid June 2008	**10.80**	**14.5**	-
2008 Interim – paid October 2008	**6.20**	**8.3**	-
		22.8	19.7
Preference (paid June and December)		**0.1**	0.1
Dividends paid to minority Shareholders		**0.2**	0.2
		23.1	20.0

The directors are proposing a final dividend of 13.55p per share (£18.2m) in respect of the financial year ended 31 December 2008. It will be paid on 4 June 2009 to shareholders registered on 1 May 2009. The total dividend for the year ended 31 December 2008 is 19.75p per share (£26.5m).

7. Discontinued operations and exceptional items

In February 2008, continuing the Group's strategy of focussing on its core business, the Group sold its 46.5% share in its associate, Baxenden Chemicals Limited, to Chemtura Corporation for £13m cash consideration.

In May 2008, in line with the Group's strategic restructuring following the acquisition of Uniqema, the Group's Chicago Oleochemicals business was sold to HIG Capital LLC for £46.8m, with the sale including all current and non-current assets. The consideration included £38.6m cash and the balance as a loan note due in 2014 but repayable earlier in certain circumstances.

Both businesses largely resided within the Industrial Specialities segment.

The impact of the operations discontinued in 2008 is as follows:

	2008 £m	2007 £m
Pre tax operating results from discontinued operations	**4.7**	13.9
Tax	**(1.8)**	(4.0)
Post tax operating results from discontinued operations	**2.9**	9.9
(Loss)/profit on disposal	**(8.6)**	41.0
Total (loss)/profit after tax from discontinued operations	**(5.7)**	50.9

During 2008 the Group successfully re-negotiated one of the onerous contracts within the acquired Uniqema business, resulting in a credit to the income statement of £9.1m. In addition a further charge to the income statement of £9.1m was made in respect of the continued restructuring of the business following the Uniqema acquisition. As a result of the respective credit and charge being in the same amount, there was no net impact on the income statement.

8. Financial assets and liabilities

During 2006 the Group took out additional interest rate swaps to fix a proportion of the floating rate acquisition funding, these swaps being designated as cash flow hedges. Under IFRS, the fair value of such derivative instruments must be recognised in the financial statements. Accordingly, a financial liability of £2.4m (2007: asset of £0.4m) has been recognised within current liabilities (2007: assets), being the fair value of the interest rate swaps designated as cash flow hedges, with a corresponding adjustment to equity.

9. Accounting estimates and judgements

The Group's critical accounting policies under IFRS have been established by management with the approval of the Audit Committee. The application of these policies requires estimates and assumptions to be made concerning the future and judgements to be made on the applicability of policies to particular situations. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Under IFRS an estimate or judgement may be considered critical if it involves matters that are highly uncertain, or where different estimation methods could reasonably have been used, or if changes in the estimate that would have a material impact on the Group's results are likely to occur from period to period. Critical judgement has been required when preparing the Group's accounts as follows:

Provisions

At 31 December 2008, the Group has an environmental provision of £16.6m in respect of soil and potential ground water contamination on a number of sites. Restructuring provisions, totalling £20.1m as at 31 December 2008, largely relate to the continuing restructuring of the Group following the acquisition of Uniqema in 2006. Other provisions include those established as part of the fair value exercise following the acquisition of Uniqema. These relate, amongst other items, to provisions in respect of onerous contracts.

Based on environmental information currently available and the detailed plans established for the restructuring of the Group, the level of provisions is considered appropriate by the directors.

Goodwill and fair value of assets acquired

The Group tests annually whether goodwill has suffered any impairment and the Group's goodwill value has been supported by detailed value-in-use calculations relating to the recoverable amounts of the underlying cash generating units. These calculations require the use of estimates, however as recoverable amounts significantly exceed carrying values, including goodwill, there is no impairment within a wide range of assumptions.

Retirement benefit liabilities

The Group's principal retirement benefit schemes are of the defined benefit type. Year end recognition of the liabilities under these schemes and the valuation of assets held to fund these liabilities require a number of significant assumptions to be made, relating to levels of scheme membership, mortality rates, key financial market indicators such as inflation and expectations on future salary growth and asset returns. These assumptions are made by the Group in conjunction with the schemes' actuaries.

10. Condensed statement of changes in equity

	2008	2007
	£m	£m
Opening shareholders' equity	**218.0**	124.5
Total recognised income	**66.1**	114.5
Dividends (note 6)	**(22.9)**	(19.8)
Transactions in own shares	**0.6**	(2.4)
Share based payments	**1.5**	1.2
Closing shareholders' equity	**263.3**	218.0