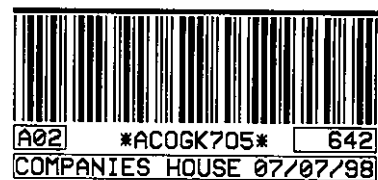


COOKSON MATTHEY CERAMICS PLC

Registered number 2885614

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 1997**



COOKSON MATTHEY CERAMICS PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31st December 1997

GENERAL INFORMATION

COOKSON MATTHEY CERAMICS plc

An associated undertaking of
Cookson Group plc and Johnson Matthey PLC

DIRECTORS

M R D Roller
C R N Clark (Chairman)
D W Morgan (Alternate D J Davies)
J N Sheldrick

SECRETARY

A R Yapp
I G Thorburn

REGISTERED IN ENGLAND

Number 2885614

REGISTERED OFFICE

2-4 Cockspur Street
London, SW1Y 5BQ

AUDITORS

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

COOKSON MATTHEY CERAMICS plc

DIRECTORS' REPORT

The directors present their annual report, together with the audited financial statements of the group, for the year ended 31st December 1997.

Activities

Cookson Matthey Ceramics plc ("CMC plc") is the parent company of an internationally based group of companies which are engaged in the manufacture and supply of ceramics and associated raw materials.

Business Review

The company was formed on 7th January 1994 and commenced trading on 1 July 1994 when it acquired the beneficial ownership of the Ceramics Supplies and Minerals businesses of Cookson Group plc and the Colour and Print Division of Johnson Matthey PLC.

On 6 February 1998, CMC plc became a wholly owned subsidiary of Johnson Matthey PLC following Johnson Matthey plc's purchase of Cookson Group plc's share holding in CMC plc. The particulars of this transaction will be disclosed in the accounts of those two companies.

Turnover in the year ended 31st December 1997 amounted to £313.7 million (1996 £319.7 million) and the operating profit for the year is £17.5 million (1996 £35.7 million).

The loss for the year after taxation is £11.7 million (1996 profit of £3.0 million).

Acquisitions

Particulars of acquisitions made during the year are given in note 10 on page 18.

Dividends

No dividends were paid during the year (1996 £nil). No dividend is recommended.

Research and development

During the year the group spent £4.5 million (1996 £6.6 million) on research and development.

Political and charitable donations

During the year the group donated £6,000 (1996 £2,000) to UK charities. There were no donations for political purposes.

Policy on payment of commercial debts

The group's policy in relation to the payment of all suppliers is that payment should be made within the credit terms agreed with the supplier. As at the balance sheet date the group's payment period was 52 days (1996 63 days).

Employment Policies

It is the policy of the group to train and develop employees at all levels so that group objectives

DIRECTORS' REPORT

can be met. We recruit, train and manage our employees regardless of sex, ethnic origin or religion. Employees who become disabled and disabled people are offered employment consistent with their capabilities.

CMC plc recognises the importance of effective employee communications. Information and comment is exchanged with employees through the company's in-house news letter, bulletin and team briefings.

Directors and directors' interests

The directors who served during the year were:-

C R N Clark

D W Morgan

J N Sheldrick

R M Oster

Resigned 17th December 1997

S L Howard

D J Davies (Alternate for D W Morgan)

R Malpas (Alternate for S L Howard)

Resigned 1st October 1997

M K Fishler

M R D Roller

D H Millard

Since the balance sheet date the following directors have resigned,

S L Howard with effect from 6 February 1998

D H Millard with effect from 6 February 1998

M K Fishler with effect from 10 February 1998

None of the directors who held office at the end of the financial year had any disclosable interest in shares of the company. According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

A. R. Yapp

A R Yapp
Secretary

2 - 4 Cockspur Street
London, SW1Y 5BQ
31 March 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

AUDITORS' REPORT

to the members of Cookson Matthey Ceramics plc

We have audited the financial statements on pages 6 to 26.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1997 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London

31 March 1998

COOKSON MATTHEY CERAMICS plc
CONSOLIDATED PROFIT AND LOSS ACCOUNT

year ended 31st December 1997

	NOTE	Group			
		1997	1997	1996	1996
		£ million	£ million	£ million	£ million
Turnover	1				
Continuing operations		309.8		319.7	
Acquisitions	2	<u>3.9</u>		<u>-</u>	
			313.7		319.7
Cost of sales			<u>(237.8)</u>		<u>(229.5)</u>
Gross profit			75.9		90.2
Distribution costs			<u>(31.4)</u>		<u>(29.8)</u>
Administrative expenses			<u>(27.0)</u>		<u>(24.7)</u>
Operating profit	1				
Continuing operations		17.5		35.7	
Acquisitions	2	<u>-</u>		<u>-</u>	
			17.5		35.7
Net interest payable	3		<u>(24.2)</u>		<u>(22.7)</u>
(Loss) / profit on ordinary activities before taxation	4		(6.7)		13.0
Taxation on (loss) / profit on ordinary activities	5		<u>(5.2)</u>		<u>(9.2)</u>
(Loss) / profit on ordinary activities after taxation			(11.9)		3.8
Minority interests			<u>0.2</u>		<u>(0.8)</u>
Retained (loss) / profit for the period	19		<u>(11.7)</u>		<u>3.0</u>


The notes on pages 10 to 26 form an integral part of the financial statements

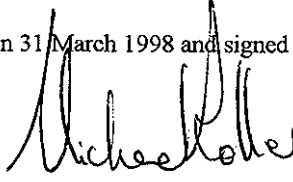
COOKSON MATTHEY CERAMICS plc
CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS

31st December 1997

	NOTE	Group		Parent Company	
		1997 £ million	1996 £ million	1997 £ million	1996 £ million
Fixed assets					
Tangible fixed assets	8	121.9	125.4	4.7	1.0
Investments	9	1.5	0.1	158.5	158.5
		<u>123.4</u>	<u>125.5</u>	<u>163.2</u>	<u>159.5</u>
Current assets					
Stocks	11	60.6	64.1	-	-
Debtors : due within one year	12	85.0	86.3	154.5	150.3
Debtors : due after one year	12	1.3	1.4	61.0	61.0
Total debtors		86.3	87.7	215.5	211.3
Short term investments		-	0.3	-	-
Cash at bank and in hand		16.2	19.3	3.5	9.1
		<u>163.1</u>	<u>171.4</u>	<u>219.0</u>	<u>220.4</u>
Creditors: Amounts falling due within one year	13	(136.9)	(121.3)	(73.4)	(61.7)
Net current assets		<u>26.2</u>	<u>50.1</u>	<u>145.6</u>	<u>158.7</u>
Total assets less current liabilities		<u>149.6</u>	<u>175.6</u>	<u>308.8</u>	<u>318.2</u>
Creditors: Amounts falling due after more than one year					
Convertible loan stock	14	(260.0)	(260.0)	(260.0)	(260.0)
Other creditors	14	(2.8)	(2.1)	-	-
		<u>(262.8)</u>	<u>(262.1)</u>	<u>(260.0)</u>	<u>(260.0)</u>
Provisions for liabilities and charges	16	(11.8)	(8.4)	-	-
Net (liabilities) / assets		<u>(125.0)</u>	<u>(94.9)</u>	<u>48.8</u>	<u>58.2</u>
Capital and reserves					
Called up share capital	18	69.0	69.0	69.0	69.0
Associated undertakings' reserves	19	-	0.1	-	-
Profit and loss account	19	(200.3)	(171.9)	(20.2)	(10.8)
Equity shareholders' funds		<u>(131.3)</u>	<u>(102.8)</u>	<u>48.8</u>	<u>58.2</u>
Minority interests	20	6.3	7.9	-	-
		<u>(125.0)</u>	<u>(94.9)</u>	<u>48.8</u>	<u>58.2</u>

The accounts were approved by the Board of Directors on 31 March 1998 and signed on its behalf by:


C. R. N. Clark
Chairman


M. R. D. Roller
Finance Director

The notes on pages 10 to 26 form an integral part of the financial statements

COOKSON MATTHEY CERAMICS plc
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

year ended 31st December 1997

	1997 £ million	1996 £ million
(Loss) / profit for the period	(11.7)	3.0
Currency translation differences on foreign currency net investments	(13.5)	(15.9)
Total recognised gains and losses for the period	(25.2)	(12.9)

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

year ended 31st December 1997

The historical cost profit is equal to the reported profit.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

year ended 31st December 1997

	1997 £ million	1996 £ million
(a) Group		
Recognised gains and losses relating to the period (net)	(25.2)	(12.9)
Goodwill written off	(3.3)	(8.2)
Net reduction to shareholders' funds	(28.5)	(21.1)
Opening shareholders' funds	(102.8)	(81.7)
Closing shareholders' funds	(131.3)	(102.8)
(b) Parent Company		
Recognised gains and losses relating to the period (net)	(9.4)	(11.0)
Net reduction to shareholders' funds	(9.4)	(11.0)
Opening shareholders' funds	58.2	69.2
Closing shareholders' funds	48.8	58.2

The notes on pages 10 to 26 form an integral part of the financial statements

COOKSON MATTHEY CERAMICS plc
CONSOLIDATED CASH FLOW STATEMENT

year ended 31st December 1997

	NOTE	1997 £ million	1996 £ million
Net cash inflow from operating activities	23	22.7	44.6
Returns on investments and servicing of finance			
Interest received		0.2	0.5
Interest paid		(24.2)	(22.9)
Dividend paid to minority interest		(1.2)	(0.4)
Net cash outflow from returns on investments and servicing of finance		(25.2)	(22.8)
Taxation			
Overseas tax paid		(4.5)	(9.8)
Tax paid		(4.5)	(9.8)
Capital Expenditure and Financial Investment			
Purchase of tangible fixed assets		(15.8)	(32.5)
Proceeds from sale of tangible fixed assets		0.7	0.6
Net cash outflow from capital expenditure and financial investment		(15.1)	(31.9)
Acquisitions and Disposals			
Purchase of subsidiary undertakings		(0.5)	(12.1)
Overdrafts acquired with subsidiary		(1.0)	-
Increase in investment in subsidiary		(2.0)	-
Purchase of business		-	(1.9)
Payment for prior year acquisitions		(1.3)	(0.8)
Sale of subsidiary		-	0.2
Net cash outflow from acquisitions and disposals		(4.8)	(14.6)
Financing			
Issue of convertible debt		-	20.0
Debt due within one year - increase in short term borrowings		19.9	24.4
Debt due after one year - repayment of loan		(0.4)	-
Finance Leases		(0.1)	0.1
Net cash inflow from financing		19.4	44.5
(Decrease) / increase in cash for the period	23	(7.5)	10.0

The notes on pages 10 to 26 form an integral part of the financial statements

COOKSON MATTHEY CERAMICS plc
ACCOUNTING POLICIES
.....

1. Accounting convention

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

2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and all its subsidiary undertakings and include the group's interest in associated undertakings.

The results of companies acquired or disposed of in the period are dealt with from or up to the effective date of acquisition or disposal respectively. The net assets of companies acquired are incorporated in the consolidated accounts at their fair values to the group at the date of acquisition. Goodwill arising on acquisitions is taken directly to reserves.

The parent company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985.

3. Foreign currencies

Profit and loss accounts of overseas subsidiaries and their cash flows included in the cash flow statement are translated into sterling at average exchange rates for the year. Foreign currency assets and liabilities are translated into sterling at the rates of exchange at the balance sheet date. Gains or losses arising on the translation of the net assets of overseas subsidiaries and associated undertakings are taken to reserves. Other exchange differences are taken to the profit and loss account.

4. Stocks

Stocks, other than borrowed metal, are valued at the lower of cost, including attributable overheads, and net realisable value. Borrowed metal is valued at market prices at the balance sheet date.

5. Research and product development

Research and product development expenditure is charged against profits in the period it is incurred.

6. Tangible fixed assets

(i) Depreciation:

Freehold land is not depreciated.

The cost, less estimated residual value, of other fixed assets is depreciated on a straight line basis at annual rates which vary according to the class of asset, but are typically:

Leasehold property (or at higher rates based on the life of the lease)	2%
Freehold buildings	3.33%
Plant and equipment	4%-33%

(ii) Leases:

The cost of assets held under finance leases is included under tangible fixed assets and the capital element of future lease payments is included in creditors. Depreciation is provided in accordance with the group's accounting policy for the class of asset concerned. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the annuity method. Rentals under operating leases are expensed as incurred.

(iii) Grants in respect of capital expenditure:

Grants received in respect of capital expenditure are included in creditors and released to the profit and loss account in equal instalments over the expected useful lives of the related assets.

7. Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the foreseeable future.

8. Pensions and other retirement benefits

(i) Pensions:

The group operates a number of contributory and non-contributory schemes, mainly of the defined benefit type, which require contributions to be made to separately administered funds. The cost of these schemes is charged to the profit and loss account over the service lives of employees in accordance with the advice of the schemes' independent actuaries. Variations from the regular cost are spread over the average expected remaining service lives of current employees.

(ii) Post-retirement health care benefits:

The cost of post-retirement health care benefits is charged to profit and loss account on a systematic basis over the expected service lives of employees.

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

1. Segmental information

The activities of the group are the manufacture and supply of ceramics and associated raw materials.

Geographical analysis

	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
	Europe 2		North America		Far East		Rest of World		Total Group	
	£ million		£ million		£ million		£ million		£ million	
Turnover by destination ¹										
Sales to third parties	194.7	207.4	33.9	32.6	44.0	43.9	41.1	35.8	313.7	319.7
Turnover by origin ¹										
Total sales	305.7	320.3	28.9	26.2	19.4	14.6	18.1	15.5	372.1	376.6
Inter-segment sales	(57.1)	(56.0)	(1.1)	(0.1)	(0.2)	(0.8)	-	-	(58.4)	(56.9)
Sales to third parties	248.6	264.3	27.8	26.1	19.2	13.8	18.1	15.5	313.7	319.7
Profit before interest	19.5	32.0	(1.1)	1.8	(2.0)	0.2	1.1	1.7	17.5	35.7
Net interest									(24.2)	(22.7)
(Loss) / profit on ordinary activities before taxation									(6.7)	13.0
Net assets excluding borrowings	171.7	176.0	15.2	13.9	9.8	12.4	9.8	8.2	206.5	210.5
Net financial borrowings									(331.5)	(305.4)
Net liabilities									(125.0)	(94.9)

¹ Turnover comprises all invoiced sales of goods and services exclusive of sales taxes.

² Turnover by market relating to the United Kingdom amounted to £62.3 million (1996 £60.6 million).

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

2. Post acquisition results

1997 1996 1997 1996 1997 1996

	Continuing		Acquisitions		Total	
	£ million		£ million		£ million	
Turnover	309.8	319.7	3.9	-	313.7	319.7
Cost of sales	(234.5)	(229.5)	(3.3)	-	(237.8)	(229.5)
Gross profit	75.3	90.2	0.6	-	75.9	90.2
Distribution costs	(31.2)	(29.8)	(0.2)	-	(31.4)	(29.8)
Administrative expenses	(26.6)	(24.7)	(0.4)	-	(27.0)	(24.7)
Operating profit	17.5	35.7	0.0	-	17.5	35.7

3. Net interest

1997 1996
£ million £ million

Interest payable :		
On bank loans, overdrafts and other loans wholly repayable within five years	5.1	2.8
On bank loans, overdrafts and other loans wholly repayable after five years	0.1	0.3
On convertible loan stock (note 14) issued to Cookson Group plc and Johnson Matthey PLC repayable after more than five years	19.2	20.1
	24.4	23.2
Interest receivable	(0.2)	(0.5)
Net interest charge for the period	24.2	22.7

4. (Loss) / profit on ordinary activities before taxation

1997 1996
£ million £ million

(Loss) / profit on ordinary activities before taxation is arrived at after charging :

Research and development	4.5	6.6
Depreciation	10.5	9.9
Auditors' remuneration	0.4	0.5
Exchange (profit) / loss	(0.2)	0.1
Exceptional Rationalisation Costs	2.6	-
Operating lease rentals		
- on plant and machinery	0.1	0.2
- on other operating leases	1.7	2.2
Directors' remuneration (note 6)		
- fees	-	-
- other emoluments, including pension contributions	0.4	0.4
Total directors' remuneration	0.4	0.4

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

5. Taxation on profit on ordinary activities

	1997 £ million	1996 £ million
United Kingdom		
Corporation tax at 31.5% (1996 at 33%)	2.5	4.4
Double taxation relief	(2.2)	(4.2)
Current taxation for year	0.3	0.2
Prior year adjustments	(0.2)	1.2
Deferred taxation for year	-	0.6
	<u>0.1</u>	<u>2.0</u>
Overseas		
Taxation on income for the year	3.8	8.6
Withholding tax deductions on overseas income	-	0.1
Current taxation for year	3.8	8.7
Prior year adjustments	0.2	(0.7)
Deferred taxation for year	1.1	(0.8)
	<u>5.1</u>	<u>7.2</u>
Associated undertakings		
Current taxation for year	-	-
	<u>5.2</u>	<u>9.2</u>
Total taxation		

The UK prior year adjustment made in 1996 includes £1.0 million for tax relief attributable to the surrender of UK tax losses for which no payment will now be received.

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

6. Directors' emoluments	1997 £000's	1996 £000's
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Particulars of the emoluments of the two directors who received remuneration from the company during the year are shown below. All other directors are remunerated by either Cookson Group plc or Johnson Matthey PLC. A management fee was charged in 1996 by Johnson Matthey PLC for the provision of the services of two of the directors. The aggregate amount of the fee payable to Johnson Matthey PLC for the year was £ nil (1996 £260,000).

Directors' emoluments		
- basic salary and benefits	375	91
- performance-related bonus	25	2
	<u>400</u>	<u>93</u>
Highest paid director		
- basic salary and benefits	286	73
- performance-related bonus	18	-
	<u>304</u>	<u>73</u>

Pension contributions of £7,000 (1996 £ nil) were paid in respect of the directors.

7. Employee information

7(a) Employee numbers	1997	1996
-----------------------	------	------

The average weekly number of full-time employees during the period was as follows:

Average number of employees	<u>3,014</u>	<u>2,794</u>
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7(b) Employee costs	1997 £ million	1996 £ million
---------------------	-------------------	-------------------

Wages and salaries	49.0	49.3
Social security costs	8.4	9.1
Other pension and post retirement costs	3.0	1.8
Total employee costs	<u>60.4</u>	<u>60.2</u>

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

7(c) Retirement benefits

(i) United Kingdom Pension scheme

The group's UK pension scheme is of the defined benefit type which requires contributions to be made to a separately administered fund. At 31st December 1996, the date of the latest actuarial valuation, the market value of the UK scheme's assets was £49.8 million, the actuarial value of which represented 101.4% of the liability for benefits that had accrued to that date making full allowance for future salary and pension increases. This represents an actuarial surplus of £0.7 million. Following actuarial recommendations the company commenced contributions during the year.

The regular pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. Rates used at the last actuarial valuation at 31st December 1996 were as follows :

	per annum
Long term rate of investment return	9.5%
Dividend increase rate	5.5%
General salary and wage inflation rate	7.0%
Pension increase rate	4.5%

In accordance with the applicable accounting standard, the surplus on the group's UK pension fund has been spread over the average of the expected remaining service lives of current employees (12 years) as a variation from regular cost.

(ii) Foreign schemes

Pension costs relating to foreign schemes are charged in accordance with local best practice using different accounting policies. The cost of obtaining actuarial valuations for purposes of adjusting to the applicable UK accounting standard is considered to be out of proportion to the benefits to be gained.

(iii) Other retirement benefits

In the UK the group expects to provide post-retirement medical benefits to certain employees. It operates an unfunded defined benefit scheme and costs are charged on an accruals basis similar to that used for pensions. The benefit cost and provision are assessed by a qualified actuary using the projected unit credit actuarial cost method.

(iv) Profit and loss account and balance sheet impact of providing retirement benefits

The effect of providing pensions and other retirement benefits on operating profit was as follows:

	Group	
	1997 £million	1996 £million
United Kingdom		
Regular pension cost	2.8	2.3
Variation from regular cost	(0.4)	(1.6)
Interest	0.1	-
Cost of post-retirement medical benefits	-	0.1
	<u>2.5</u>	<u>0.8</u>
Overseas		
Cost of foreign pension schemes	0.5	1.0
Total cost of retirement benefits	<u>3.0</u>	<u>1.8</u>

The following prepayments and provisions relating to pension schemes and other post-retirement benefits are included in the group and parent company's balance sheets :

	Group		Parent Company	
	1997 £ million	1996 £ million	1997 £ million	1996 £ million
Provision for post-retirement medical benefits	0.5	0.5	-	-
Provision for UK pensions	1.6	1.3	-	-
Provision for foreign pensions	3.5	3.6	-	-

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

8. Fixed assets - tangible assets

8(a) Group

	Total £ million	Freehold land and buildings £ million	Plant and machinery £ million	Fixtures and fittings, tools and equipment £ million
Cost/Valuation				
At beginning of period	142.0	48.4	82.4	11.2
Business acquisitions	3.5	1.0	2.5	-
Purchases	13.4	5.5	6.8	1.1
Disposals	(1.9)	(0.3)	(0.9)	(0.7)
Exchange adjustments	(13.3)	(4.2)	(8.1)	(1.0)
At end of period	<u>143.7</u>	<u>50.4</u>	<u>82.7</u>	<u>10.6</u>
Depreciation				
At beginning of period	16.6	2.5	11.2	2.9
Charge for the period	10.5	1.1	7.3	2.1
Disposals	(1.2)	-	(0.7)	(0.5)
Exchange adjustments	(4.1)	(0.2)	(3.1)	(0.8)
At end of period	<u>21.8</u>	<u>3.4</u>	<u>14.7</u>	<u>3.7</u>
Net book value at end of period	<u>121.9</u>	<u>47.0</u>	<u>68.0</u>	<u>6.9</u>
Net book value at beginning of period	<u>125.4</u>	<u>45.9</u>	<u>71.2</u>	<u>8.3</u>

Freehold land of £15.8 million (1996 £16.5 million) included above is not depreciated.

The net book value of fixed assets includes £0.1 million (1996 £0.1 million) in respect of assets held under finance leases.

8(b) Parent company

	Total £ million	Freehold land and buildings £ million	Plant and machinery £ million	Fixtures and fittings, tools and equipment £ million
Cost/Valuation				
At beginning of period	1.1	-	-	1.1
Purchases	4.0	3.4	0.6	-
At end of period	<u>5.1</u>	<u>3.4</u>	<u>0.6</u>	<u>1.1</u>
Depreciation				
At beginning of period	0.1	-	-	0.1
Charge for the period	0.3	-	0.2	0.1
At end of period	<u>0.4</u>	<u>-</u>	<u>0.2</u>	<u>0.2</u>
Net book value at end of period	<u>4.7</u>	<u>3.4</u>	<u>0.4</u>	<u>0.9</u>
Net book value at beginning of period	<u>1.0</u>	<u>-</u>	<u>-</u>	<u>1.0</u>

COOKSON MATTHEY CERAMICS plc
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year ended 31st December 1997

9 Fixed assets - investments

	1997 £ million	1997 £ million	1997 £ million
9(a) Group			
	Total	Share of net assets of Associated Undertakings	Shares held in Joint Venture Partners
At beginning of period	0.1	0.1	-
Additions	1.4	-	1.4
At end of period	<u>1.5</u>	<u>0.1</u>	<u>1.4</u>

(i) Associated Undertakings

The cost of investment in associated undertakings amounted to £0.1 million (1996 £0.1 million).

None of the associated undertakings had any issued loan capital.
 No group company had loans with associated undertakings.

The principal associated undertakings are shown in note 24 .

(ii) Shares held in Joint Venture Partners

Included in Fixed Asset Investments above are shares held in Johnson Matthey PLC and Cookson Group plc, purchased and held by an employee share ownership plan ("ESOP"), an independently managed plan. The objective of the ESOP is to encourage share ownership by employees.

	1997 Number of shares	1996 Number of shares	1997 £ million	1996 £ million
Johnson Matthey PLC	111,784	-	0.7	-
Cookson Group plc	275,238	-	0.7	-
			<u>1.4</u>	<u>-</u>

The shares are valued at the lower of historical cost and option price. The market values of the shares held at the end of the period were Johnson Matthey PLC £ 0.6 million (1996 £ nil) and Cookson Group plc £ 0.5 million (£ nil). It is considered that the fall in value of the shares is temporary and no diminution in value has been recognised.

Administration costs of the ESOP are expensed as incurred. The right to receive dividends on the shares has not been waived.

9(b) Parent company

Subsidiary undertakings	Total	Equity loans	Shares
Cost	£ million	£ million	£ million
At beginning and end of period	<u>158.5</u>	<u>47.4</u>	<u>111.1</u>

The principal subsidiary undertakings are shown in note 24 .

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

10. Acquisitions and changes in investments during the period

All acquisitions have been accounted for by the acquisition method of accounting and the results of all the undertakings have been brought into the financial statements from the date of acquisition.

10(a) Purchase of subsidiary undertakings

On 13 March 1997 the group acquired a 51% holding in Ca Venezolana de Pigmentos.

In the year ended 31st December 1996, profit after tax amounted to £0.9 million and in the period ended 16th March 1997 there was a loss after tax of £0.3 million.

The table below shows the book values at the date of acquisition of the assets and liabilities acquired and the adjustments made to reflect their fair values.

	Book values immediately prior to acquisition £ million	Fair value adjustments Revaluations and other adjustments £ million	Accounting policy adjustments £ million	Fair values at time of acquisition £ million
Tangible fixed assets	3.8	(0.4)	-	3.4
Stock	1.1	(0.3)	-	0.8
Debtors and prepayments	1.5	-	-	1.5
Cash at bank and in hand and bank overdrafts	(1.0)	-	-	(1.0)
Creditors	(0.8)	(0.2)	-	(1.0)
Long term creditors and provisions	(0.3)	(0.6)	-	(0.9)
Net assets acquired	4.3	(1.5)	-	2.8

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

10. Acquisitions and changes in investments during the period (continued)

£ million

Purchase consideration

Cash paid	0.3
Assets transferred	1.9
Total	2.2

Goodwill on consolidation

Fair value of consideration	2.2
Costs of acquisition	0.2
	2.4
Fair value of net assets acquired	(1.4)
Goodwill arising on consolidation charged to reserves	1.0

Cash effect of acquisitions

Bank overdrafts acquired	(1.0)
Purchase consideration and acquisition costs already settled in cash	(0.5)
Total	(1.5)

Revaluation and other adjustments

Tangible fixed assets comprise freehold land and buildings, plant and machinery and fixtures and fittings.

The property assets were valued by J Foord & Co, independent professional valuers, as at 11th December 1997 on the basis of open market value for existing use. All other tangible fixed assets were valued by the directors at the lower of depreciated replacement cost and the future economic value of the asset to the business.

Long term creditors and provisions were adjusted by the directors to reflect current and future commitments.

10(b) Acquisitions of other businesses

The group increased its shareholding in a subsidiary undertaking during the year for a total cash consideration of £3.1 million, £2.0 million of which had been settled by the year end. Goodwill arising on this transactions amounted to £1.6 million.

11. Stocks

	Group		Parent company	
	1997 £ million	1996 £ million	1997 £ million	1996 £ million
Raw materials and consumables	26.8	28.5	-	-
Work in progress	3.4	3.2	-	-
Finished goods and goods for resale	30.4	32.4	-	-
Total stocks	60.6	64.1	-	-

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

	Group		Parent company	
	1997	1996	1997	1996
	£ million	£ million	£ million	£ million
12. Debtors				
12(a) Debtors: due within one year				
Trade debtors	75.2	76.8	-	-
Metal borrowings owed by Johnson Matthey PLC	0.1	-	-	-
Amounts owed by Cookson Group plc	0.2	0.6	-	-
Amounts owed by Johnson Matthey PLC	0.4	0.3	0.1	-
Amounts owed by subsidiary undertakings	-	-	151.6	147.8
Amounts owed by associated undertakings	0.3	0.2	-	-
Current corporation tax	-	-	0.7	1.7
Other debtors	4.0	4.3	1.9	0.7
Prepayments and accrued income	4.8	4.1	0.2	0.1
	<u>85.0</u>	<u>86.3</u>	<u>154.5</u>	<u>150.3</u>
12(b) Debtors: due after one year				
Amounts owed by subsidiary undertakings	-	-	59.7	59.7
Other debtors	1.3	1.4	1.3	1.3
	<u>1.3</u>	<u>1.4</u>	<u>61.0</u>	<u>61.0</u>
Total debtors	<u>86.3</u>	<u>87.7</u>	<u>215.5</u>	<u>211.3</u>
13. Creditors: Amounts falling due within one year				
Bank loans and overdrafts (note 15)	82.5	58.8	65.1	50.6
Metal borrowings (note 15)	4.3	4.4	3.5	4.4
Trade creditors	33.3	39.1	0.3	0.1
Amounts owed to Cookson Group plc	1.0	0.5	-	-
Amounts owed to Johnson Matthey PLC	1.0	0.8	0.1	-
Amounts owed to subsidiary undertakings	-	-	0.2	1.1
Amounts owed to associated undertakings	-	-	-	-
Current corporation tax	1.1	2.2	-	-
Other taxes and social security costs	2.8	2.7	-	-
Finance leases (note 15)	0.1	-	-	-
Other creditors	6.5	4.1	0.3	0.2
Accruals and deferred income	4.3	8.7	3.9	5.3
Total creditors falling due within one year	<u>136.9</u>	<u>121.3</u>	<u>73.4</u>	<u>61.7</u>
14. Creditors: Amounts falling due after more than one year				
14(a) Convertible loan stock				
Convertible loan stock (note 15)	<u>260.0</u>	<u>260.0</u>	<u>260.0</u>	<u>260.0</u>
The notes shall, at the option of the holder, be convertible at par into preference shares on any 31st December as from 31st December 1995.				
Of the notes £240 million are subordinated to providers of debt shown as bank loans in the parent company.				
14(b) Other creditors				
Bank loans (note 15)	0.8	1.3	-	-
Finance leases (note 15)	0.1	0.2	-	-
Other creditors	1.9	0.6	-	-
Total other creditors	<u>2.8</u>	<u>2.1</u>	<u>-</u>	<u>-</u>

COOKSON MATTHEY CERAMICS plc
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year ended 31st December 1997

	Group		Parent company	
	1997	1996	1997	1996
	£ million	£ million	£ million	£ million
15. Borrowings				
Bank overdrafts	17.5	13.8	0.1	5.6
Metal borrowings	4.3	4.4	3.5	4.4
Bank loans	65.8	46.3	65.0	45.0
Finance leases	0.1	0.2	-	-
Convertible loan stock	260.0	260.0	260.0	260.0
	<u>347.7</u>	<u>324.7</u>	<u>328.6</u>	<u>315.0</u>
Due within one year	86.9	63.2	68.6	55.0
Due between one and two years	0.2	0.5	-	-
Due between two and five years	0.3	0.4	-	-
Due in five years or more	260.3	260.6	260.0	260.0
	<u>347.7</u>	<u>324.7</u>	<u>328.6</u>	<u>315.0</u>
Amounts wholly repayable after five years				
Convertible loan stock	260.0	260.0	260.0	260.0
Amounts repayable by instalments some of which fall due after five years				
Bank loans				
Instalments due after five years	0.3	0.6	-	-
Total amount	0.8	1.2	-	-

Bank overdrafts and loans include £7.1 million (1996 £4.4 million) secured on the assets of a subsidiary undertaking. The loans are denominated in various currencies and bear interest at commercial rates.

16. Provisions for liabilities and charges

Group

	Total	Rationalisation	Retirement	Other	Deferred
	£ million	provisions	benefits	provisions	taxation
	£ million	£ million	£ million	£ million	£ million
At beginning of period	8.4	-	5.4	4.1	(1.1)
Other movements - including business acquisitions	0.2	-	-	0.2	-
Charge for period	4.7	2.6	0.8	0.3	1.0
Utilised	(0.9)	(0.7)	(0.2)	-	-
Exchange adjustments	(0.6)	-	(0.4)	(0.1)	(0.1)
Total at end of period	<u>11.8</u>	<u>1.9</u>	<u>5.6</u>	<u>4.5</u>	<u>(0.2)</u>

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

17. Deferred taxation	Group		Parent company	
	1997	1996	1997	1996
	£ million	£ million	£ million	£ million
Deferred taxation is provided in respect of:				
Timing differences on fixed assets	-	-	-	-
Other timing differences	0.2	1.1	-	-
Total provision for deferred taxation	0.2	1.1	-	-
Deferred taxation not included in the balance sheet:				
Timing differences on fixed assets	(11.2)	(9.2)	-	-
Total unprovided deferred tax	(11.2)	(9.2)	-	-

No account has been taken of taxation which would be payable if the retained profits of overseas subsidiary and associated undertakings were distributed.

18. Called up share capital	1997	1996
	Authorised £ million	Authorised £ million
Authorised		
'A' ordinary shares of £1.00 each	150.0	150.0
'B' ordinary shares of £1.00 each	150.0	150.0
Preference shares of £1.00 each	300.0	300.0
	600.0	600.0
	Allotted, issued fully paid £ million	Allotted, issued fully paid £ million
Called up, allotted and fully paid		
'A' ordinary shares of £1.00 each	34.5	34.5
'B' ordinary shares of £1.00 each	34.5	34.5
	69.0	69.0

Johnson Matthey PLC hold the issued 'A' ordinary shares and are entitled to appoint up to three 'A' directors. Cookson Group plc hold the issued 'B' ordinary shares and are entitled to appoint up to three 'B' directors. Two directors, made up of one 'A' director and one 'B' director, must approve a resolution for it to be passed.

No voting rights are attached to the preference shares which may be issued as the result of exercising the right to convert loan stock (note 14). The holders of the preference shares would be entitled to a fixed cumulative preferential dividend at the rate of 1% per annum of the nominal value of the preference shares held. On a return of capital on liquidation or otherwise the preference shareholders would be paid, in priority to any distribution to the ordinary shareholders, the total paid up on the preference shares plus a sum equal to any arrears and accruals of the preference dividend, whether or not such a dividend had been declared or earned.

COOKSON MATTHEY CERAMICS plc
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year ended 31st December 1997

19. Reserves

19(a) Group

	Associated undertakings' reserves £ million	Profit and loss account £ million
At beginning of period	0.1	(171.9)
Exchange adjustments	(0.1)	(13.4)
Retained loss for the period	-	(11.7)
Goodwill on acquisitions	-	(3.3)
Reserves at end of period	-	(200.3)

The cumulative amount of goodwill charged against reserves at 31st December 1997 was £170.5 million (1996 £166.8 million).

19(b) Parent company

	Profit and loss account £ million
At beginning of period	(10.8)
Retained loss for the period	(9.4)
Reserves at end of period	(20.2)

20. Minority interests

	1997 £ million	1996 £ million
At beginning of period	7.9	9.9
Acquisition of subsidiary undertakings	0.7	(1.0)
Share of profit for period	(0.2)	0.8
Dividends	(1.3)	(0.4)
Exchange adjustments	(0.8)	(1.4)
At end of the period	6.3	7.9

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

21. Commitments, guarantees and contingent liabilities	Group		Parent company	
	1997 £ million	1996 £ million	1997 £ million	1996 £ million
Commitments				
(i) Future capital expenditure				
Contracted	1.1	2.0	-	-
Authorised but not contracted	1.1	1.7	-	-
(ii) Operating leases annual commitments				
Leases of land and buildings terminating				
Within one year	-	0.2	-	-
In one to five years	-	0.1	-	-
Over five years	0.4	0.3	-	-
Other leases terminating				
Within one year	0.3	0.3	-	-
In one to five years	0.8	0.9	-	-
Over five years	0.1	-	-	-

Guarantees

The Parent company accepts joint and several liability as from 1st July 1994 for all debts arising from legal acts of Cookson Matthey BV, a private company with limited liability.

Financial obligations of certain subsidiary undertakings due to third parties amounting to £2,405,000 (1995 £817,000) have been guaranteed by the parent company.

22. Post Balance Sheet Event

On 30 January 1998, Cookson Group plc announced the sale of its 50% interest in the shares of Cookson Matthey Ceramics plc, the company's immediate parent company to Johnson Matthey Public Limited Company. The sale was completed on 6 February 1998 at which point Cookson Matthey Ceramics became a wholly owned subsidiary of Johnson Matthey Public Limited Company.

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

23. Notes to the cash flow statement

23(a) Reconciliation of operating profit to net cash inflow from operating activities

	1997 £ million	1996 £ million
Operating profit	17.5	35.7
Depreciation charges	10.5	9.9
Profit on sale of fixed assets	-	(0.1)
Decrease / (increase) in stocks	0.5	(0.2)
(Increase) / decrease in debtors	(2.5)	7.2
Decrease in creditors	(2.3)	(5.5)
Net cash inflow from continuing operating activities	23.7	47.0
Net cash outflow in respect of restructuring costs	(1.0)	(2.4)
Net cash inflow from operating activities	22.7	44.6

23(b) Analysis of net debt

	At start of period £ million	Cash flow £ million	Exchange movement £ million	At end of period £ million
Cash at bank	19.3	(1.5)	(1.6)	16.2
Overdrafts	(13.8)	(6.0)	2.3	(17.5)
	5.5	(7.5)	0.7	(1.3)
Debt due within 1 year	(49.4)	(19.9)	-	(69.3)
Debt due after 1 year	(261.3)	0.4	0.1	(260.8)
Finance leases	(0.2)	0.1	-	(0.1)
	(310.9)	(19.4)	0.1	(330.2)
Total net debt	(305.4)	(26.9)	0.8	(331.5)

23(c) Reconciliation of net cash flow to movement in net debt

	1997 £ million
Decrease in cash in the period	(7.5)
Cash inflow from increase in debt	(19.4)
Change in net debt resulting from cash flows	(26.9)
Exchange movement	0.8
Movement in net debt in the period	(26.1)
Net debt at start of period	(305.4)
Net debt at end of period	(331.5)

COOKSON MATTHEY CERAMICS plc
NOTES TO THE FINANCIAL STATEMENTS

year ended 31st December 1997

24. Principal subsidiary and associated undertakings

	Country of registration or incorporation
Subsidiary undertakings of the company:	
Cookson Matthey Ceramics & Materials Limited	England
Cookson Matthey Print Limited	England
Cookson Matthey Ceramics Overseas Limited	England
Subsidiary undertakings of Cookson Matthey Ceramics Overseas Limited:	
Cookson Matthey Ceramics S.A.	Spain
Cookson Matthey Ceramics Inc.	U.S.A.
Matthey Beyrand & Cie S.A. (80%)	France
Cookson Matthey (Australia) Pty Ltd	Australia
Cookson Matthey Ceramics (Asia) Pte Ltd	Singapore
Cookson Matthey Ceramics (South Africa) Pty Ltd	South Africa
Cookson Matthey Ceramics (Malaysia) Sdn Bhd	Malaysia
Cookson Matthey India Ltd	India
Cookson Matthey Ceramica Lda	Portugal
Cookson Matthey BV	Netherlands
Cookson Matthey Ceramics S.p.A.	Italy
PT Johnson Matthey Indonesia (67%)	Indonesia
Le Moulin des Pres S.A. (50%)	France
Macina Minerali S.p.A.	Italy
Microcina Comercial Vendas Ltda	Brazil
Oximet S.r.L. (33.33%)	Italy
Micronizados del Mediterraneo S.A.	Spain
Almiberia S.A.	Spain
Otavi Minen AG (87.5%)	Germany
Otavi Mineralmuhle Neuss GmbH (87.5%)	Germany
Otavi Minen Hellas S.A. (87.5%)	Greece
Ca Venezolana de Pigmentos (51%)	Venezuela

Except where otherwise stated, all companies are wholly owned.

All companies noted above operate predominantly in the country of incorporation. Their primary activities are the manufacture and supply of ceramics and associated raw materials.