

# Cookson Group plc

## 2008 Results

9 March 2009

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This presentation comprises information which is already in the public domain, and includes extracts from the Announcement of Rights Issue presentation (29 January 2009) and the Announcement of the 2008 Results (9 March 2009). You should read the whole of the Announcement of the 2008 Results and, when available, the full Report and Accounts for 2008. No reliance may be placed for any purposes whatsoever on the information contained in this document or on its completeness. None of the Company, its advisers, or any other party is under any duty to update or inform you of any changes to the information contained in this presentation.

# Summary

- FY 2008 audited results slightly ahead of profit estimate published on 29 January 2009

	<u>FY 2008</u> (Estimated 29/01/09)	<u>FY 2008</u> (as reported)	<u>FY 2007</u> (as reported)	<u>2008 vs 2007</u> (as reported)	<u>2008 vs 2007</u> (constant currency)
Revenue	≥£2,175m	£2,203m	£1,620m	+36%	+23%
Trading Profit	≥£213m	£216m	£170m	+28%	+11%
Headline PBT	≥£174m	£176m	£150m	+18%	
Headline EPS*	≥8.7p	8.9p	8.2p	+9%	
Net debt (year end)	Around £732m	£732m	£51m	Up £681m	

- FY 2008 results show significant improvement over FY 2007, despite weak final quarter
- Actions to reduce cost base by £40m p.a. and conserve cash; continuing as planned
- Rights Issue successfully completed, net proceeds of £241m
- End-market weakness continuing into Q1 2009, as predicted

\* As restated for the effect of the Rights Issue in March 2009

# Agenda

- Divisional Review - Nick Salmon
- Financial Review - Mike Butterworth
- Outlook - Nick Salmon

# Ceramics - including Foseco post acquisition

	2008	vs 2007	
	Actual	As reported	Constant currency
Revenue	£1,264m	+62%	+46%
Trading Profit	£167.7m	+53%	+35%
Return on Sales	13.3%	14.0%	14.4%
Return on Net Assets*	34.5%	2007: 39.8%	

- Results include Hi-Tech ceramic filters business which was sold on 23 December 2008 (anti-trust requirement). Hi-Tech's 2008 revenue was £12m and trading profit £3m
- Results exclude Foseco for Q1 2008 pre acquisition. Foseco Q1 pro-forma revenue was £128m and trading profit £19.2m

\* Defined as trading profit divided by average property, plant and equipment, trade working capital and other operating receivables and payables

# Ceramics - Foseco Results

- Acquisition completed on 4 April 2008. CBC business sold 16 April 2008 (anti trust requirement) and "plc" headquarters closed
- Foseco's 2007 results (£m):

	<u>FY</u> as reported	<u>Eliminations*</u> (CBC & plc)	<u>Retained businesses</u>
Revenue	431	(18)	413
Trading Profit	50.3	7.6	57.9

\* Elimination of plc costs (£4.5m) formed part of original £18m synergy savings target

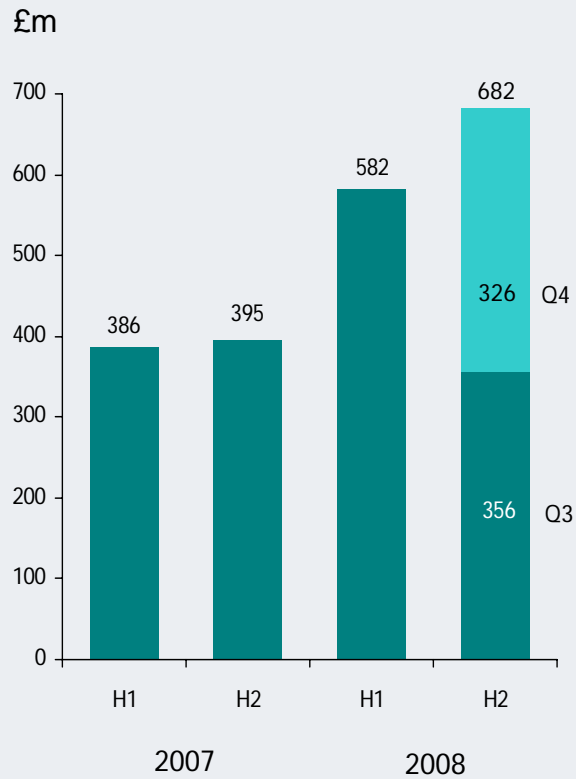
- Foseco's 2008 results (£m):

	Post acquisition (9 months)	Pro-forma (12 months)	<u>FY 2008 vs FY 2007 Retained Businesses</u>	
			As reported	Constant currency
Revenue	361	489	+18%	+5%
Trading Profit	52.8	72.0	+24%	+7%

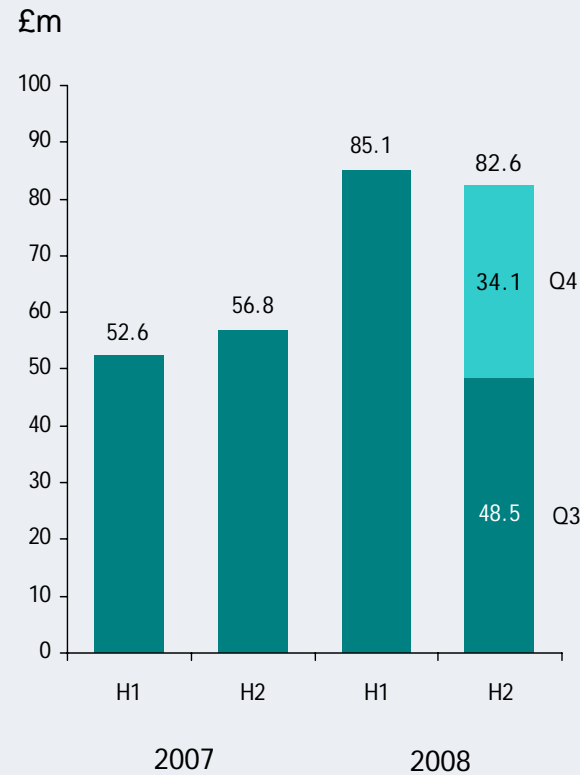
- Integration proceeding very well. Initial synergy target of £18m p.a. cost savings increased to £24m p.a. by 2010

# Ceramics - Half Year Trends (as reported)

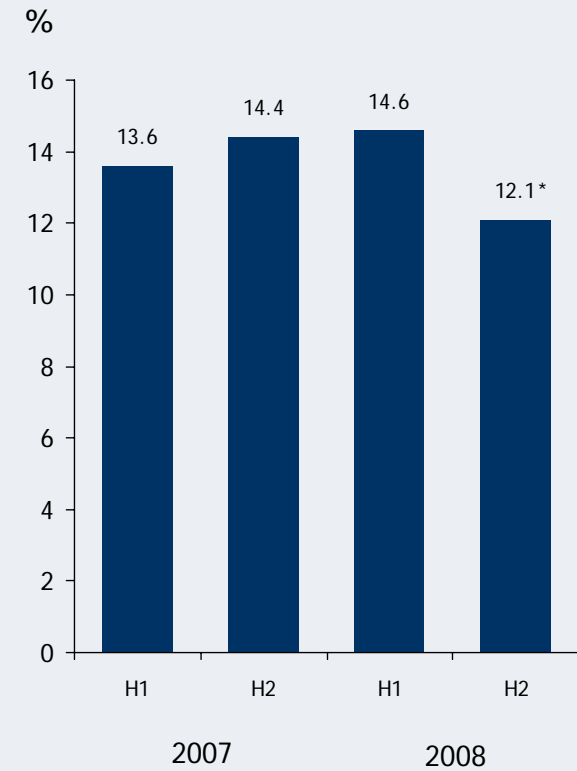
## Revenue



## Trading Profit



## Return on Sales



\* H2 2008 margin of 12.1% comprised Q3 at 13.6% and Q4 at 10.5%

# Ceramics - Revenue by Product Line

	2008 Actual	2008* Pro-forma	vs 2007** Underlying
Steel Flow Control	£427m	£430m	+1%
Linings	£415m	£433m	+5%
Foundry	£350m	£457m	+6%
Fused Silica	£72m	£72m	+20%
<b>Total</b>	<b>£1,264m</b>	<b>£1,392m</b>	<b>+4%</b>

\* Includes Foseco pre-acquisition

\*\* 'Underlying' includes Foseco pro-forma (both years) and is at constant currency

# Electronics

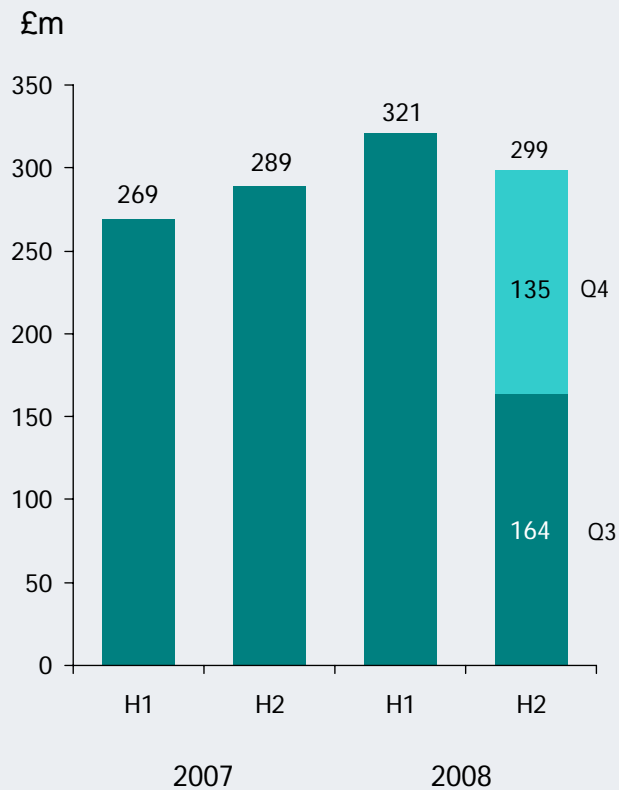
	2008	vs 2007		
	Actual	As reported	Constant currency	Underlying*
Revenue	£620m	+11%	-1%	-9%
Trading Profit	£51.7m	-11%	-22%	
Return on Sales	8.3%	10.4%	10.6%	
Return on Net Assets	26.6%	2007: 40.3%		

\* 'Underlying' is at constant currency and eliminating the impact of commodity metal price variations (tin, silver etc.). Total value of tin and silver within revenue was £200m.

Spot price	01/01/08	2008 Peak	31/12/08	Average
Tin \$/ton	16,300	25,300 (15 May)	10,700	18,800
Silver \$/oz	14.8	20.8 (5 March)	11.4	15.3

# Electronics - Half Year Trends (as reported)

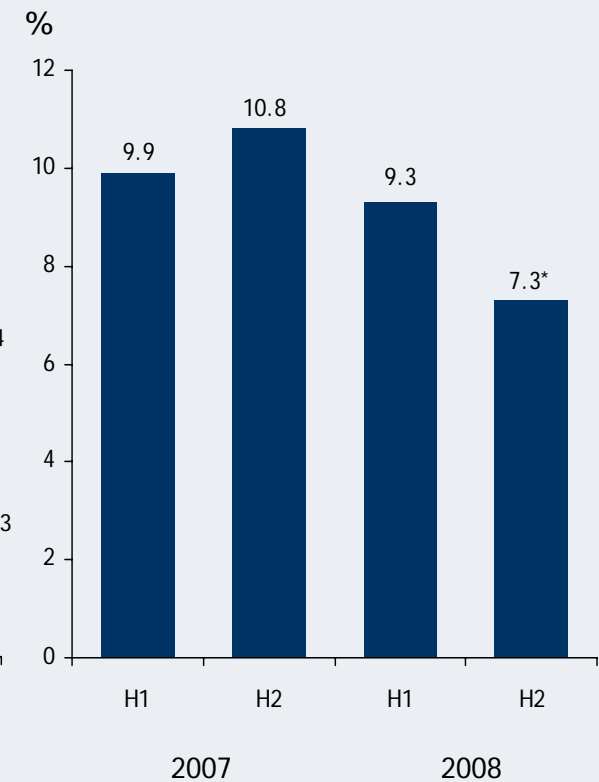
## Revenue



## Trading Profit



## Return on Sales



\* H2 2008 margin of 7.3% comprised Q3 at 9.3% and Q4 at 4.9%

# Electronics - Revenue by Product line

	2008		vs 2007	
	Actual	As reported	Constant currency	Underlying
Assembly Materials	£382m	+17%	+5%	-10%
Chemistry	£238m	+3%	-8%	-9%
Total	£620m	+11%	-1%	-9%

- Assembly Materials
  - Pass through of higher tin and silver prices added approx. £54m to revenue
  - Solder paste sales up 4% (by weight), low-silver SACX™ solder down 3% and lead solder bar down 21%
- Chemistry
  - Non-proprietary chemicals revenue reduced from £18m to £10m

# Precious Metals

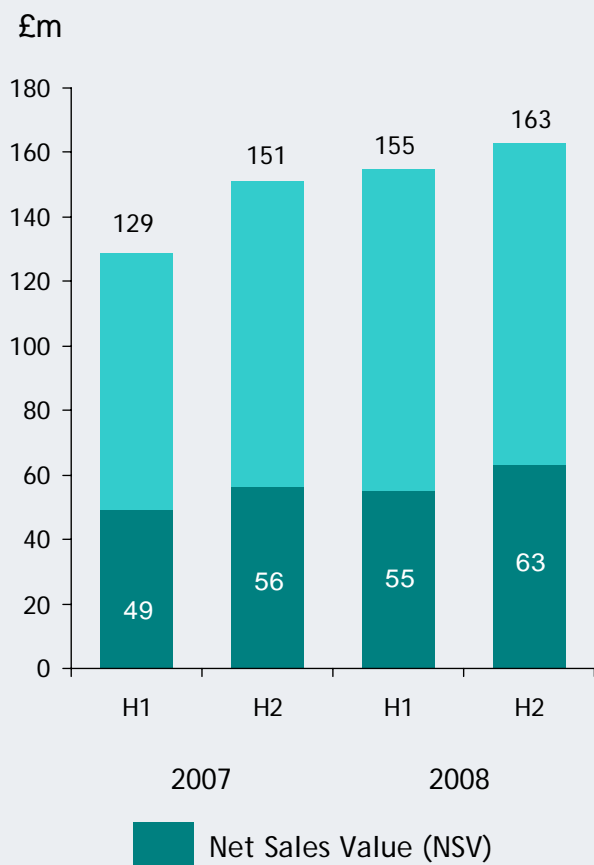
	2008	vs 2007	
	Actual	As reported	Constant currency
Revenue	£318m	+13%	+5%
Net Sales Value*	£118m	+12%	+3%
Trading Profit	£4.5m	-55%	-59%
Return on NSV	3.8%	9.4%	

\* Net Sales Value is revenue excluding the precious metals content.

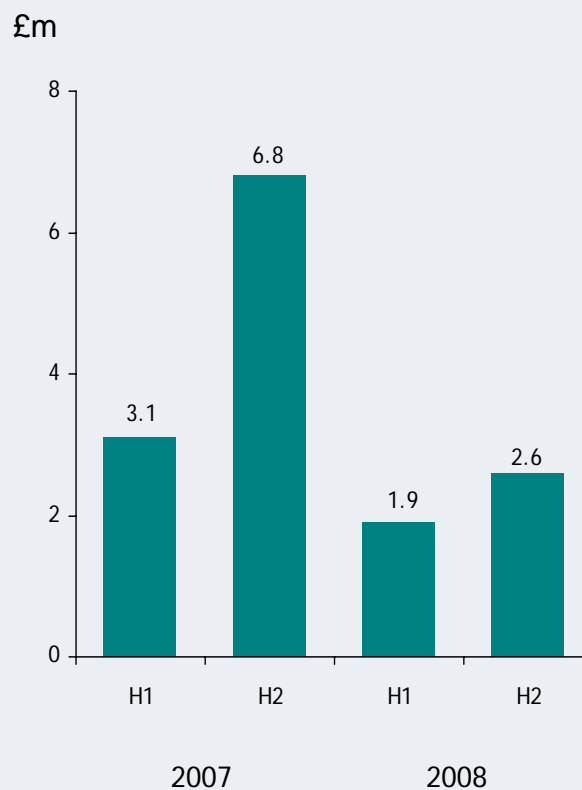
- US business trading profit declined due to lower underlying volumes and less profitable product mix
- European business trading profit improved, benefiting from 2007 restructuring initiatives and increase in gold reclaim activity offsetting weak retail jewellery demand

# Precious Metals - Half Year Trends (as reported)

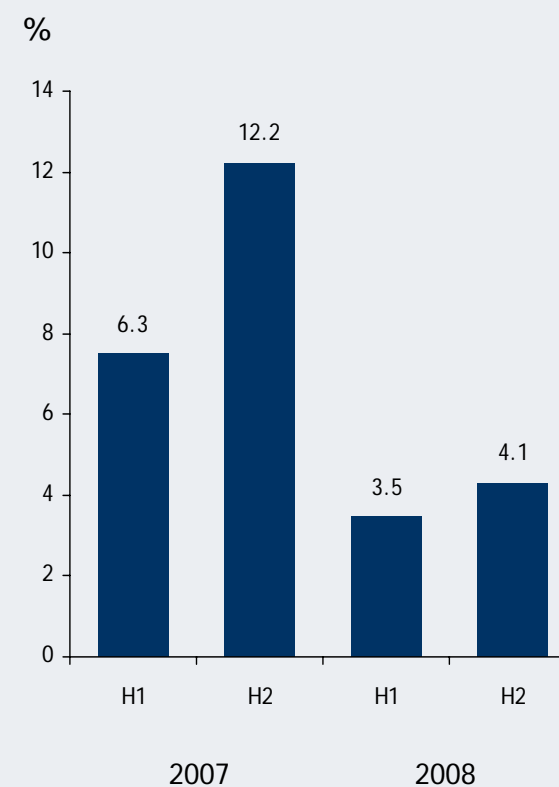
## Revenue & Net Sales Value

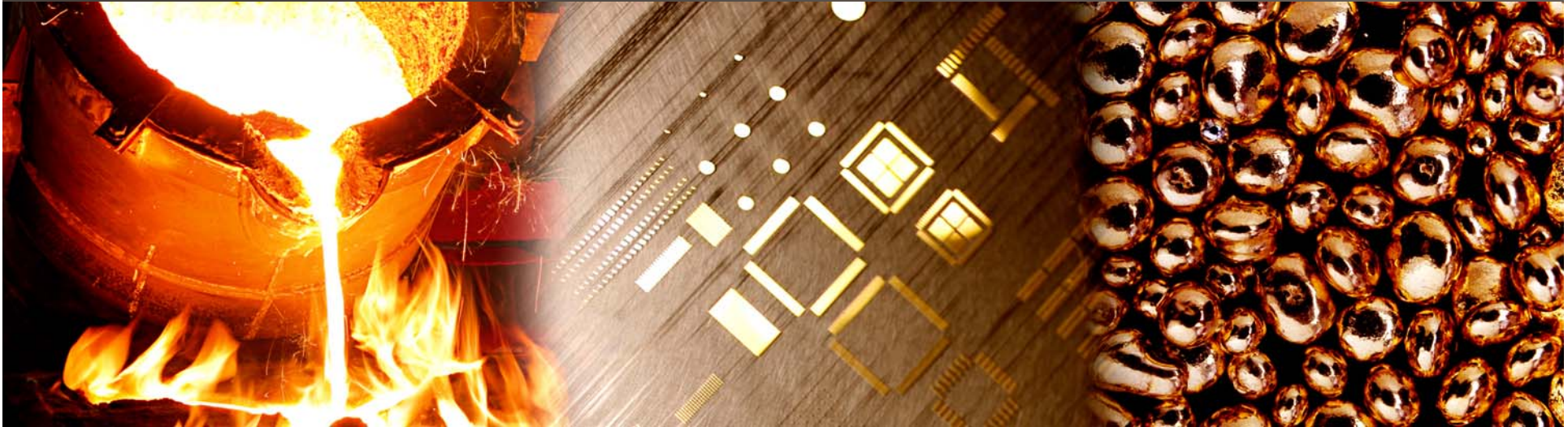


## Trading Profit



## Return on Net Sales Value





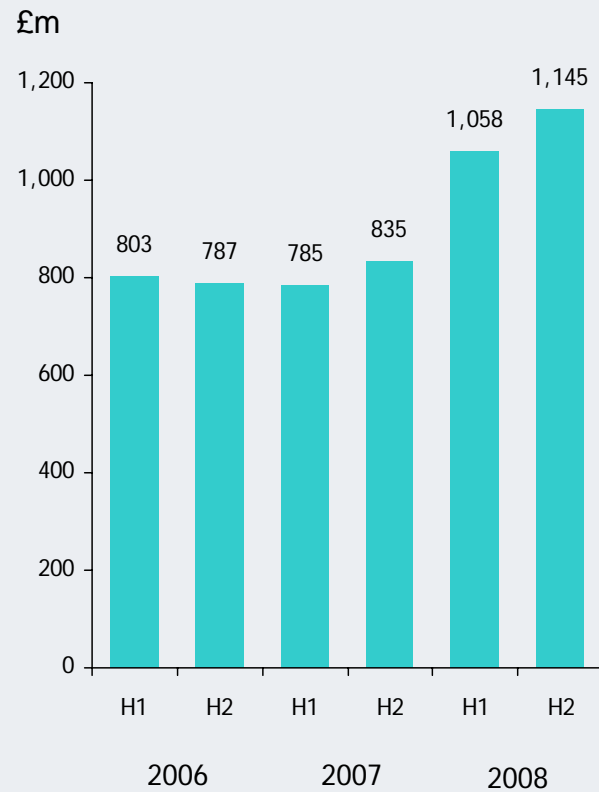
# Financial Review

# Group

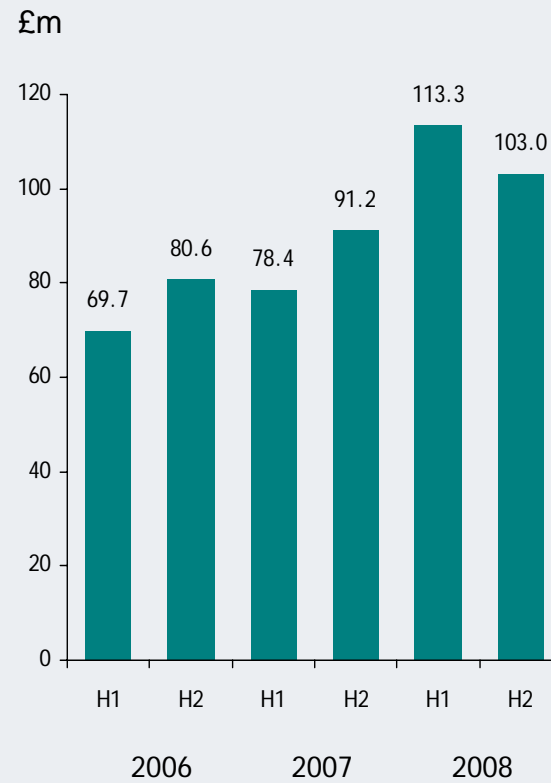
	2008	vs 2007	
	Actual	As reported	At constant currency
Revenue	£2,203m	+36%	+23%
Trading Profit	£216.3m	+28%	+11%
Return on Sales	9.8%	10.5%	10.8%

# Group

## Revenue



## Trading Profit



## Return on Sales



# Group Trading Profit

£m	2008	2007	Change vs 2007
<b>Total operations</b>			
- at 2008 exchange rates	<b>216</b>	<b>194</b>	<b>22</b>
Ceramics - Vesuvius	115	125	(10)
- Foseco (post acquisition)	53	-	53
Electronics	52	66	(14)
Precious Metals	4	11	(7)
Corporate costs	(8)	(8)	-
<b>Exchange rate impact</b>	<b>-</b>	<b>(25)</b>	<b>25</b>
<b>Group - at reported exchange rates</b>	<b>216</b>	<b>169</b>	<b>47</b>

**28% growth in Trading Profit**

# Currency Impacts

- Significant weakening of sterling during 2008, particularly in the second half

	Average FX rates			Year-end FX rates			% Group Trading Profit
	2007	2008	%	31 December 2007	31 December 2008	%	
Euro	1.46	1.26	(14)	1.36	1.04	(24)	24
Chinese Renminbi	15.23	12.92	(15)	14.58	9.95	(32)	19
US \$	2.00	1.86	(7)	1.99	1.46	(27)	13

- Transactional exposure limited but significant translational impact
- Trading Profit
  - 2007 trading profit re-stated at 2008 average FX rates: £25m increase (+14%)
  - 2008 trading profit re-stated at current spot rates\*: £30m increase (+15%)

\* 3 March:  
 US\$ 1.40  
 Euro 1.12  
 Chinese Renminbi 9.61

- Net Debt
  - Translational impact on non-sterling denominated debt
  - H2 2008 impact: £86m higher net debt (total for year £99m)
  - Late October/early November:
    - US \$ & Euro debt swapped into sterling
    - Majority of net debt now in sterling

# Headline Attributable Profit

£m	2008	2007	Change vs 2007
Trading Profit	216	169	47
Interest	(41)	(21)	(20)
Joint Ventures	1	2	(1)
<b>Headline Profit Before Tax</b>	<b>176</b>	<b>150</b>	<b>26</b>
Taxation	(48)	(40)	(8)
Minority Interest	(3)	(3)	-
<b>Headline Attributable Profit</b>	<b>125</b>	<b>107</b>	<b>18</b>

• Effective rate (pre JVs):  
 - 2007 26.9%  
 - 2008 27.5%  
 - 2009 c.27.5%

**17% growth in Headline Attributable Profit**

# Earnings Per Share

	2008	2007
<b>Adjusted for Rights Issue*:</b>		
Headline EPS	8.9p	8.2p
Average number of shares	1,408m	1,306m
<i>Unadjusted for Rights Issue*:</i>		
Headline EPS	58.8p	54.4p
Average number of shares	212.0m	196.7m

**9% growth in Headline Earnings Per Share**

\* See Appendix slide for Rights Issue adjustment

# Dividends

	2008	2007
<b>Adjusted for Rights Issue*:</b>		
- Final	-	1.32p
- Interim	0.88p	0.64p
- Total	<u>0.88p</u>	<u>1.96p</u>
<i>Unadjusted for Rights Issue*:</i>		
- Final	-	8.75p
- Interim	5.85p	4.25p
- Total	<u>5.85p</u>	<u>13.00p</u>

**No Final dividend for 2008**

\* See Appendix slide for Rights Issue adjustment

# Exceptional Items

<b>£m charge/(credit)</b>	<b>2008</b>	<b>2007</b>
<b>Foseco related:</b>		
- Integration costs	17	-
- Inventory fair value adjustment	2	-
- Bank facility fees	2	-
- Amortisation of intangibles	13	-
- Profit on disposal of continuing operations	(1)	-
<b>Non-Foseco related:</b>		
- Restructuring costs	23	6
- Impairment of intangibles	40	-
- Profit relating to non-current assets	(3)	(7)
- Employee benefit curtailment gains	(6)	(1)
	<u>87</u>	<u>(2)</u>

Future cash-related restructuring and integration costs:

<b>£m</b>	<b>FY 2009</b>
Foseco related	4
Other	23
	<u>27</u>

# Net Cash Flow from Operating Activities

£m	Inflow / (outflow)		Change vs 2007
	2008	2007	
<b>EBITDA</b>	<b>264</b>	<b>204</b>	<b>60</b>
Restructuring and integration	(23)	(15)	(8)
Working capital	(9)	(45)	36
Pensions - additional contributions	(25)	(28)	3
Other	-	(1)	1
<b>Cash generated from operations</b>	<b>207</b>	<b>115</b>	<b>92</b>
Interest & tax	(87)	(46)	(41)
<b>Net cash inflow from operating activities</b>	<b>120</b>	<b>69</b>	<b>51</b>

See slide 26 →

Future restructuring and integration cash spend:

£m	FY 2009
Foseco related	5
Other	30
	<u>35</u>

# Trade Working Capital

Decrease/(increase) in  
Trade Working Capital

£m	2008
Ceramics	(10)
Assembly Materials	21
Chemistry	5
Precious Metals	12
Other	(3)
	<u>25</u>

- Higher working capital:
 

	£m
Inventory	(25)
Trade receivables	34
Trade payables	(19)
	<u>(10)</u>

- Lower year-end metal prices  
Nov/Dec 2008 versus Nov/Dec 2007:  
Tin -24% (usage £150m p.a.)  
Silver -29% (usage £50m p.a.)

## Trade Working Capital to Sales %:

	2008	2007
	%	%
Ceramics	24.9	24.5
Electronics	22.9	19.9
Precious Metals	24.7	25.1
Group	<u>24.2</u>	<u>23.0</u>

# Free Cash Flow

£m	Inflow / (outflow)		Change vs 2007
	2008	2007	
<b>Net cash inflow from operating activities</b>	<b>120</b>	<b>69</b>	<b>51</b>
Pensions - additional contributions	25	28	(3)
Capital expenditure	(73)	(60)	(13)
Property disposals	2	11	(9)
Dividends - JVs & minorities	(1)	-	(1)
<b>Free cash flow</b>	<b>73</b>	<b>48</b>	<b>25</b>

2009 Capex of <£45m

# Net Cash Flow & Increase in Net Debt

£m

## Free cash flow

Foseco acquisition

Other acquisitions

Disposals

Pensions - additional contributions

Dividends

Other

## Net cash outflow

Exchange rate translation impact

## Increase in debt

Net debt - 1 January 2008

**Net debt - 31 December 2008**

**Net debt - 31 December 2008**

(Pro-forma for Rights Issue)

2008

73

(620)

(10)

36

(25)

(31)

(5)

(582)

(99)

(681)

(51)

(732)

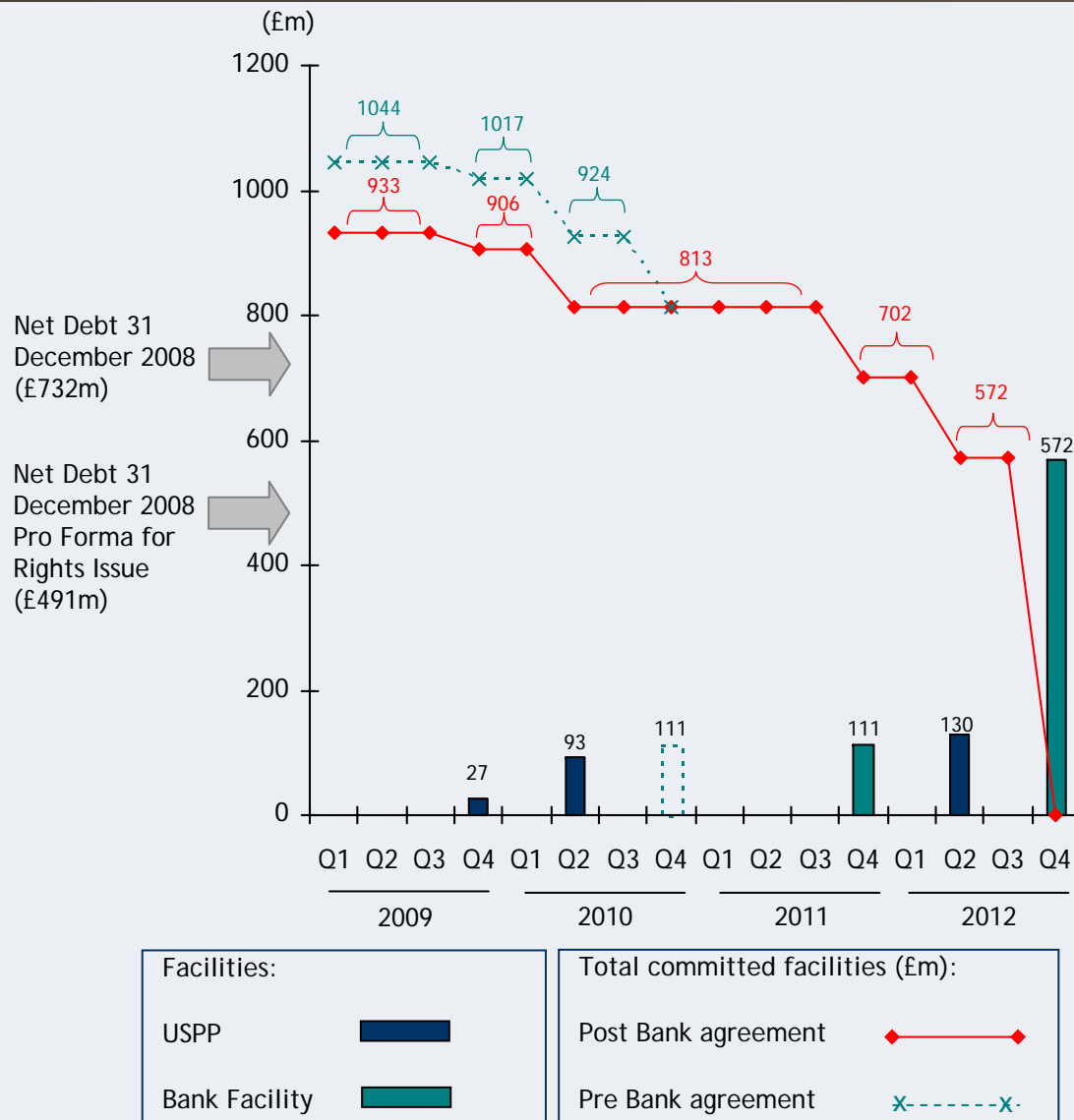
(491)

Foseco:	£m
Shares	497
Assumed net debt	106
India minority Buy-out	7
Fees	10
	<u>620</u>

	£m
CBC	6
Hi-Tech	16
Investments (pension related)	15
Other	(1)
	<u>36</u>

- UK contribution level recently renegotiated with Trustees
- No additional contributions payable for 18 months from February 2009 (unless dividends resumed)
- December 2009 Triennial review available mid-2010

# Debt Facilities - Maturity Profile & Covenants



- Recent agreement with Banks:

- Immediate prepayment of October 2010 £111m debt maturity out of Rights Issue proceeds

- Net debt to Headline EBITDA covenant remains at 3.5 x for 30 June and 31 December, 2009 testing

- Substantial liquidity headroom remains

- No significant debt maturities in 2009; principal maturities in 2011 & 2012

- Attractive credit margins in current bank facility maintained: 65 to 105 bps (below Net debt to Headline EBITDA of 3.0x)

- Average interest rate on gross borrowings (excluding pension interest) for 2009 is forecast to be 6% (80% fixed)

# Net Employee Benefit Deficit

£m	Pension plans				Total
	UK	US	RoW	Retiree medical	
<b>31 December 2007</b>	<b>(26)</b>	<b>(35)</b>	<b>(14)</b>	<b>(21)</b>	<b>(96)</b>
Foseco acquisition (at 4 April 2008)	2	(10)	(19)	(2)	(29)
P&L charge	(3)	(2)	(4)	(2)	(11)
Cash contributions	29	5	4	3	41
Actuarial assumptions changes	53	(4)	(1)	1	49
Gain/(loss) on assets	13	(26)	(2)	-	(15)
Curtailments	1	5	-	-	6
Foreign exchange	-	(22)	(10)	(8)	(40)
<b>31 December 2008</b>	<b>69</b>	<b>(89)</b>	<b>(46)</b>	<b>(29)</b>	<b>(95)</b>

	£m
Assets	526
Liabilities	(621)

UK 'top-up' payments (£22m in 2008) suspended to July 2010



# Outlook

# Market Outlook - 29 January 2009 Presentation

- Cookson predominantly supplies consumable products on short lead times. As such expectations of future trading are based upon our assessment of end-market conditions, which conditions are subject to greater uncertainty than usual in the current economic climate
- Our base case assumptions are for end-market conditions in Q1 2009 to be no better than Q4 2008. Then slow improvement through Q2 2009 and H2 2009
- Further downside cases have been considered to test the Group's resilience to more pessimistic economic scenarios and we have planned our management actions accordingly

End markets in 2009 (vs same period in 2008)	Base case assumptions			Downside case assumptions		
	H1	H2	FY	H1	H2	FY
Global steel	-21%	+2%	-10%	-30%	-5%	-20%
Foundry castings	-18%	-3%	-10%	-20%	-8%	-15%
Consumer electronics	-12%	-6%	-9%	-20%	-10%	-15%

- Key sensitivity is global steel production in 2009 (just over 40% of Group trading profit) and timing of economic recovery

# Management Actions - Summary

## Cost reduction

- Phase I completed Q4 2008 (annualised savings >£17m); 600 headcount reduction, extensive salary freeze, extended plant shutdowns etc.
- Phase II underway in Q1 2009 (annualised savings >£23m); Permanent closure of 6 plants and further overhead cuts, >750 headcount reduction
- *Phase III; further plant closures and overhead reductions under evaluation, should markets deteriorate further*

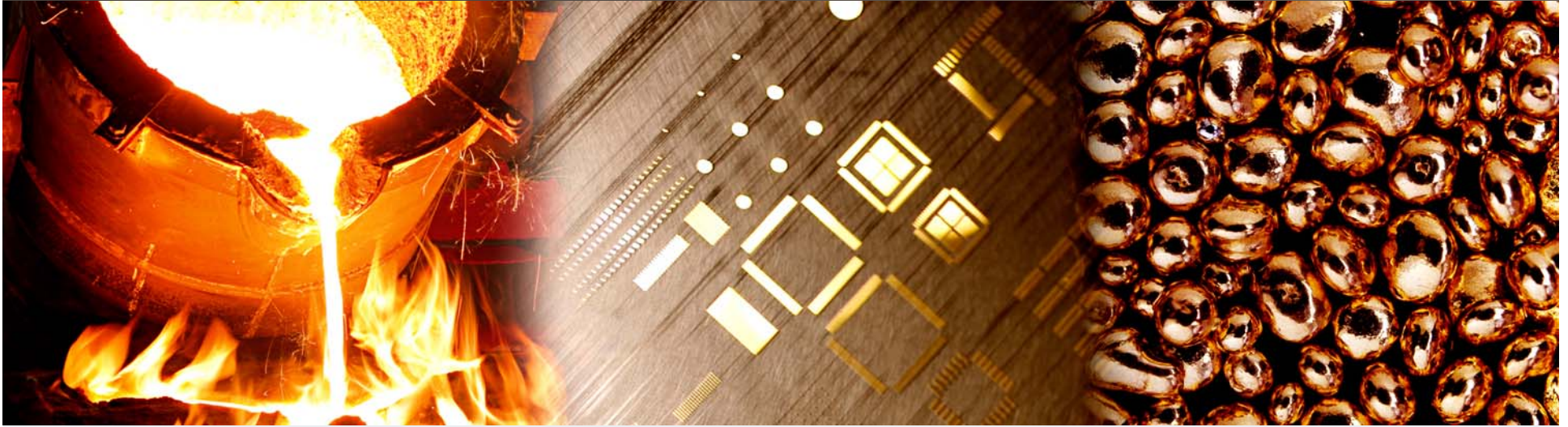
## Cash and debt

- Rights issue completed - £241m net proceeds
- Focus on reducing working capital in line with reduced activity, including new incentive scheme
- Suspending expansion CAPEX, dividends and UK pension 'top-up' payments - reduces cash outflow by >£85m compared to 2008
- Early repayment of first maturity of bank facility in exchange for a one year delay in tightening of net debt to EBITDA covenant

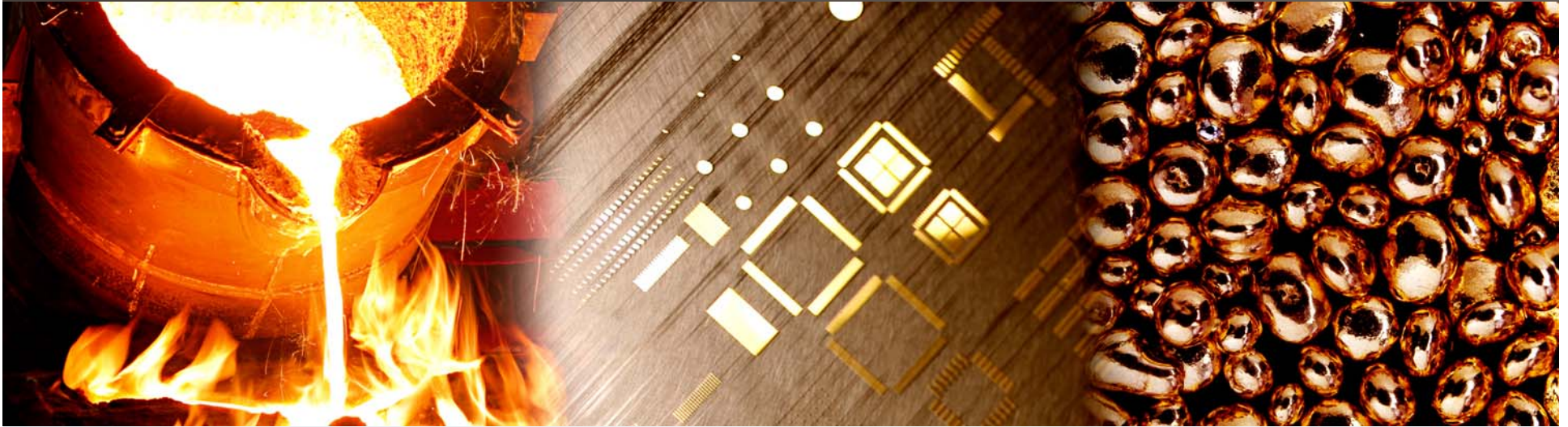
# Outlook - Update

- End-markets have remained weak in January and February, as predicted
- Global steel production in January minus 24% y.o.y (December minus 24% y.o.y.)
- We expect a slow improvement through Q2 as destocking in end-markets comes to an end and further improvements in H2 2009 (normal seasonality and increasing infrastructure spending)
- Trading for 2009 will be dependent on depth and duration of global economic downturn, but will benefit from
  - Already announced cost reduction programmes (£30m in 2009)
  - Full year contribution from Foseco (9 months in 2008)
  - Additional £12m of Foseco related integration synergies in 2009
  - Significant currency translation gains (if sterling remains at current levels)

Next update: May IMS - 14 May 2009



## Q & A



# Appendix

# Earnings and Dividends per share - impact of Rights Issue

- Calculation of Bonus factor adjustment

Bonus factor adjustment =  $\frac{\text{Market value per share pre Rights (17 February)}}{\text{TERP}}$

i.e.            6.6391            =             $\frac{\text{£1.25}}{\left( \frac{(212\text{m} \times \text{£1.25}) + \text{£255m}}{212\text{m} + 2,551\text{m}} \right)}$

TERP =  $\frac{\text{Market capitalisation (pre Rights) + funds raised}}{\text{Original shares + new shares issued}}$

- EPS for 2008 and prior

	2006	2007	2008
EPS - unadjusted	42.6p	54.4p	58.8p
Average number of shares:			
- original	192	197	212
- bonus factor adjustment	6.64x	6.64x	6.64x
- as adjusted	1,271	1,306	1,408
EPS - adjusted	6.4p	8.2p	8.9p

- EPS for 2009

Average number of shares has to be adjusted for bonus factor between 1 January & 4 March

2009 average number of shares:

$(212\text{m} \times 6.64 \times 2/12) + ((212\text{m} + 2,551\text{m}) \times 10/12) = \text{approx. } 2,530\text{m}^*$

# Return Ratios

%	2008	2007	2006
Return on Net Assets *	27.8	32.1	31.5
Return on Investment **	8.2	9.8	8.4 ← WACC (Post Tax): 9.0%

- Return ratios reflect deterioration in trading conditions in fourth quarter
- Capital expenditure, rationalisation projects and acquisitions must deliver returns > WACC

\* RONA = (Trading profit + JV) / Operating net assets; continuing operations

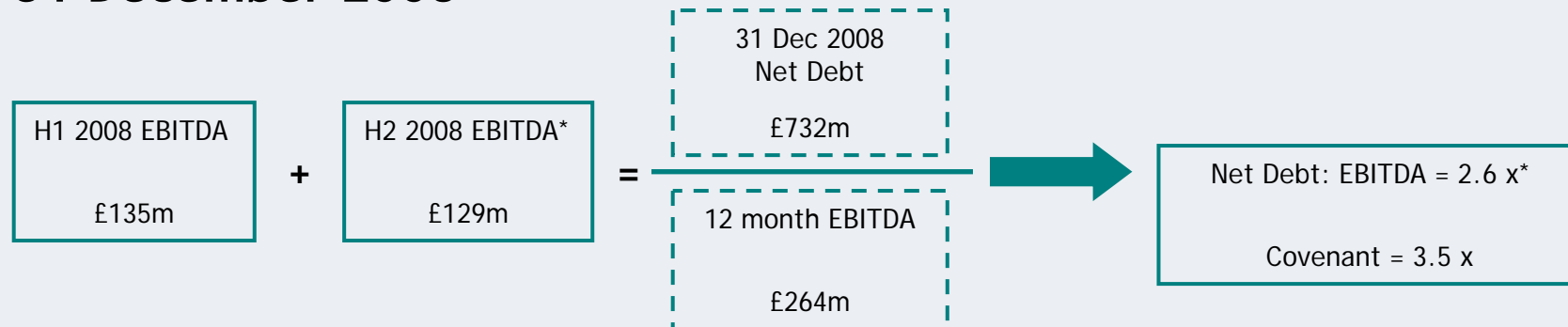
\*\* ROI = (Trading profit + JV - Tax) / Invested capital (Shareholders' funds + net debt + pension deficit + goodwill W/O)

# Debt Covenants

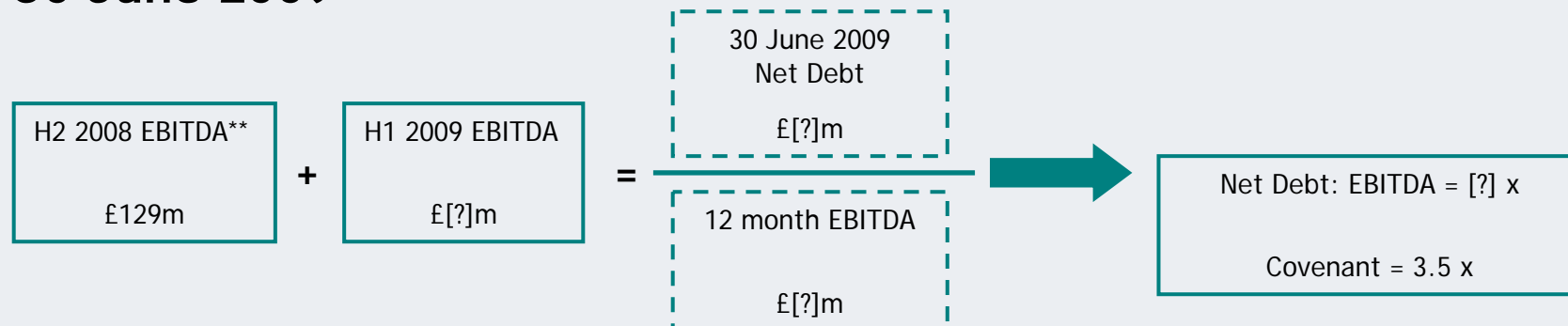
- Two covenants in the bank facility: ratio of Net Debt to EBITDA (leverage) and Interest on Borrowings to EBITDA (interest cover)
- Tested on 31 December and 30 June each year
- Net Debt in £, translated at spot rates on test date for any non-sterling denominated debt
- EBITDA is for trailing 12 months, translated at average FX rates over that period and is pre-exceptionals (e.g. restructuring costs)
- Interest on Borrowings excludes pension interest and interest on unwinding of discounted provisions
- Covenant tests:
  - Leverage: set at less than 3.5 times, reducing to less than 3.0 times at 30 June 2010 and thereafter
  - Interest cover: set at more than 4.0 times
- Ratios at 31 December 2008:
  - Leverage: 2.6 times
  - Interest cover: 7.6 times
- US Private Placement gearing covenant not likely to be of concern ahead of the two bank covenants

# Net Debt to EBITDA Covenant

## 31 December 2008



## 30 June 2009



\* As calculated for bank covenant purposes

\*\* H2 2008 depreciation = £26m