

CHIEF EXECUTIVE'S REVIEW

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Nick Salmon Chief Executive



2008 Results

The results for 2008 reflect two very different periods of trading. Over the first nine months we experienced continuing growth in our main end-markets of steel, consumer electronics and automotive. However, from late September we saw a rapid and significant weakening, reflecting the severe global economic downturn. As a result, we achieved a return on sales margin of 10.7% over the first nine months but this fell to 7.3% for the last quarter of the year.

Despite the weak fourth quarter, the full year results showed a significant improvement over 2007. Revenue of £2,203 million and trading profit of £216.3 million increased 23% and 11% respectively at constant exchange rates, reflecting both the contribution from Foseco following its acquisition in April 2008 and also the positive impact on revenue of passing through higher metal prices. The weakening of sterling had a significant positive impact such that on an 'as reported' basis, revenue and trading profit increased 36% and 28% respectively. Headline profit before tax increased by 18% and headline earnings per share by 9%.

Net debt at 31 December 2008 was £732 million with a net debt to EBITDA ratio of 2.6 times (as calculated for bank covenant purposes).

Response to the economic downturn

We have reacted quickly to the economic downturn, implementing a series of cost reduction and cash conservation measures, and raising £241 million of net proceeds via a rights issue announced in January 2009. These proceeds have reduced our indebtedness and created a more suitable capital structure for the current economic environment.

During the fourth quarter of 2008, we completed the first phase of cost reductions to yield annualised savings of £17 million from early 2009 onwards. This included reducing temporary and full-time headcount by a combined total of 600 and implementing an extensive salary freeze for the first half of 2009.

In January, we launched a second phase involving the proposed permanent closure of six Ceramics manufacturing facilities in the UK, Mexico, Belgium, Germany and the US, together with overhead staff reductions. These measures will result in a further total headcount reduction of over 750 and are expected to result in annualised savings of £23 million from mid-2009. Of the total annualised savings of £40 million arising from both phases, £30 million is anticipated to be realised in 2009 and an incremental £10 million in 2010.

We have also introduced a new Group-wide incentive programme to focus on cash generation with particular emphasis on reducing working capital in line with reduced business volumes. Further, all capacity expansion related capital expenditure projects have been postponed, pending clear signs of recovery in our end-markets. Similarly, the payment of dividends is being suspended for the time being.

More recently we have agreed with our banks to pre-pay the facility tranches originally due to be repaid next year in exchange for which the tightening of the net debt to EBITDA covenant from 3.5 times to 3.0 times has been deferred by a further year to 30 June 2010. We have also agreed with our UK pension trustee to suspend the monthly 'top-up' payments, which totalled £22 million in 2008, until the earlier of July 2010 or the recommencement of dividend payments.

Foseco

The acquisition of Foseco significantly expanded the existing Ceramics division and brought together the two largest worldwide specialists in ceramics for molten metal handling.

Following the completion of the acquisition on 4 April 2008 we promptly sold Foseco's Carbon Bonded Ceramics ("CBC") business to satisfy regulatory requirements, and closed its "plc" headquarters. Anti-trust requirements were finally met with the disposal of Vesuvius' Hi-Tech ceramic filters business in December 2008. The integration has progressed very well and further potential synergy opportunities have been identified such that we have increased the annual synergy savings target from the original £18 million to £24 million by 2010.

During 2008, the Foseco businesses have performed well ahead of our original expectations. On a pro-forma basis (excluding CBC and "plc" costs) for the full year 2008 they delivered revenue of £488 million and trading profit of £72.0 million, up by 18% and 24% respectively at reported exchange rates over full year 2007, despite a slowdown over the last two months of 2008.

Ceramics division

The enlarged division, which trades as Foseco in foundry markets and as Vesuvius in all other markets, recorded revenue of £1,265 million and trading profit of £167.7 million, giving a return on sales margin of 13.3%. Excluding the contribution from Foseco, underlying revenue was up 4% for the year as a whole, having been 8% ahead at the half year, but trading profit was down 8% for the year on a constant currency basis, reflecting the fourth quarter performance.

Including Foseco, the fourth quarter revenue was £326 million and trading profit £34.1 million, giving a return on sales margin for the fourth quarter of 10.5%.

Global steel production, our main end-market, when compared to the same periods in 2007 grew 5% in the first nine months but then fell 14% in October, 20% in November and 24% in December. The pattern in the foundry markets was similar but the slowdown only started in November. Our fused silica, Solar Crucible™, market continued to experience strong growth. Against this background, revenue and underlying growth for the four product lines was as follows (at constant exchange rates and including Foseco pro-forma on a full year basis); Steel Flow Control £430 million, +1%, Linings £433 million, +5%, Foundry £457 million, +6% and Fused Silica £72 million, +20%.

Electronics division

The division's revenue of £620 million was up 11% at reported exchange rates but, at constant exchange rates and eliminating the 'pass through' of increased metal prices, underlying revenue was down 9%. Trading profit of £51.7 million was down 11% at reported exchange rates and 22% at constant exchange rates. This again reflects a very poor fourth quarter, in which revenue was £135 million and trading profit £6.6 million, giving a return on sales margin of 4.9%.

Revenue for the Assembly Materials product line was £382 million and for the Chemistry product line was £238 million, down 10% and 9% respectively on an underlying basis. Chemistry had a particularly weak fourth quarter reflecting its exposure to the automotive as well as electronics end-markets.

Precious Metals division

Net sales value of £118 million was 3% higher than the prior year at constant exchange rates. This reflected higher levels of reclaim activity in Europe and gold coin blank production in the US, both stimulated by the high price of gold, together with the additional volumes from the Leach & Garner business acquired in September 2007, offsetting the sharp decline in consumer demand for retail jewellery.

Trading profit of £4.5 million was approximately half that of the prior year reflecting a lower margin product mix in the US, particularly much reduced gold chain sales.

Outlook

Cookson's divisions predominantly supply consumable products, on short lead times, to the global steel, foundry, electronics and precious metals industries. As such, the Group's expectations of future trading are based upon an assessment of end-market conditions and these conditions are subject to greater uncertainty than usual in the current economic climate.

As predicted, our major markets have remained weak through January and February. We expect a slow improvement through the second quarter as the de-stocking in our end-markets comes to an end. Further improvements are expected in the second half reflecting the Group's normal trading seasonality and supported by the anticipated boost to infrastructure demand from the stimulus packages recently announced by governments around the world.

Actual trading performance will depend on the depth and duration of the global economic downturn. Despite the difficult trading conditions, our performance in 2009 will benefit from:

- anticipated cost savings of £30 million arising from the cost reduction actions described above;
- a full year contribution from Foseco (versus only nine months in 2008); and
- the realisation of further Foseco related integration synergies, anticipated to be £12 million in 2009.

The reported results will also benefit from significant currency translation gains if sterling remains at current levels relative to other major currencies.

For the longer-term we believe that Cookson is well positioned, with a portfolio of businesses supplying high-technology consumable products and related technical services, with leading positions in markets with sound prospects for growth as the global economy recovers.



Nick Salmon Chief Executive
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