"Through the rights issue and other recent initiatives, we have strengthened our financial position and created a capital structure more suited to the current environment."

Mike Butterworth Group Finance Director

Group results highlights

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

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

As described in detail in the Operating Review, the significant deterioration in trading in the majority of the Group's businesses in the fourth quarter of 2008 led to a reduction in operating margins for the year which were 0.7 percentage points lower at 9.8%. However, as a result of the post-acquisition contribution from Foseco, trading profit increased to £216.3 million – an increase of 11% on that reported for 2007 at constant exchange rates. The positive impact of currency translation resulted in trading profit at reported exchange rates increasing by 28% compared to 2007.

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

The improvement in the Group's trading profit more than offset the increase in finance costs and with a broadly unchanged effective tax rate this resulted in a 9% increase in headline earnings per share over 2007, notwithstanding an 8% increase in the weighted average number of shares as a result of the October 2007 share placing. Despite this improvement, the very significant deterioration in end-market conditions in the fourth quarter of 2008, resulted in the Board's decision not to recommend a final dividend to shareholders in respect of 2008. As a result, total dividends for the year consist only of the interim dividend of 0.88 pence per ordinary share (as restated for the effect of the rights issue) which was paid in October 2008.

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

Group Income Statement

Headline profit before tax

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

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

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

Items excluded from headline profit before tax

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

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

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

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

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

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

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

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

Items excluded from headline profit before tax (continued)

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

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

Profit on disposal of continuing operations: a net profit of £0.9 million was realised in 2008 (2007: loss of £0.4 million) principally relating to a profit of £8.1 million on the disposal on 23 December 2008 of the Hi-Tech ceramic filters business (formerly part of the Ceramics division's foundry product line) and a net loss of £4.0 million relating to the closure of the Chinese operations of Foseco's CBC business. The substantive part of Foseco's CBC business, namely its operations in Europe and the US, were sold on 16 April 2008. The net credit included a write-off of goodwill of £2.6 million.

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

Taxation

The tax charge on ordinary activities was £48.3 million. The effective tax rate on headline profit before tax from continuing operations (before share of post-tax profit of joint ventures) was 27.5%, broadly in line with the 2007 rate of 26.9%. This effective tax rate is expected to remain broadly unchanged in 2009, absent any significant changes in the future geographic split of the Group's taxable profits and any material changes, beyond those already announced, in the statutory tax rates in those countries where the Group has significant taxable profits. The cash outflow in respect of tax in 2008 was £52.0 million (2007: £26.7 million).

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

Profit attributable to equity holders

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

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

Return on investment (ROI)

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

Earnings per share (EPS)

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

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

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

Dividend

For 2007 (adjusted for the impact of the bonus element of the rights issue in March 2009), the Company paid a total dividend of 1.96 pence per share; an interim dividend of 0.64 pence per share was paid in October 2007; and a final dividend of 1.32 pence per share was paid in June 2008.

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

A decision to resume dividend payments will be made once a clear recovery can be seen in our end-markets and trading performance, and in the context of the Group's cash requirements at that time.

Group cash flow

Net cash inflow from operating activities

In 2008, the Group generated £120.4 million of net cash inflow from operating activities, £51.0 million higher than in 2007. This net increase principally arose from:

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

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

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

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

Net cash outflow from investing activities

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

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

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

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

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

- The acquisition of Foseco on 4 April 2008 for £484.6 million, comprising cash to acquire Foseco's shares of £496.7 million, transaction costs of £8.4 million, and cash acquired of £20.5 million. In addition to this cash outflow, Cookson also assumed Foseco's gross borrowings at the date of acquisition of £126.4 million which is detailed below;
- The acquisition of an additional 20% interest in Foseco India, an Indian publicly listed company, in February 2008 for £7.3 million, including cash consideration for the shares of £6.9 million and transaction costs of £0.4 million. This transaction was required by Indian takeover regulations as a result of Cookson's acquisition of Foseco. Following the acquisition of Foseco, Cookson holds 86% of the shares of Foseco India; and
- The acquisitions in September 2008 of Ormecon GmbH and SG Blair for a combined cost of £10.3 million.

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

Other investing outflows: net cash outflow from other investing activities in 2008 was £2.1 million (2007: £11.6 million) which principally comprised trailing costs of £4.9 million in respect of prior years' disposals.

Free cash flow

Free cash flow is defined as net cash flow from operating activities and after net outlays for the acquisition and disposal of property, plant and equipment, dividends received from joint ventures and paid to minority shareholders, but before additional funding contributions to Group pension plans.

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

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

Net cash flow before financing

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

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

- Cash inflow of £18.3 million (2007: outflow of £20.0 million) relating to the settlement during the year of forward foreign exchange contracts, in particular the US dollar and euro swaps which were closed out in October and November in response to the significant weakening of sterling. These forward foreign exchange contracts had been taken out to broadly align the currency profile of the Group's borrowings with the net assets of the Group and formed part of the hedge on investments of the Group's foreign operations;
- Payments of £3.9 million to acquire Cookson Group plc shares for the purpose of satisfying the vesting of shares under the Group's Long-Term Incentive Plan;
- Payments of £6.0 million (2007: £4.8 million) in respect of the transaction costs for the £790 million committed bank facility entered into in October 2007; and
- Dividend payments to equity shareholders of £31.0 million in respect of the 2007 final dividend of 1.32 pence per share in June 2008 and the 2008 interim dividend of 0.88 pence per share in October 2008.

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

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

Group borrowings

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

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

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

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

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

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

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

Currency

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

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

Pension fund and other post-retirement obligations

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

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

The total Group net liability comprises a surplus of £70.6 million, relating almost entirely to the UK Plan, together with a deficit of £165.9 million, of which £89.5 million relates to the Group's defined benefit pension plans in the US, £47.3 million to pension arrangements in other countries, and £29.1 million to unfunded post-retirement defined benefit arrangements, being mainly healthcare benefit arrangements in the US.

During 2008 it was agreed, in consultation with the Trustee of the UK Plan, to reduce the level of 'top-up' payments (made in addition to normal cash contributions). These payments had been made at a rate of £26.5 million per annum from February 2006 and became £14.0 million per annum with effect from 1 September 2008. Since the end of 2008, the Group has again consulted with the Trustee and both have agreed to a change to the existing schedule of 'top-up' payments, such that no further additional payments will be made from January 2009 until July 2010, or until such earlier time as the Group announces that it is to recommence payment of dividends to shareholders. Upon additional payments being recommenced, these will amount to a maximum of £16.3 million per annum until June 2015. A new triennial funding valuation is due for the UK Plan as at the end of 2009, based upon which the Company and Trustee expect to agree a new schedule of contributions to commence in July 2010.

The discount rate used to determine the liabilities of the UK Plan for IAS 19 accounting purposes is required to be a corporate bond yield. The UK Plan has, since 2006, operated a hedging strategy, using a combination of swaps and money market instruments, to mitigate the impact of interest rate and inflation rate movements on the value of its projected liabilities for meeting future pension payments (the UK Plan's ''economic liabilities''), the value of which is related more to interest rate and inflation rate swap yields than to corporate bond yields. When the relationship between the relevant swap yields and corporate bond yields is stable, the UK Plan's hedging strategy should deliver a broadly stable funding ratio (the ratio of plan assets to plan liabilities) not just in relation to the UK Plan's economic liabilities, but also under an IAS 19 basis of valuation. However, the current spread of corporate bond yields over swap yields results in the IAS 19 value of the UK Plan's liabilities being significantly lower than the value of the actual underlying economic liabilities. As at the end of 2008, an interim funding valuation (incorporating the UK Plan's economic liabilities) showed a funding ratio of 85%, but the IAS 19 valuation reflected a funding surplus, giving a ratio of 120%. This represents a valuation difference of approximately £140 million, of which some £30 million is due to the use of the stronger Long Cohort mortality assumption for funding purposes and the rest is largely due to the difference in the discount rates used in each valuation methodology. The Group continues to fund the UK Plan with reference to its economic funding position.

Mike Butterworth Group Finance Director
9 March 2009