CORPORATE GOVERNANCE REPORT

Details are set out in the narrative below of the Company's corporate governance procedures and application of the principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2006 ('the Code'). The Company has complied with the provisions of the Code throughout the year ended 31 December 2008.

The Board

Ultimate responsibility for the management of Cookson rests with the Board of Directors. The Board focuses primarily upon strategic and policy issues. It approves the Group's strategy, oversees the allocation of resources and monitors the performance of the Group in pursuit of this.

Membership

The Board currently has seven Directors, comprising the non-executive Chairman, the Chief Executive, the Group Finance Director and four non-executive Directors. The Board considers each of the non-executive Directors, namely Jeff Hewitt, Jan Oosterveld, Barry Perry and John Sussens, to be independent of management and free from any business or other relationship which could affect the exercise of their independent judgement. The Company has reviewed the availability of the non-executive Directors and considers that each of them is able to, and in practice does, devote the necessary amount of time to the Company's business. The Board nominates one of the non-executive Directors to act as Senior Independent Director and provide an alternative contact at Board level, other than the Chairman, to whom shareholder matters can be addressed. Mr Sussens continues to hold this position. There were no changes of Board membership during the year. The biographical details of the individual Directors who served during the year are set out on page 31.

The Articles of Association of the Company require that Directors should submit themselves for re-election at least every three years. Messrs Beeston, Butterworth and Hewitt will therefore be retiring and offering themselves for re-election at this year's Annual General Meeting ('AGM') as set out in the Notice of AGM and on page 41.

Responsibilities and meetings

The Board has a formal schedule of matters reserved to it and delegates certain matters to committees as outlined below. The Board met as a full Board on eight scheduled occasions during 2008. One of these meetings was held at a Cookson facility during a Board visit to the Group's operations. Board meetings may also be convened on an ad-hoc basis for non-routine business. In addition, the Chairman and the non-executive Directors meet routinely on their own without the executive Directors present and at least once each year the non-executive Directors meet without the Chairman present to discuss matters such as the Chairman's performance.

Specific matters reserved for the Board include: reviewing Group and divisional performance; approving significant transactions including acquisitions, divestments, capital expenditure and changes to the Group's capital structure; setting and approving the Group's strategy and annual budget; approving the Group's financing and treasury policies; succession planning and approving Board appointments and the remuneration of the non-executive Directors. In addition the Board considers health, safety and environmental matters and reviews the Group's risk management processes.

The division of responsibilities between the Chairman and the Chief Executive has been agreed by the Board and is set out in writing. The Chairman leads the Board and meets routinely with the Chief Executive and Group Secretary to discuss matters relating to its efficient functioning. The Chairman also serves as Chairman of Elementis plc and as the Senior Independent Director and Chairman of the Remuneration Committee of D S Smith plc. The Board considers that the Chairman is able to and does devote sufficient time to his duties at Cookson.

The attendance of Directors at Board and principal Committee meetings during the year, together with the maximum number of meetings in the period when the individual was a Board member (as shown in brackets), was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Chairman				
Robert Beeston	8 (8)	n/a	n/a	1 (1)
Executive Directors				
Mike Butterworth	8 (8)	n/a	n/a	n/a
Nick Salmon	8 (8)	n/a	n/a	1 (1)
Non-executive Directors				
Jeff Hewitt	8 (8)	4 (4)	4 (4)	1 (1)
Jan Oosterveld	8 (8)	4 (4)	4 (4)	1 (1)
Barry Perry	7 (8)	4 (4)	3 (4)	1 (1)
John Sussens	8 (8)	4 (4)	4 (4)	1 (1)

Papers are provided to the Directors in advance of the relevant Board or Committee meeting to enable them to make further enquiries about any matters prior to the meeting should they so wish. The Group Secretary oversees the distribution of these papers and ensures that there is an appropriate level of communication between the Board and its Committees and between senior management and the non-executive Directors. He also keeps the Board apprised of relevant developments in corporate governance.

Performance evaluation

The Board evaluates its own performance and effectiveness and assesses the performance of its Committees and individual Board members on an annual basis. The precise scope of the evaluation varies from year to year and is agreed in advance with the full Board. The Chairman leads the evaluation process with the assistance of the Group Secretary.

The performance of the Chairman is included in the review and takes into account the views of both the executive and non-executive Directors. The Chairman's evaluation is conducted by the Senior Independent Director who provides feedback to the Chairman. As part of the Chairman's evaluation the non-executive Directors meet separately with the Senior Independent Director.

The 2008 Board evaluation process focused upon key aspects of Board performance – as identified in previous evaluations – and the various skills and attributes expected of Cookson Directors. The review was carried out using a specially designed questionnaire prepared by an independent, specialist organisation in conjunction with the Chairman and the Group Secretary. The questionnaire was completed by the Directors and the Group Secretary with the results being collated and summarised by the organisation. Each Director received a copy of the high level report, which summarised and analysed all responses on a non-attributable basis.

The process also involved a series of one-to-one meetings between the Chairman and each member of the Board and the Group Secretary. The full Board then considered the report with the Chairman and Senior Independent Director adding their own comments based on the outcome of their discussions.

The Chairman was judged to have performed satisfactorily against all the measured criteria. Based on the results of the 2008 review the Board considered that overall it was operating effectively and that all Directors continue to contribute and are committed to their respective roles at Cookson.

The Board agreed the action items to be addressed as a result of the review. These included increasing the frequency of contact between the Board and senior divisional management in order to assist in management development and succession planning.

The Chairmen of each of the Audit, Nomination and Remuneration Committees also reviewed the results of the evaluation of each Committee with Committee members. All Board Committees were considered to be effective.

Induction and training

The Group Secretary ensures that a comprehensive induction programme is provided to all new Directors, including visits to manufacturing facilities, meetings with key Group executives and introductions to the Company's principal external advisers, as appropriate. New Directors are also advised of their legal and other duties and obligations as Directors of a listed company. This is supplemented by reference materials, which are updated as required, including information about the Board, the Committees, Directors' duties, procedures for dealing in the Company's shares and other regulatory and governance matters. Directors are provided with details of seminars and training courses relevant to their role. They are encouraged to attend these as they consider appropriate and are supported by the Company in so doing. Where a general training need is identified, in-house training is provided to the entire Board. In 2008 further updates were given to the Board on the Companies Act 2006. During the year Directors also attended external seminars and other functions relevant to specific areas of their responsibility.

Relations with shareholders

The Company has an established investor relations programme managed by the Chief Executive and Group Finance Director. The Company reports its financial results to shareholders twice a year, with the publication of its Annual and Half-Yearly Financial Reports. In conjunction with these announcements presentations are made to institutional investors and analysts, copies of which are posted on the Group's website – www.cooksongroup.co.uk. In addition, in 2008 the Company issued Interim Management Statements in May and November and hosted a Capital Markets Day for analysts at its Ceramics facility in Borken, Germany.

The Company maintains a regular dialogue with major institutional investors and regular updates on shareholder issues and discussions are provided to the Board. Board members also receive copies of significant analysts' notes issued on the Company. All Directors normally attend the Company's AGM, providing shareholders with the opportunity to question them about issues relating to the Group, either during the meeting or informally afterwards.

Board Committees

The principal Committees of the Board are the Audit, Remuneration and Nominations Committees. Each Committee has written terms of reference agreed by the Board. These are available to view on the Company's website – www.cooksongroup.co.uk.

Audit Committee

The Audit Committee members are the non-executive Directors, namely Jeff Hewitt, Jan Oosterveld, Barry Perry and John Sussens. During the year the Committee was chaired by Mr Hewitt. The Board believes Mr Hewitt possesses the relevant financial experience, as described by the Code.

The Group Finance Director, the Group Head of Internal Audit and the Company's Auditor, KPMG Audit Plc, are normally invited to attend meetings and other executives are invited to attend as and when appropriate. The Committee meets regularly with the Company's Auditor without any executives being present.

Audit Committee report

The principal roles of the Audit Committee are:

- assisting the Board in the discharge of its responsibilities in respect of statutory and other financial reporting and in respect of its review of the effectiveness of the Group's internal controls and risk management systems;
- monitoring and reviewing the effectiveness of the Company's internal audit function;
- making recommendations to the Board on the appointment and dismissal of the Auditor;
- approving the remuneration and terms of engagement of the Auditor;
- monitoring and reviewing the Auditor's independence, objectivity and effectiveness, taking into account professional and regulatory requirements; and
- helping to strengthen the independent position of the Auditor by providing a direct channel of communication between it and the non-executive Directors.

The Committee has established procedures for the receipt, retention and treatment of complaints received by the Company including accounting, internal controls, auditing matters and confidential communications from employees.

The Group Head of Internal Audit reports directly to the Committee Chairman and the Committee reviews and approves the internal audit work programme for each year. During the year under review, the Committee met four times and reviewed, amongst other matters, the Company's published financial results; internal audit reports and management control issues; the scope of the external audit and its cost effectiveness; the performance of the Auditor; and the extent to which the Auditor's remuneration for non-audit services might affect its independence and objectivity in carrying out the audit.

More specifically, the responsibilities of the Committee were discharged as follows:

- at its meetings in July 2008 and March 2009, the Committee reviewed the Company's Half-Yearly Report and Annual Results Announcement/Annual Report and Accounts, respectively. On both occasions, the Committee received reports from the Auditor identifying any accounting or judgmental issues thereon requiring its attention;

Audit Committee report (continued)

- at each of the four meetings, the Committee received a report from the Group Head of Internal Audit covering, amongst other things, the work undertaken by the Internal Audit function and management responses to proposals made in the audit reports issued by the function during the year. In addition, at the December 2008 meeting, the Committee reviewed the internal audit plan, submitted by the Group Head of Internal Audit for 2009;
- at each of the four meetings, the Committee reviewed the Auditor's control findings;
- at the July 2008 meeting, the Committee reviewed the results of an assessment which had been undertaken of the performance of the Auditor and reviewed and agreed the audit plan presented by the Auditor, which detailed the approach and scope of the work to be undertaken and the level of fee to be charged;
- at its meetings in December 2008 and January 2009, the Committee reviewed the approach and scope of the work to be undertaken by the Auditor, in its role as Reporting Accountant, in connection with their review of the profit forecast and working capital report produced by management in relation to the rights issue announced in January 2009. Also at these meetings, the Committee reviewed the rights issue prospectus and reports from management which supported the profit estimate and working capital statements made therein;
- at its meetings in December 2008 and March 2009 the Committee reviewed both the risk management process operated by Group management designed to identify the key risks facing each business and also how those risks were being managed;
- at its meetings in January and March 2009 the Committee reviewed reports from management which addressed the appropriateness of the production of the Group and Company financial statements on a going concern basis;
- from time to time, executives were required to make presentations to the Committee or to the full Board on the identification, management and control of specific areas of risk which impact the Company and the Group; and
- as a matter of routine, the Committee was presented with information on any significant litigation involving the Group.

As noted above, one of the duties of the Committee is to make recommendations to the Board in relation to the appointment of the Auditor. In 2008, the Audit Committee contemplated putting the Group audit out to tender but, after considering a number of factors concerning the Auditor and the Group's current activity; including the results of ongoing work being undertaken to integrate the recently acquired Foseco business, it decided to recommend the Auditor for re-appointment. Among the other factors considered by the Committee were: the quality both of reports provided by the Auditor to the Committee and the Board, and of advice given; the level of understanding demonstrated of the Group's businesses; the objectivity of the Auditor's views on the controls throughout the Group; its ability to coordinate a global audit, working to tight deadlines; the cost-competitiveness of the Auditor in relation to the audit costs of comparable UK companies; and the periodic rotation of the senior audit management assigned to the audit of the Company.

The Committee has put in place safeguards to ensure that the independence of the external audit is not compromised. Such safeguards include:

- seeking confirmation that the Auditor is independent of the Company in its own professional judgement; and
- considering all the relationships between the Auditor and the Group, including those relating to the provision of non-audit services and whether this impairs, or appears to impair, the Auditor's judgement or independence.

The Company has a policy governing the Group-wide conduct of non-audit work by the Auditor. Under that policy the Auditor is prohibited from performing services where it:

- may be required to audit its own work;
- would participate in activities that would normally be undertaken by management;
- is remunerated through a 'success fee' structure; or
- acts in an advocacy role for the Group.

Other than the above, the Company does not impose an automatic prohibition on the Auditor undertaking non-audit work. The Auditor is permitted to provide non-audit services that are not, or are not perceived to be, in conflict with auditor independence, providing it has the skill, competence and integrity to carry out the work in the best interests of the Group. Details of the amounts paid to the Auditor during the year for audit and other services are set out in note 8 on page 72.

The Chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives the agenda, papers and minutes of Audit Committee meetings.

Remuneration Committee

The Remuneration Committee members are the non-executive Directors, namely Jeff Hewitt, Jan Oosterveld, Barry Perry and John Sussens who chairs the Committee. The Committee's principal roles are to set the appropriate remuneration for the Group Chairman, the executive Directors and the Group Secretary, and to recommend and monitor the level and structure of remuneration for senior management, being the first layer of management below Board level. Further details of the activities of the Remuneration Committee are provided in the Directors' Remuneration Report on pages 45 to 51.

The Chairman of the Remuneration Committee reports the outcome of the Remuneration Committee meetings to the Board.

Nominations Committee

The Nominations Committee advises the Board on appointments to, and retirements and resignations from, the Board. The members of the Committee are the Group Chairman, the Chief Executive and any three non-executive Directors. The Committee meets as and when required and is chaired by the Group Chairman or a non-executive Director. The Group Chairman would not act as Chairman of the Committee where it was dealing with the appointment of his successor. Formal meetings are held to consider standing items of business; there is also a significant level of ad hoc discussion between members of the Committee, particularly when a recruitment exercise is taking place.

When considering the appointment of new Directors, the Committee draws up specifications, taking into consideration the existing balance of skills, knowledge and experience of the Board and the ongoing requirements of the Group. It utilises the services of external recruitment consultants to identify appropriate candidates, interviews those short-listed and then makes recommendations for each appointment to the full Board. Care is taken to ensure that all proposed appointees have sufficient time available to devote to the role and do not have any conflicts of interest.

The Nominations Committee reviews the Company's succession plans. The Board as a whole also considers this subject. Each of Cookson's divisions submit detailed succession plans in respect of senior divisional executives to the Board for review each year. The Board also considers succession planning for senior Corporate executives, with the Nominations Committee focusing in turn, specifically on succession planning for members of the Board.

The Chairman of the Nominations Committee reports the outcome of the Nominations Committee meetings to the Board.

Finance and Share Schemes Committees

The Board delegates certain responsibilities on an ad hoc basis to the Finance and Share Schemes Committees.

The Finance Committee is chaired by the Group Chairman, its other members being the Chief Executive, Group Finance Director and Group Treasurer. The Committee meets as and when required to consider the approval of treasury-related matters.

The Share Schemes Committee's membership consists of any two Directors. It meets as and when required to undertake administrative matters in relation to the Company's share schemes.

Executive Committee and Central Executive

In addition to the Committees of the Board described above, the Group has an Executive Committee which supports the Chief Executive in addressing Group-wide issues and initiatives. This Committee is chaired by the Chief Executive and comprises the Group Finance Director, the Group Secretary and the Chief Executives of each of the Group's three divisions. Specific authority has been delegated to the Central Executive comprising the Chief Executive, Group Finance Director and Group Secretary. The Central Executive is responsible for reviewing and approving capital expenditure, acquisitions and disposals at certain levels as determined by the Board. Responsibility for day-to-day operational management rests with the divisional Chief Executives.

Internal control

The Directors are responsible for the establishment and maintenance of the Group's system of internal control.

The Company has complied with the provisions of the Code on internal control which require that the Directors review the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls, and risk management systems. Whilst no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and are dealt with appropriately. Since the date of the review, there have been no significant changes in internal controls or other matters which could significantly affect them.

There is a continuous process for identifying, evaluating and managing the significant risks faced by Cookson. Group management operates a risk management process designed to identify the key risks facing each business and reports to the Audit Committee on how those risks are being managed. As a basis for this report, each of the Group's major business units produces a 'risk map' which identifies their key risks and assesses the likelihood of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to a desired level.

The internal control system is monitored and supported by the Group's Internal Audit function, which operates on a global basis. This function assists management and the Board in the effective discharge of their responsibility for internal control by conducting reviews of Cookson businesses and reporting objectively both on the adequacy and effectiveness of the system of internal control in place and as to whether those businesses are in compliance with applicable Group policies and procedures. The Group Head of Internal Audit is responsible for developing the function, within the framework of common Group policies and standards, and for carrying out assignments in accordance with an annual audit plan approved by the Audit Committee. The Audit Committee receives reports from the Group Head of Internal Audit on a regular basis and reports to the Board on the results of its review.

As part of the Board's process for reviewing the effectiveness of the system of internal control, it delegates the following matters to the Audit Committee to be carried out during the year:

- review of external and internal audit work plans;
- consideration of reports from management, internal audit and external audit on the system of internal control and any material control weaknesses; and
- discussions with management on the actions taken on problem areas identified by Board members, in internal audit reports or in external audit management letters.

In addition to the above, the Board considers significant financing and investment decisions concerning the Group, including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk. The Board also reviews the role of insurance and other measures used in managing risks across the Group, receives regular reports on any major issues that have arisen during the year and makes an annual assessment of how the risks have changed over the period under review.

At the year end, following the review by the Audit Committee of internal financial controls and of the processes covering other controls, the Board evaluates the results of the internal control and risk management procedures conducted by senior management. This includes a self-certification exercise by which they certify the effectiveness of the system of internal controls within the businesses for which they are responsible, together with their compliance throughout the year with the Group's policies and procedures.

Principal risks and uncertainties

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

Principal risks and uncertainties (continued)

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

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

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

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

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

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

Cookson has initiated various cash generation and restructuring actions which are described in the Operating Review on pages 12 to 21. In total, this cost saving programme is expected to result in annualised savings of £40 million (of which £30 million is anticipated to be realised in 2009 and an incremental £10 million in 2010), with associated one-off cash costs of £27 million being incurred in the first half of 2009. However, there can be no assurance that the restructuring costs will not exceed present expectations or that expected savings will be realised. Additionally, the cost savings may take longer to realise than expected. In particular, a number of issues may result in cost overruns or cost savings being reduced or taking longer to achieve than expected, for example, certain restructuring actions are subject to matters which are not within the control of the Group; such as works council consultation or labour laws which may delay redundancy plans. If the restructuring costs escalate and/or the Group fails to achieve the expected savings in the expected timeframe, this could adversely impact the Group's future prospects and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Principal risks and uncertainties (continued)

increases in the cost of raw materials is limited, this could have a material adverse effect on the Group's future prospects, financial position and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group operates defined benefit pension and other post-retirement plans, principally in the UK and the US, the valuation of which resulted in a net deficit of £95.3 million as at 31 December 2008. The Group's largest defined benefit pension plans are in the UK and the US, each of which is closed to new members, with the Group's largest US plans also being closed to further benefit accrual for existing members. The Group's main pension plan is its UK plan. The calculation of plan liabilities using a discount rate based on the yield on high quality corporate bonds, as required by international accounting standards, resulted in a surplus of £70.0 million being reported for the plan as at 31 December 2008. The use of a lower discount rate for actuarial valuation and funding purposes results in the plan being in deficit and a deficit-reduction plan has been agreed with the plan Trustee under which additional future cash contributions will be made which have been calculated to reduce to zero the deficit calculated in the last formal actuarial valuation of the UK plan. To reduce future volatility in the UK plan deficit, the UK plan Trustee, with support from Cookson, entered into swap arrangements and an equity hedge in 2006 to mitigate the impact of changes in interest rates and inflation on the UK plan's liabilities and volatility in the equity performance of the plan's assets.

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

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

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

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

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