

DIRECTORS' REPORT

The Directors submit their Annual Report together with the audited accounts of the Group and of the Company, Cookson Group plc, for the year ended 31 December 2008.

The Chief Executive's Review, the Operating Review, the Financial Review, the Director's Remuneration Report, and the Corporate Governance, the Corporate Social Responsibility and Board of Directors sections of the Annual Report are each incorporated by reference into, and form part of, this Directors' Report.

The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Principal activities

Cookson Group plc is a leading materials science company which provides materials, processes and services to customers worldwide. The Group's operations are formed into three divisions - Ceramics, Electronics and Precious Metals. Trading under the Vesuvius and Foseco brand names, Cookson's Ceramics division is the world leader in the supply of advanced consumable products and systems to the global steel and foundry industries and a leading supplier of specialist ceramic products to the glass and solar industries. It is also a regional leader in the US, UK and Australia in the supply and installation of monolithic refractory linings. The Electronics division is a leading supplier of advanced surface treatment and plating chemicals and assembly materials to the electronics, automotive and construction markets. It comprises two product lines: Assembly Materials and Chemistry. The Precious Metals division is a leading supplier of fabricated precious metals (primarily gold, silver and platinum) to the jewellery industry in the US, the UK, France and Spain. Products include alloy materials, semi-finished jewellery components and finished jewellery.

Business review

As required by the Companies Act 2006, the Company must provide a fair review of the development and performance of the Group during 2008, its financial position at the end of the year and likely future developments in the Group's business, together with information on environmental matters and employees and a description of the principal risks and uncertainties facing the Group. The information which satisfies these requirements is to be found in the Chief Executive's Review on pages 10 and 11; the Operating Review on pages 12 to 21; the Financial Review on pages 22 to 27; the Corporate Responsibility and Health, Safety and Environmental Statements on pages 28 and 29; the Key Performance Indicators on page 7; and the Corporate Governance Report on pages 32 to 39.

Going concern

The financial statements of the Company and the Group, respectively, have been prepared on a going concern basis as the Directors consider that the Company and the Group have adequate resources to continue in operation for the foreseeable future.

Information on the business environment in which the Group operates, including the factors that are likely to impact the future prospects of the Group, are included in the Chief Executive's Review and the Operating Review. The principal risks and uncertainties that the Group faces throughout its global operations are included in the Corporate Governance Report. The financial position of the Group, its cash flows, liquidity position and debt facilities are described in the Financial Review. In addition, notes 4 and 37 to the consolidated financial statements set out the Group's objectives, policies and processes for managing its capital; financial risks; financial instruments and hedging activities; and its exposures to credit, market (both currency and interest rate-related) and liquidity risk. Further details of the Group's cash balances and borrowings are included in notes 20 and 36 to the consolidated financial statements.

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

The Directors have prepared cash flow forecasts for the Group for a period in excess of twelve months from the date of approval of the 2008 financial statements. These forecasts reflect an assessment of current end-market conditions, their impact on the Group's future trading performance and the actions taken by management in response to the difficult market conditions. The forecasts completed on this basis show that the Group will be able to operate within the current committed debt facilities and show continued compliance with the financial covenants. In addition, management has considered various mitigating actions that could be taken in the event that end-market conditions are worse than their current assessment. Such measures include further reductions in costs, further reductions in capital expenditure and further reductions in those items of working capital within management's control.

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

Dividends

The Board has recently reviewed Cookson's near-term dividend policy in response to the ongoing global financial crisis and challenging trading conditions. As a consequence no final dividend for the 2008 financial year will be recommended to shareholders and dividend payments will be suspended until such time as the Group's end-markets have recovered sufficiently. The cash cost of dividend payments in 2008 was £31 million. A decision to resume dividend payments will be made once a clear recovery can be seen in our end-markets and trading performance, and in the context of the Group's cash requirements at that time.

An interim dividend of 0.88p (2007: 0.64p) per ordinary share was paid on 13 October 2008 to shareholders on the register at

26 September 2008. Total dividends of 1.96p per ordinary share were declared in respect of 2007. (The aforementioned numbers having been restated following the rights issue which completed on 4 March 2009.) See note 17 to the Consolidated Financial Statements.

Accountability and audit

A responsibility statement of the Directors and a statement by the Auditor about its reporting responsibilities can be found on pages 52 and 53, respectively. The Directors fulfil the responsibilities set out in their statement within the context of an overall control environment of central strategic direction and decentralised operating responsibility.

Disclosure of information to the Auditor

As at the date of this report, so far as each Director of the Company is aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director hereby confirms that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Auditor

Resolutions for the re-appointment of KPMG Audit Plc as Auditor of the Company and to authorise the Directors to determine its remuneration are to be proposed at the AGM.

Remuneration matters

The Directors' Remuneration Report appears on pages 45 to 51. Neither of the executive Directors' contracts contains any change of control provisions.

Remuneration of the Chairman and non-executive Directors

The Board considers the remuneration policy for the non-executive Directors. Non-executive Directors' fees have not been increased during the year and remain at £40,000 per annum. A supplementary fee is payable to the Chairman of the Audit Committee of £15,000 per annum and the Chairman of the Remuneration Committee receives a supplementary fee of £10,000 per annum. A supplementary fee of £5,000 per annum is also payable to the Senior Independent Director. No changes were made in 2008 to the supplementary fees payable.

The Group Chairman's remuneration, which is subject to periodic review, is determined by the Remuneration Committee. There was no change to the Group Chairman's remuneration, during the year. Neither the Group Chairman, who is not an executive Director, nor the other non-executive Directors are members of the Group's pension plans, nor do they participate in the Group's incentive schemes.

Directors

Messrs Beeston, Butterworth, Hewitt, Perry, Oosterveld, Salmon and Sussens all served as Directors of the Company during the year. Biographical information for the Directors of the Company, who served during the year, is given on page 31. Messrs Beeston, Butterworth and Hewitt will retire at the AGM and will offer themselves for re-election. Further information on the service agreements of the executive Directors, including Mr Butterworth, is given on page 48. The non-executive Directors, including Messrs Beeston and Hewitt, do not have such agreements.

Legal matters

All Directors have access to the advice and services of the Group Secretary. There is also an agreed procedure in place for Directors, in the furtherance of their duties, to take independent legal advice if necessary, at the Company's expense.

Directors' indemnities

To the extent permitted by section 236 of the Companies Act 2006, the Directors have been granted Qualifying Third Party Indemnity Provisions by the Company and the directors of the Group's UK Pension Plan trustee board have been granted Qualifying Pension Scheme Indemnity Provisions by Cookson Pension Plans Trustees Ltd.

Directors' conflicts of interest

Following approval at the 2008 AGM, the Company's Articles of Association were amended with effect from 1 October 2008, to take account of certain provisions of the Companies Act 2006 relating to directors' conflicts of interest which came into effect on that date. These provisions permit the Board to consider and, if thought fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('Situational Conflicts'). The Board has established a formal system for Directors to declare Situational Conflicts so that they can be considered for authorisation by the remaining members of the Board. In deciding whether to authorise a Situational Conflict, the non-conflicted Directors are required to act in the way they consider would be most likely to promote the success of the Company, and they may impose limits or conditions when giving authorisation or subsequently if they think this is appropriate. The Group Secretary minutes the consideration of any conflict and records the details of any authorisations granted.

Employment policies

A fundamental concept embodied in the Company's Code of Conduct is that Cookson's goals can only be met through the efforts of its employees. Cookson recognises that job satisfaction requires working environments that motivate employees to be productive and innovative and provide opportunities for employee training and development to maximise personal potential and develop careers within the Group.

Cookson is managed on a decentralised basis and within each division it is the responsibility of the relevant divisional Chief Executive to adopt employment policies and practices that best suit the size, style and geographical location of their operations. This allows the Group's operations to respond competitively to changes in the marketplace and to develop and retain a strong sense of identity whilst benefiting from being a part of a major international group. Cookson values the involvement of its employees and keeps them informed on matters affecting them as employees and factors relevant to Group performance.

It is established policy throughout Cookson that decisions on recruitment, career development, training, promotion and other employment-related issues are made solely on the grounds of individual ability, achievement, expertise and conduct. These principles are operated on a non-discriminatory basis. Cookson gives full and fair consideration to applications for employment from disabled persons. Should an employee become disabled during their employment with Cookson, every effort is made to enable them to continue their service with the Group.

DIRECTORS' REPORT (CONTINUED)

Pensions

In each country in which the Group operates, the pension arrangements in place are considered to be consistent with good employment practice in that particular area. Independent advisers are used to ensure that the plans are operated in accordance with local legislation and the rules of each plan. Group policy prohibits direct investment of pension fund assets in its own businesses. Outside the UK, the US, Germany, the Netherlands and Belgium, the majority of pension plans in the Group are of a defined contribution nature.

The Group's UK defined benefit plan and main US defined benefit plans are closed to new entrants and the Group's largest US defined benefit pension plans have ceased providing future benefit accrual, with members instead being provided with benefit through a defined contribution plan. Benefit accrual under the Group's UK defined benefit pension plan continues for those employees who joined prior to the closure of the plan to new entrants. Defined contribution plans exist for new employees in the UK and the US.

For the Group's UK defined benefit and defined contribution plans a trustee board exists comprising employees, former employees and an independent trustee. The board currently comprises six trustee directors, of whom two are member-nominated. Following the merger of the Fosco Pension Fund into the Cookson Group Pension Plan on 1 January 2009, steps are being taken to appoint a third member-nominated trustee director from the membership of the former Fosco Fund. The administration of each plan is outsourced.

The Company is mindful of its obligations under the Pensions Act 2004 and of the need to comply with the guidance issued by the Pensions Regulator. Regular dialogue is maintained between the Company and the Trustee board of the UK plans to ensure that both Company and Trustee are apprised of the same financial and other information about the Group and the plans which is pertinent to each being able to contribute to the effective functioning of the plans. The Company currently has in place a schedule of contributions, agreed with the Trustee board, which aims to reduce to zero the deficit existing on the UK defined benefit plan as at 31 December 2006 by July 2015. The adequacy of this schedule of contributions will be monitored over time, so as to assess the need for it to be modified in the light of changes in the deficit position.

All US retirement plan assets are held in trust for the exclusive benefit of plan participants and their beneficiaries. An independent financial institution acts as the Trustee. The trust assets are protected by law and by Federal Government Regulation and are subject to annual audit by an independent accountant, the Internal Revenue Service and the Department of Labor.

Further details of pension arrangements are given in note 38 on pages 94 to 102.

Donations

Donations in the UK for charitable purposes totalled £nil (2007: £0.1m); and such donations throughout the Group totalled £nil (2007: £0.1m). In accordance with Company policy, no political donations were made in either 2008 or 2007.

Creditor payment policy

Each operating company in the Group is responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to

suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. In the accounts of the Company as at 31 December 2008, the number of days' purchases outstanding was 21 (2007: 9 days).

Significant agreements

The terms of the Group's committed bank facility and US Private Placement loan notes contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control on takeover of the Company. A number of other arrangements to which the Company and its subsidiaries are party, such as other debt arrangements and share incentive plans, may alter or terminate on a change of control in the event of a takeover. In the context of the Group as a whole, these other arrangements are not considered to be significant.

Events after the balance sheet date

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

Share capital

As at the date of this report, the Company has an issued share capital of 2,763,900,906 ordinary shares of 10 pence each, being the total number of Cookson Group plc shares with voting rights. The Company currently has only one class of shares.

Following the increase in the Company's issued share capital as a result of the rights issue, the Directors consider it desirable to consolidate the ordinary shares of the Company. A resolution is therefore being proposed at the forthcoming AGM to allow the Company's ordinary shares to be consolidated on the basis of 1 new share for each 10 existing shares. It is anticipated that this will reduce the volatility in the share price. At the current level small absolute movements in the share price represent large percentage movements resulting in considerable volatility. In addition, the Directors believe that the bid-offer spread on shares prices at low absolute levels can be disproportionate to the share price to the detriment of shareholders.

Details of movements in the Company's issued share capital during 2008 are given in note 13 to the Company financial statements on page 117.

The Company operates a number of share-based share incentive plans (further details about these are given in the Directors' Remuneration Report). For the majority of these plans the Company can satisfy entitlements either by the acquisition of existing shares or by the issue of new shares. Existing shares are held in an employee share ownership trust ('ESOP'). The trustees of the ESOP purchase shares in the open market as required, to enable the Company to meet liabilities for the provision of existing shares to satisfy awards that vest. The trustees do not register votes in respect of these shares.

The Directors are considering what adjustments, if any, it would be appropriate to make to outstanding share-based incentives as a result of the rights issue, including to the number of shares granted under options and awards and to the exercise price, if any, of those options and awards, and any relevant performance conditions. Any such adjustments shall be made in accordance with the rules of the relevant plan and, where required by relevant plan rules, adjustments shall be made with the prior

approval of HM Revenue & Customs and/or the Company's Auditor.

Since the year end, no ordinary shares have been issued as a result of exercises of options granted under the Company's share option schemes. Resolutions giving the Directors the authority to allot further shares and make allotments of shares to persons other than existing shareholders in certain circumstances will again be proposed at the AGM.

Additional information for shareholders

Set out below is a summary of certain provisions of the Company's current Articles and applicable English law concerning companies (the Companies Act 1985 and the Companies Act 2006, together the 'Companies Acts'). This is a summary only and the relevant provisions of the Articles or the Companies Acts should be consulted if further information is required. Certain amendments will be proposed to the Articles at the Company's Annual General Meeting to be held on 14 May 2009, to be effective 1 October 2009, as explained in the Notice of the Annual General Meeting. A copy of the Company's current Articles, marked up to show the proposed amendments, will be available for inspection from 8 April 2009 until the close of the AGM, during business hours at the Company's registered office and at the offices of Linklaters LLP, the Company's solicitors, at One Silk Street, London, EC2Y 8HQ, England. They will also be available for inspection at the place of meeting for 15 minutes prior to and during the AGM.

Authority for purchase of own shares

Subject to the provisions of Company law and any other applicable regulations, the Company may purchase its own shares. Although it may not purchase or enter into a contract to purchase any convertible shares, unless the terms of issue of such convertible shares include provisions permitting the Company to purchase its own equity shares or providing for adjustment to the conversion terms upon such a purchase; or the purchase, or the contract, has first been approved by an ordinary resolution passed at a separate meeting of the holders of such convertible shares.

At the 2008 AGM, shareholders gave the Company renewed authority to make market purchases of up to a maximum of 10% at that time of the Company's issued ordinary share capital. As at the date of this report, the Company has made no such purchases under this authority. The Directors believe it advisable to seek renewal of this authority at each AGM.

The Company's Articles specify that, subject to the authorisation of an appropriate resolution passed by a general meeting of the Company, Directors can allot relevant securities under Section 80 of the Companies Act 1985, up to the aggregate nominal amount specified by that Act. In addition, the Articles state that the Directors can seek the authority of shareholders in general meeting to allot equity securities for cash without first being required to offer such shares to existing ordinary shareholders in proportion to their existing holdings in connection with a rights issue and in other circumstances up to an aggregate nominal amount as specified in Section 89(1) of the Companies Act 1985.

Transfer of shares

All transfers of shares which are in certificated form may be effected by transfer in writing in any usual or common form or in any other form acceptable to the Directors and may be under hand only. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully-paid

shares) by or on behalf of the transferee. The transferor will remain the holder of the shares concerned until the name of the transferee is entered in the Register of members. All instruments of transfer which are registered may be retained by the Company. Provided that the Directors may dispense with the execution of the instrument of transfer by the transferee in any case in which they think fit in their discretion to do so. All transfers of shares which are in uncertificated form may be effected by means of the CREST system.

The Directors may decline to recognise any instrument of transfer relating to shares in certificated form unless it is in respect of only one class of share and is lodged (duly stamped if required) at the place where the Company's Register is located accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do). In the case of a transfer by a recognised clearing house, or by a nominee of a recognised clearing house or of a recognised investment exchange, the lodgement of share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question.

The Directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason, refuse to register any transfer of shares (not being fully-paid shares) provided that such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The Directors may also refuse to register an allotment or transfer of shares (whether fully-paid or not) in favour of more than four persons jointly. If the Directors refuse to register an allotment or transfer of shares they shall within two months after the date on which the letter of allotment or instrument of transfer was lodged with the Company or the operator instruction was received by Cookson (in the case of shares held in uncertificated form) send to the allottee or transferee notice of the refusal.

A shareholder does not generally need to obtain the approval of the Company, or of other shareholders of shares in the Company, for a transfer to take place.

The Articles contain certain restrictions on the number of US persons who hold shares in the Company so as to enable the Company to suspend its obligations under the US Securities Exchange Act of 1934 and to prevent any such obligations from arising again in the near future.

Voting rights

Subject to the Articles generally and to any special rights or restrictions attached to any class of shares, at a shareholders' meeting, every shareholder who is present in person and every duly appointed proxy shall have one vote on a show of hands, and on a poll every shareholder who is present in person or by proxy shall have one vote for every ordinary share of which he or she is the holder. In the case of joint holders of a share the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the share register. A shareholder entitled to attend and vote at a shareholders' meeting is entitled to appoint a proxy or proxies to exercise all or any of his or her rights to attend and speak and vote in his or her place. A shareholder may appoint more than one proxy in relation to a general meeting provided that each proxy is appointed to exercise the rights attached to a

DIRECTORS' REPORT (CONTINUED)

Voting rights (continued)

different share or shares held by the shareholder. Proxies need not be shareholders of the Company. For the purposes of determining which persons are entitled to attend or vote at a meeting and how many votes such person may cast, the Company may specify in the notice of the meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered on the Share Register in order to have the right to attend or vote at the meeting.

Restrictions on shares

The Board may withhold payment of all or any part of dividends or other monies payable in respect of the Company's shares from a person with 0.25 percent interest or more if such person has been served with a notice after failure to provide the Company with information concerning interest in those shares required to be provided under the Companies Acts.

Variation of rights

Subject to statute, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class. The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

Restrictions on voting

No shareholder shall, unless the Directors otherwise determine, be entitled in respect of any share held by him or her to vote either personally or by proxy at a shareholders' meeting or to exercise any other right conferred by membership in relation to shareholders' meetings if any call or other sum presently payable by him or her to the Company in respect of that share remains unpaid. In addition, if any member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice to provide the Company with information under Section 793 of the Companies Act 2006 and has failed to do so within 14 days, then (unless the Directors otherwise determine) the member shall not (for so long as the default continues) be entitled to attend or vote either personally or by proxy at a shareholders' meeting or to exercise any other right conferred by membership in relation to shareholders' meetings.

Appointment and replacement of Directors

The Company shall have no less than five and no more than fifteen Directors. The Company may by ordinary resolution from time to time vary the minimum number and/or maximum number of Directors. At each AGM all those Directors who were elected or last re-elected at or before the AGM held in the third calendar year before the current year shall retire from office by rotation. A retiring Director shall be eligible for re-election. The Board may appoint any person to be a Director (so long as the total number of Directors does not exceed the limit prescribed in these Articles). Any such Director shall only hold office until the next AGM and shall then be eligible for election.

Amendment of Articles of Association

The Company may make amendments to the Articles of the Company by way of special resolution in accordance with the Companies Acts.

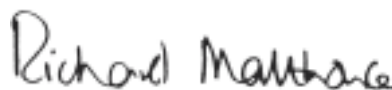
Interests in the Company's shares

As at the date of this report, the Company has been notified in accordance with DTR 5 of the Disclosure and Transparency Rules of the following interests in its issued ordinary shares:

| | % |
|-------------------------------|--------|
| Standard Life Investments Ltd | 14.34% |
| Aviva plc | 12.36% |
| Lloyds Banking Group plc | 8.20% |
| Fidelity Investments Ltd | 4.20% |
| Legal & General Group plc | 3.90% |
| Aegon UK | 3.37% |

The interests of Directors and their connected persons in the ordinary shares of the Company, all of which are beneficial, as disclosed in accordance with the Listing Rules of the UK Listing Authority are as set out on page 49 and details of the Directors' long-term incentive awards are set out on pages 50 and 51.

By Order of the Board



Richard M H Malthouse
Group Secretary
9 March 2009