# Cookson Group plc
# 2009 Results
# 2 March 2010

Cookson

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# Highlights

- Revenue of £1,961m — 24% lower than 2008 on an underlying* basis
  — H2 2009 underlying* revenue 13% higher than H1 2009
- Cost reduction programme successfully completed — annualised savings > £65m
- Trading profit of £111.7m — £95.2m (85%) earned in H2 2009
- Return on sales margin recovered to 9.2% in H2 (Ceramics 10.1%; Electronics 11.3%)
- Year end net debt of £371m — H2 free cash flow of £73m significantly exceeded expectations
  — Net debt to EBITDA ratio of 2.3 times at 31 December 2009
- Employee consultation initiated regarding closure of UK DB pension scheme to further accruals
- Improvements in steel and electronics end-markets have continued so far into 2010

* *Being revenue at constant currency, as if Foseco had been acquired on 1 January rather than 4 April 2008, adjusted for differences in commodity metal prices and eliminating back-to-back customer equipment sales.*



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# Agenda

| | |
|---|---|
| **Financial Review** | **Mike Butterworth** |
| **Operational Review and Outlook** | **Nick Salmon** |

# Financial Review
# Mike Butterworth

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# Group

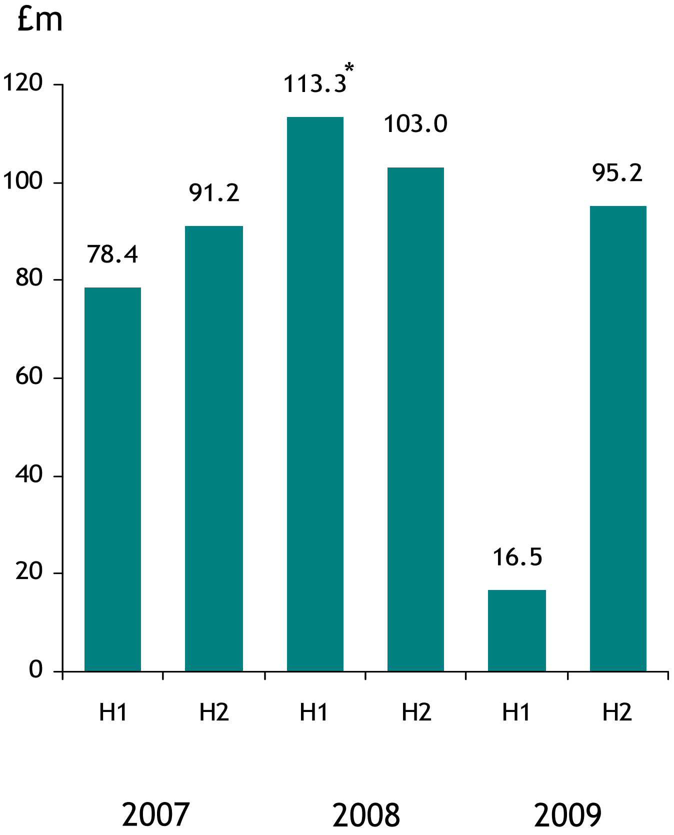
| | 2009 | vs 2008 | | |
|---|---|---|---|---|
| | Actual | As reported | Constant currency | Underlying* |
| Revenue | £1,961m | -11% | -21% | -24% |
| Trading Profit | £111.7m | £(104.6)m | £(132.9)m | |
| Return on Sales | 5.7% | 9.8% | | |

* *Being revenue at constant currency; as if Foseco had been acquired on 1 January 2008 rather than 4 April 2008; adjusted for the impact of differences in commodity metal prices; and eliminating back-to-back customer equipment sales*

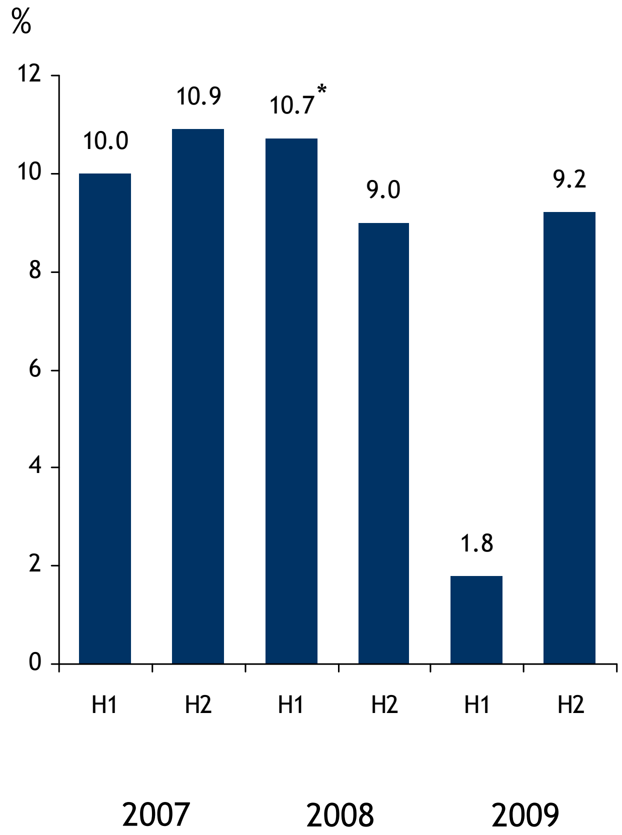
# Group (as reported)

## Revenue


## Trading Profit




## Return on Sales




** Includes Foseco acquisition from 4 April 2008*

# Group Trading Profit

| £m | 2009 | 2008 | Change vs 2008 |
|---|---|---|---|
| **Total Operations** | | | |
| – **at 2009 exchange rates** | **112** | **245** | **(133)** |
| Ceramics | 71 | 187 | (116) |
| Electronics | 39 | 60 | (21) |
| Precious Metals | 9 | 5 | 4 |
| Corporate costs | (7) | (7) | - |
| **Exchange rate impact** | **-** | **(29)** | **29** |
| **Group - at reported exchange rates** | **112** | **216** | **(104)** |



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# Headline Attributable Profit

| £m | 2009 | 2008 | Change vs 2008 |
|---|---|---|---|
| **Trading Profit** | **112** | **216** | **(104)** |
| Interest | (37) | (41) | 4 |
| Joint Ventures | 1 | 1 | - |
| **Headline Profit Before Tax** | **76** | **176** | **(100)** |
| Taxation | (26) | (48) | 22 |
| Non-controlling Interests | (4) | (3) | (1) |
| **Headline Attributable Profit** | **46** | **125** | **(79)** |

**Effective Rate (pre JVs):**
- **2008 27.5%**
- **2009 35.2%**
- **2010 c. 30.0%**



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# Earnings and Dividends per Share

| | 2009 | 2008 |
|---|---|---|
| **Earnings per share*:** | | |
| Headline EPS | **18.0p** | **88.5p** |
| Average number of shares | 252.8m | 140.8m |
| | | |
| **Dividends*:** | | |
| - Interim | **Nil** | **8.8p** |
| - Final | **Nil** | **Nil** |

** As restated for the effects of the share consolidation in May 2009*

# Exceptional Items (Pre Tax)

| £m charge/(credit) | 2009 | |
| --- | --- | --- |
| **Restructuring and integration:** | | |
| – Foseco integration | 5 | |
| – Restructuring | 49 | |
| – Onerous lease provisions: | | **76** |
| Ceramics | 4 | |
| Electronics | 18 | |
| **Loss relating to non-current assets** | **3** | |
| **Interest rate swap close-out** | **14** | |
| **Amortisation of intangibles** | **18** | |
| **Profit on disposal of continuing operations** | **(4)** | |
| **Employee benefits plan gains** | **(10)** | |
| | **97** | |

Restructuring costs-cash impact:

| | £m |
| --- | --- |
| Cash impact within 12 months | 54 |
| Cash impact over lease term | 22 |
| | 76 |

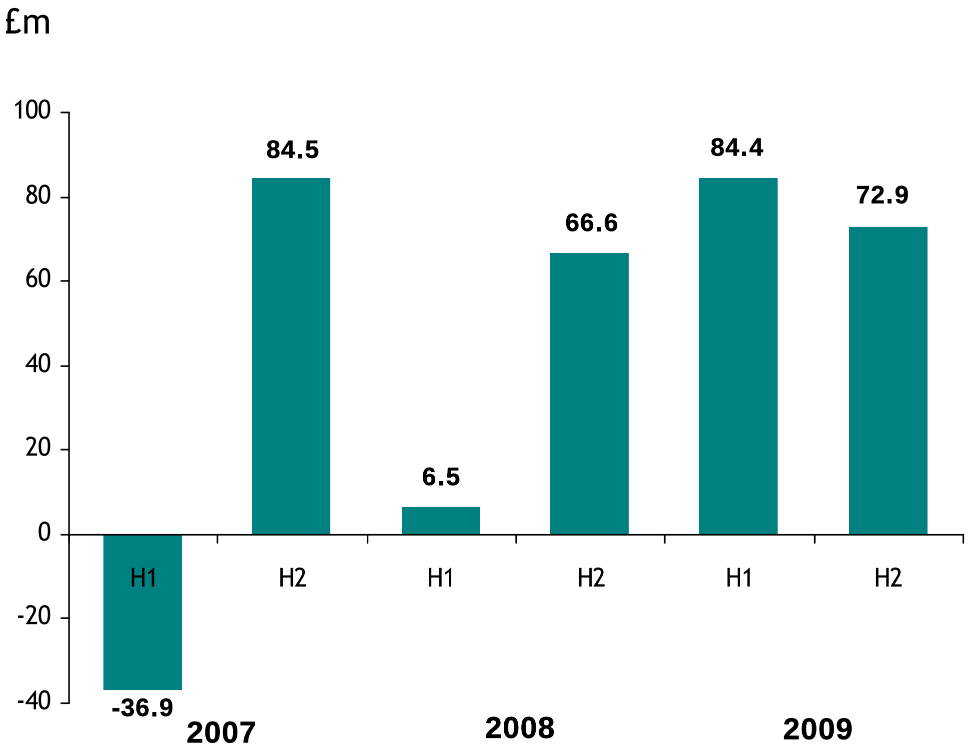
Detailed explanation given in 14 May Interim Management Statement

Non-cash item arising from intangible assets on acquisition of Foseco

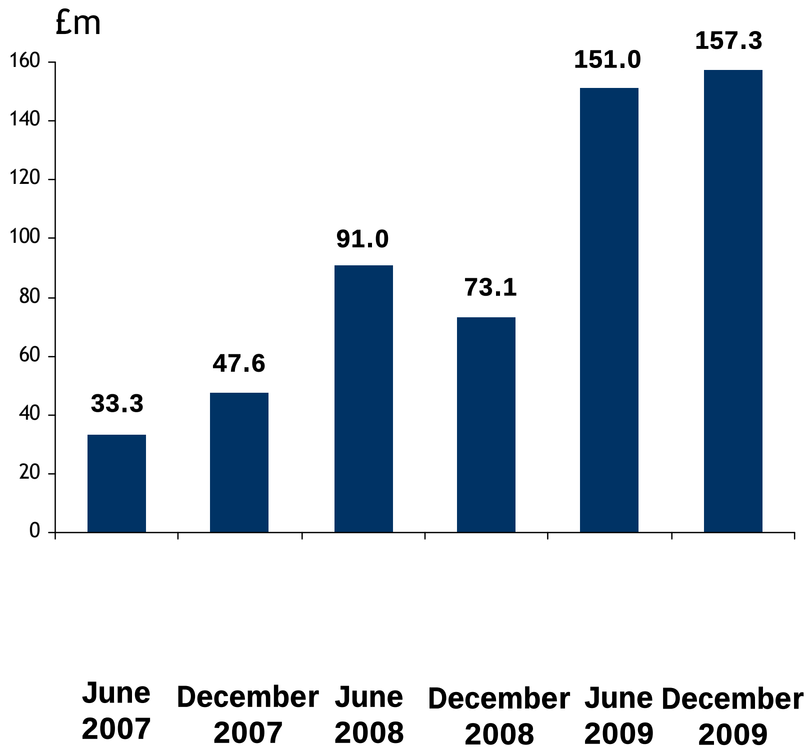
**FY 2010: restructuring and integration charge (cash-related) of £5-10m**

# Free Cash Flow

## Half Yearly:




## Annualised (last twelve months):



# Net Cash Inflow from Operating Activities

| £m | Inflow / (outflow) 2009 | 2008 | Change vs 2008 |
|---|---|---|---|
| **EBITDA** | **165** | **264** | **(99)** |
| Restructuring and integration | (49) | (23) | (26) |
| Working capital | 153 | (9) | 162 |
| Other | (2) | - | (2) |
| Pensions - additional contributions | (8) | (25) | 17 |
| **Cash generated from operations** | **259** | **207** | **52** |
| Interest & tax | (75) | (87) | 12 |
| **Net cash inflow from operating activities** | **184** | **120** | **64** |

| | £m |
|---|---|
| Trade | 146 |
| Other | 7 |
| | 153 |

Slide 16

**FY 2010: restructuring and integration cash spend of c.£20m**

# Trade Working Capital

| £m | Decrease in Trade Working Capital 2009 |
| --- | --- |
| Ceramics | 102 |
| Electronics | 32 |
| Precious Metals | 17 |
| Other | (5) |
| | 146 |

Lower working capital (Ceramics):

| | £m | |
| --- | --- | --- |
| Inventory | 75 | of which £40m is raw materials |
| Trade receivables | 34 | |
| Trade payables | (7) | |
| | 102 | |

Lower working capital (Group):

| | £m |
| --- | --- |
| Inventory | 92 |
| Trade receivables | 41 |
| Trade payables | 13 |
| | 146 |

Trade Working Capital to Sales %*:

| | 2009 % | 2008 % |
| --- | --- | --- |
| Ceramics | 24.1 | 27.0 |
| Electronics | 17.1 | 25.0 |
| Precious Metals | 20.9 | 24.0 |
| Group | 21.4 | 25.9 |

* *Calculated based on average of last 6 months trading working capital and annualised last six months revenue at constant currency*

# Free Cash Flow

| £m | Inflow / (outflow) 2009 | 2008 | Change vs 2008 |
|---|---|---|---|
| **Net cash inflow from operating activities** | **184** | **120** | **64** |
| Pensions – additional contributions | 8 | 25 | (17) |
| Capital expenditure | (35) | (73) | 38 |
| Other | – | 1 | (1) |
| **Free cash flow** | **157** | **73** | **84** |

FY 2010 CAPEX:

| | £m |
|---|---|
| Capacity expansion – emerging markets | 17 |
| Customer installations (2009: £10m) | 8 |
| Maintenance | 30 |
| | 55 |

# Net Cash Flow & Decrease in Net Debt

| £m | 2009 |
|---|---|
| **Free cash flow** | **157** |
| Rights issue (net of expenses) | 241 |
| Pensions – additional contributions: | |
| - UK | (1) |
| - US | (7) |
| Other | (13) |
| Exchange rate impact | (16) |
| **Decrease in net debt** | **361** |
| Net debt – 1 January 2009 | (732) |
| **Net debt – 31 December 2009** | **(371)** |

**Rights issue (March 2009):**

- **255m shares issued at 100 pence***
- **Expenses of £14m**

**UK Employee Benefits Plans:**

- **UK contribution level renegotiated with Trustees in March 2009**
- **No additional contributions payable for 18 months from February 2009 (unless dividends resumed)**
- **December 2009 Triennial review available mid-2010**
- **Expected additional contributions from August 2010: £5-7m per annum (FY 2010: £2-3m)**

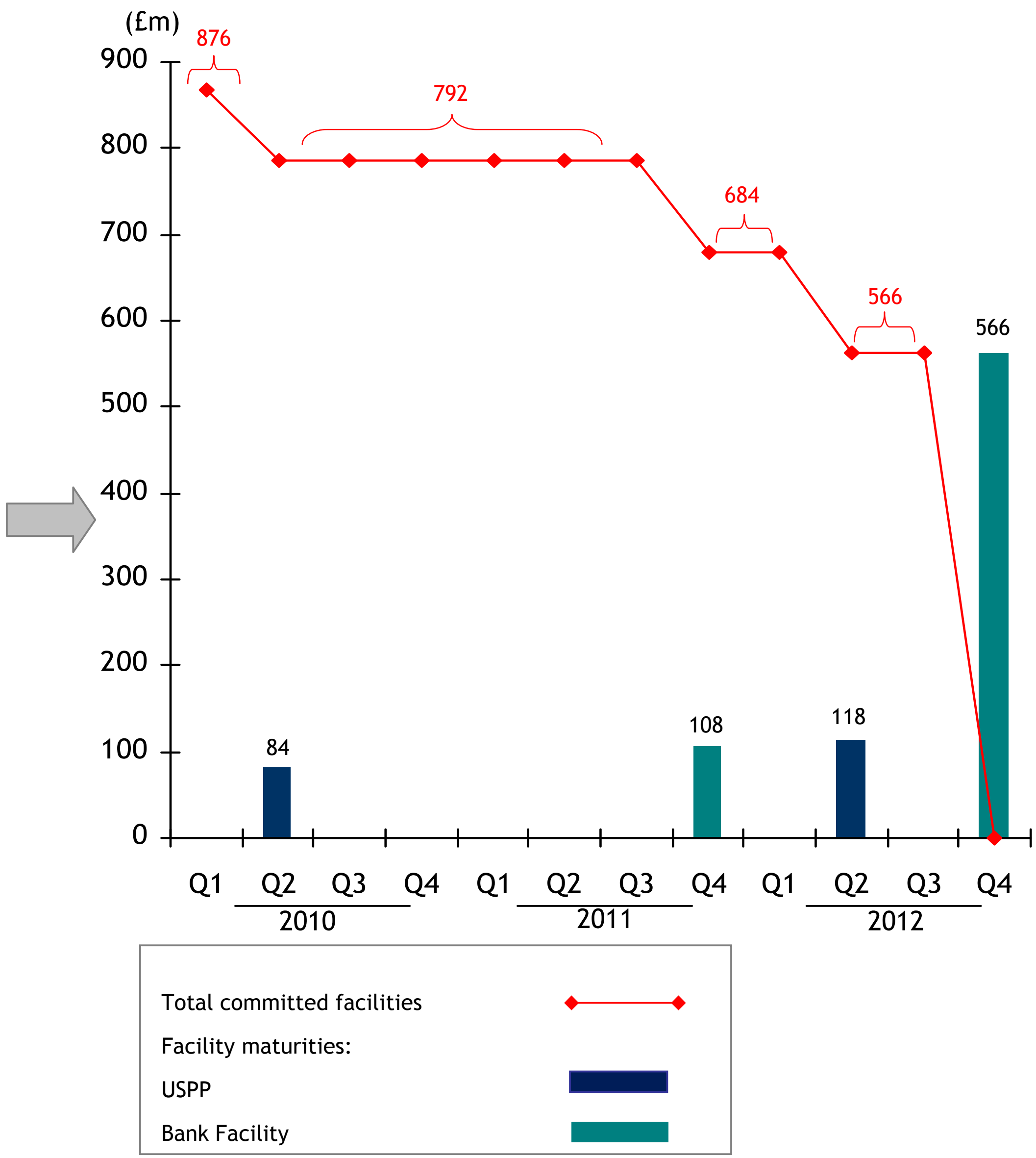
**US Employee Benefits Plans:**

- **Recent US legislation requires minimum funding levels**
- **Expected £13m 'one-off' payment in H1 2010; £6m per annum from FY2011**

* *As restated for the effect of the share consolidation in May 2009*

# Debt Facilities - Maturity Profile & Covenants

Net Debt
31 Dec 2009
(£371m)




- Substantial liquidity headroom in place
- Only £84m debt maturity in 2010; principal maturities in 2011 & 2012
- Bank covenants – 31 December 2009:

| | Actual | Test |
|---|---|---|
| Net debt: EBITDA | 2.3x | 3.5x* |
| Interest cover | 6.4x | 4.0x |

**3.0x from 30 June 2010 onwards*

- Attractive credit margins in current bank facility maintained: 65 to 105 bps
- Average interest rate on net borrowings (excluding pension interest) for 2010 is forecast to be c.6% (two-thirds fixed for just over two years)



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# Net Employee Benefits Deficit

| £m | Pension plans UK | US | RoW | Retiree medical | Total |
|---|---|---|---|---|---|
| **31 December 2008** | **69** | **(89)** | **(46)** | **(29)** | **(95)** |
| P&L charge | (1) | (3) | (5) | (2) | (11) |
| Cash contributions | 5 | 10 | 6 | 3 | 24 |
| Actuarial assumption changes | (83) | 6 | (5) | - | (82) |
| (Loss)/gain on assets | (12) | 14 | 2 | - | 4 |
| Curtailment gains/(losses) | - | - | (1) | 10 | 9 |
| Foreign exchange | - | 7 | 3 | 3 | 13 |
| **31 December 2009** | **(22)** | **(55)** | **(46)** | **(15)** | **(138)** |

| | % | Impact £m |
|---|---|---|
| **UK Discount Rate:** | | |
| December 2008 | 6.25 | |
| – Gilt yield change | 0.75 | 50 |
| – Credit spread change | (1.35) | (90) |
| December 2009 | 5.65 | (40) |
| **UK Inflation:** | | |
| December 2008 | 2.8 | |
| – Change | 1.0 | (40) |
| December 2009 | 3.8 | |
| | | (80) |

| | £m |
|---|---|
| Assets | 532 |
| Liabilities | (670) |

# Employee Benefits – Risk Mitigation

**UK Defined Benefit Pension Plan**

- Equity Hedge
  - Originally taken out for four years (October 2006) alongside interest and inflation rate hedges
  - December 2009: £12m 'in-the-money' value included in plan assets
  - January 2010: Hedging parameters re-struck to ensure hedge remains effective; now includes Foseco assets
- Proposed closure to future benefit accruals
  - Consultation commenced with active members (500) to stop future benefit accruals with effect from mid-2010
  - Replaced with new defined contribution arrangements
  - 'Curtailment gain' (exceptional item in income statement) of c.£10m expected in 2010

**US Retiree Medical**

- Termination of post-retirement medical benefits announced in December 2009 for 300 personnel
- 'Curtailment gain' (exceptional item in income statement) of £11m in 2009

# Financial Highlights

- Revenue of £1,961m
  - 24% lower than 2008 on an underlying* basis
  - H2 2009 underlying* revenue 13% higher than H1 2009
- Trading profit of £111.7m
  - £95.2m (85%) earned in H2 2009
- Return on sales margin recovered to 9.2% in H2 (Ceramics 10.1%; Electronics 11.3%)
- Headline profit before tax of £75.7m (2008: £176.2m)
- Headline EPS of 18.0p (2008: 88.5p)
- Year end net debt of £371m
  - H2 free cash flow of £73m significantly exceeded expectations
  - Net debt to EBITDA ratio of 2.3 times at 31 December 2009
- Employee Benefits
  - Deficit of £138m, in line with June 2009
  - Employee consultation initiated regarding closure of UK defined benefit pension scheme to future accruals
  - Termination of US post-retirement medical benefits

* *Being revenue at constant currency, as if Foseco had been acquired on 1 January rather than 4 April 2008, adjusted for differences in commodity metal prices and eliminating back-to-back customer equipment sales.*

# Operational Review and Outlook

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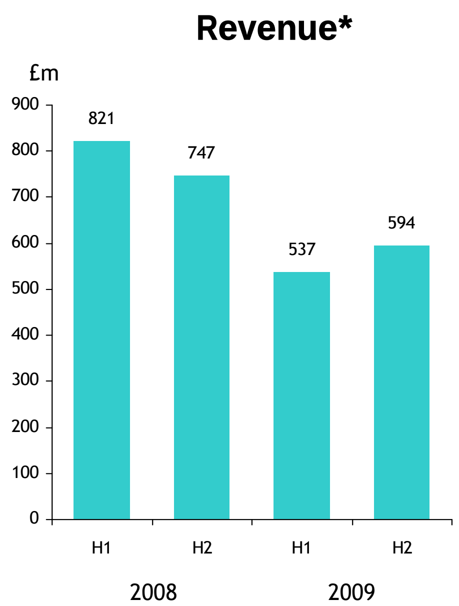
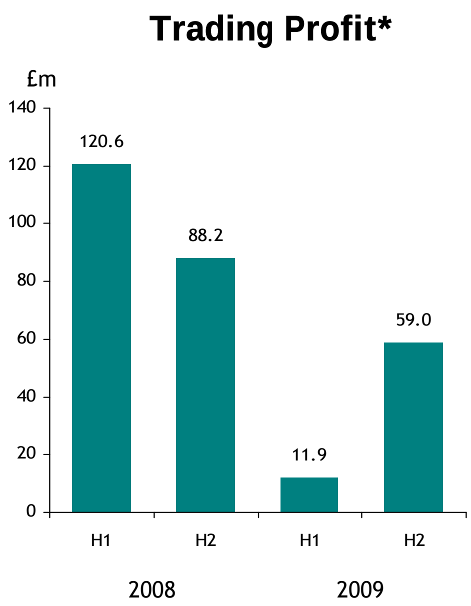
# Ceramics

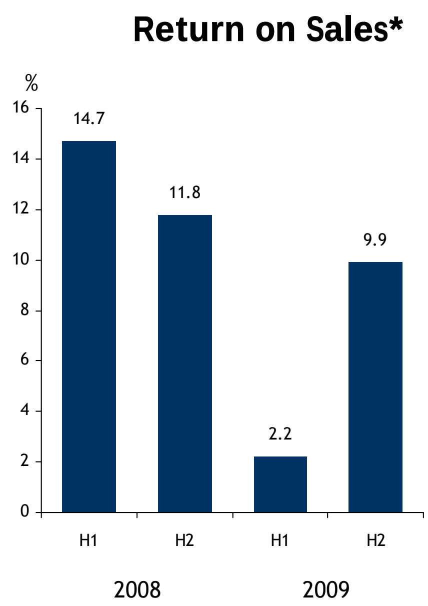
| | FY 2009 Actual | FY 2008 Pro-forma* | Change |
|---|---|---|---|
| Steel Flow Control | £366m | £486m | -25% |
| Linings | £388m | £490m | -21% |
| Foundry | £320m | £511m | -37% |
| Fused Silica | £57m | £81m | -29% |
| Total | £1,131m | £1,568m | -28% |

| | FY 2009 Actual | vs FY 2008 As reported | Constant currency | Underlying* |
|---|---|---|---|---|
| Revenue | £1,131m | -11% | -20% | -28% |
| Trading Profit | £70.9m | -58% | -62% | -66% |
| Return on Sales | 6.3% | 13.3% | 13.2% | 13.4% |

** Includes Foseco pro-forma from January 2008 and at constant currency*



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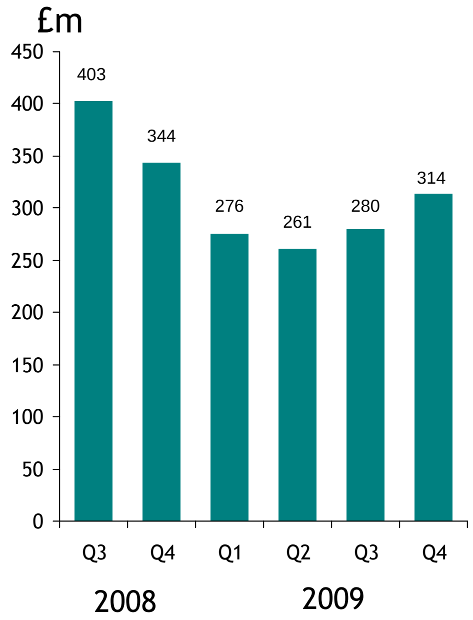
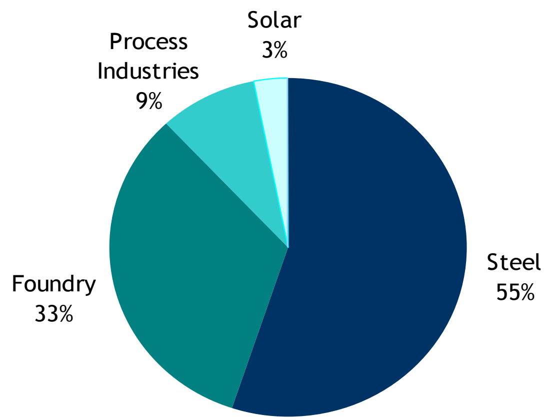
# Ceramics

## Revenue (constant currency)




## Revenue by End Market (2008)

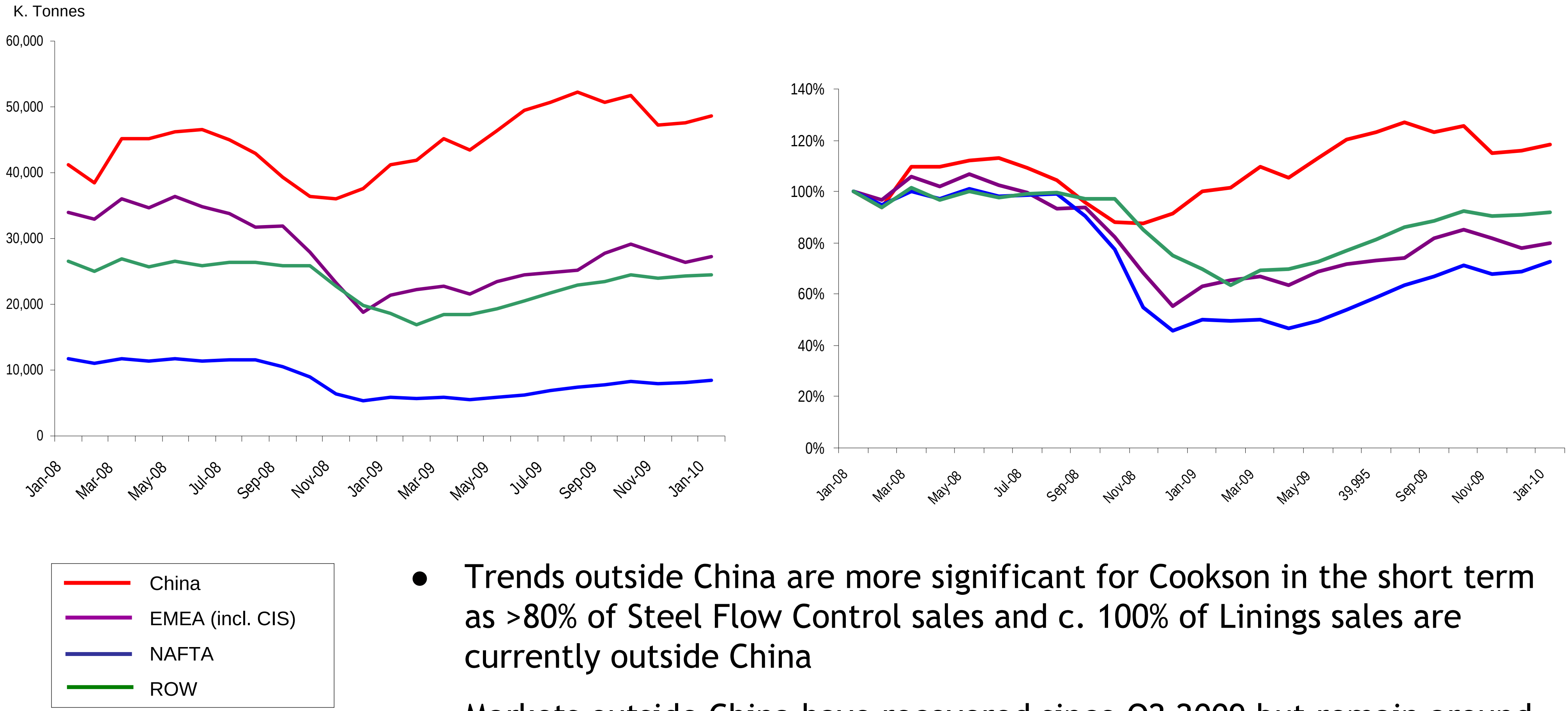



| | FY 09 vs FY 08* | H1 09 vs H1 08* | H2 09 vs H1 09 |
|---|---|---|---|
| Steel Flow Control | -25% | -38% | +29% |
| Linings | -21% | -25% | +5% |
| Foundry | -37% | -42% | +3% |
| Fused Silica | -29% | -29% | -8% |
| Total | -28% | -35% | +11% |

* *Includes Foseco pro-forma from January 2008 and at constant currency*

# Ceramics – End Markets – Steel

## Global Steel Production




- Trends outside China are more significant for Cookson in the short term as >80% of Steel Flow Control sales and c. 100% of Linings sales are currently outside China
- Markets outside China have recovered since Q2 2009 but remain around 20% - 25% below H1 2008 levels

*Source: World Steel Association*



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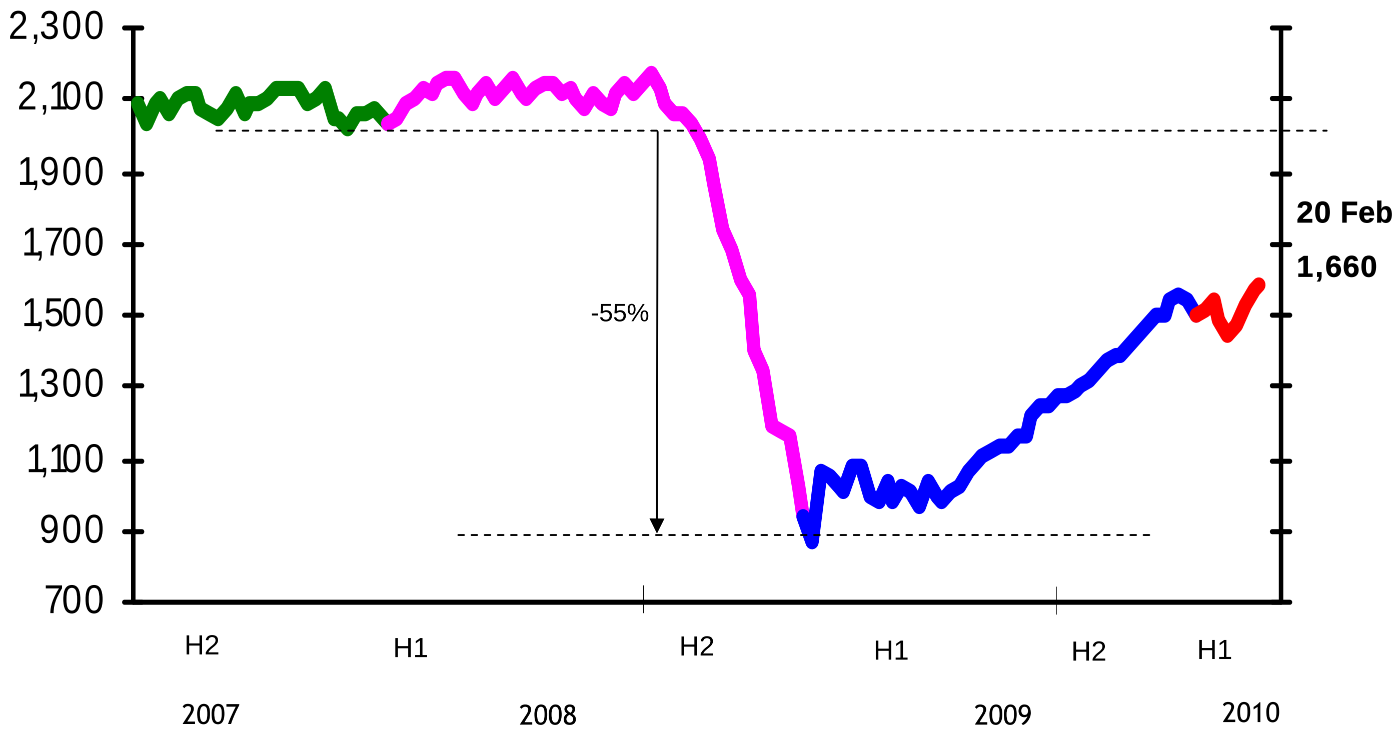
# Ceramics – US Steel Production

- US production fell over 50% in Q4 2008 and remained below 50% until May 2009
- Since May, production has been increasing progressively to match consumption - destocking phase over
- US inventories remain at historic lows

**US Weekly Raw Steel Production**

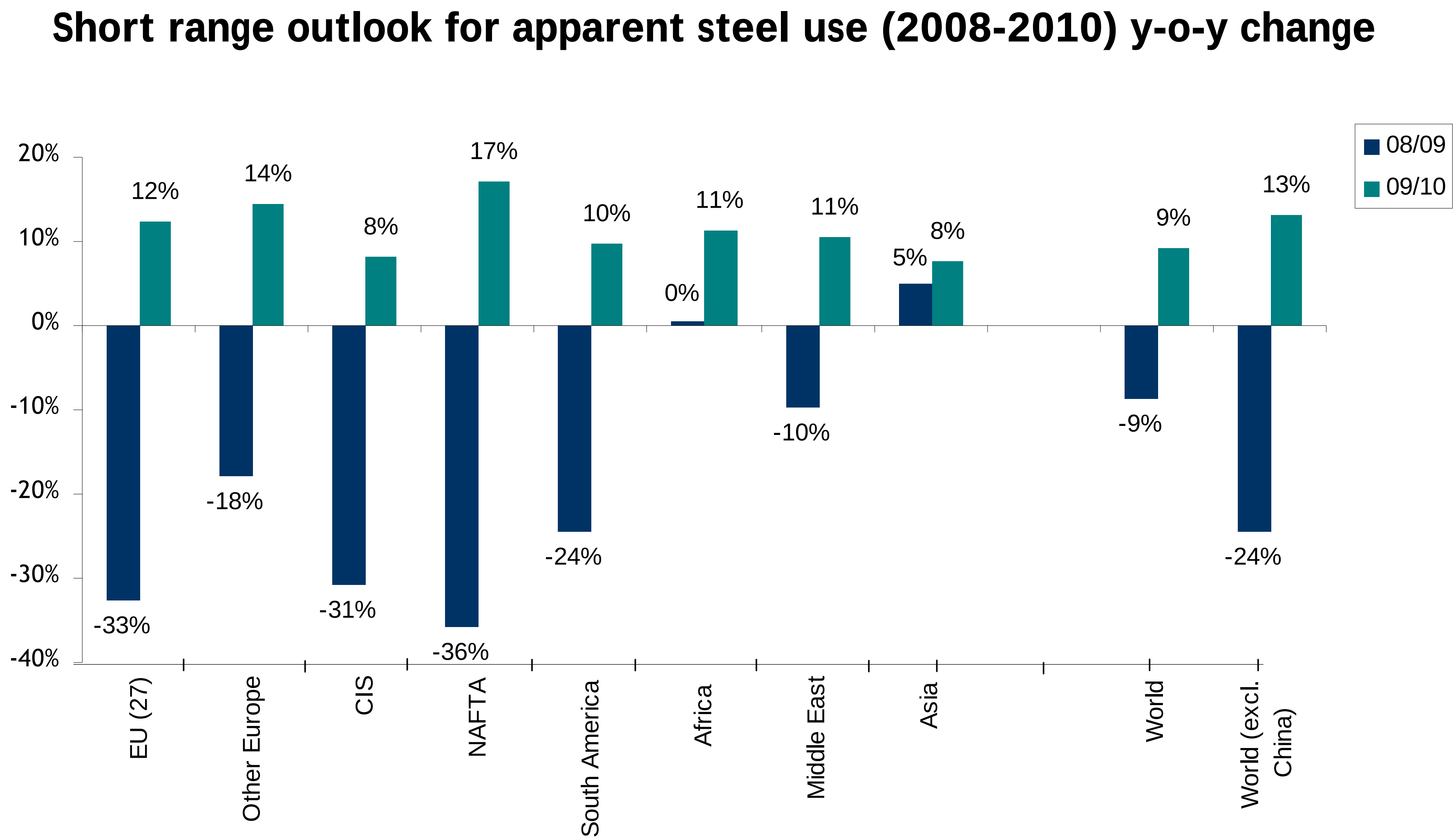
**(Thousands Of Short Tons)**






*Source: American Iron and Steel Institute*

# Ceramics – End Markets: Forecast Apparent Steel Use

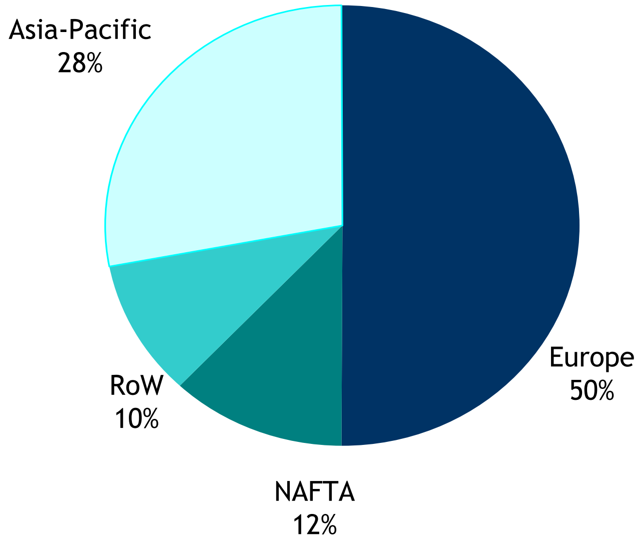




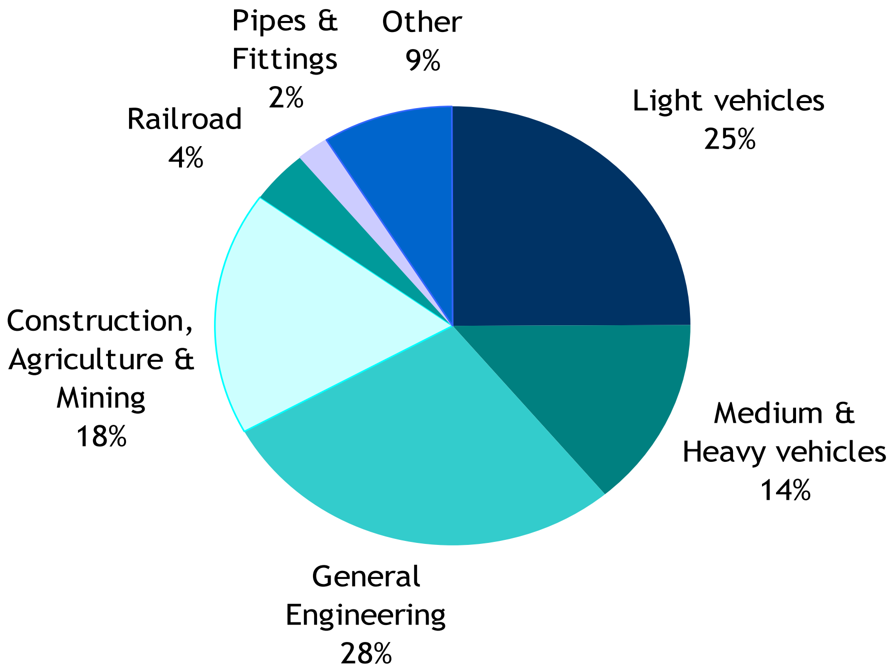

*Source: World Steel Association, 12 October 2009*

# Ceramics – End Markets: Foundry

- We supply consumable ceramic components used in the production of a very wide variety of metal castings. The end use of these castings is estimated as follows:




**2008 Revenue by operating location**




**Estimated revenue by end market**

- Our foundry revenue has fallen more than end markets, again due to supply chain destocking. Timing and speed of recovery is still uncertain but we appear to be past the bottom



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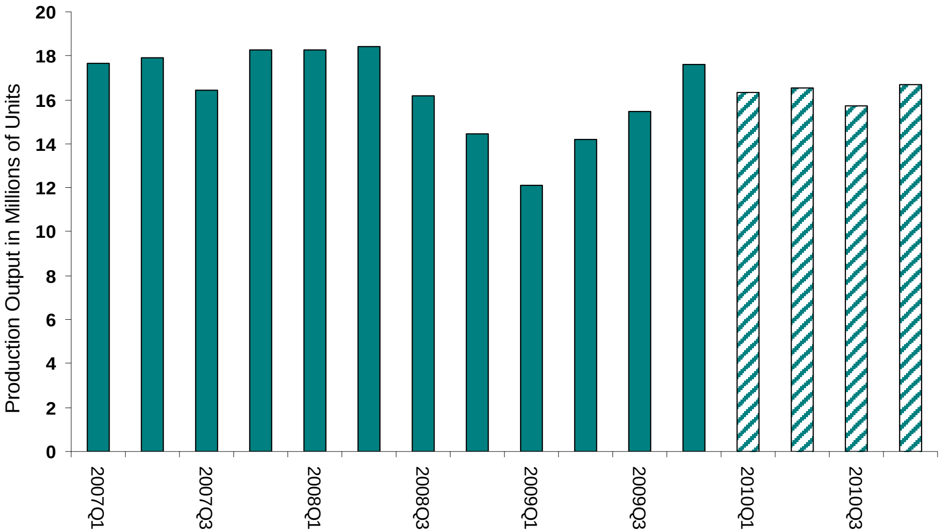
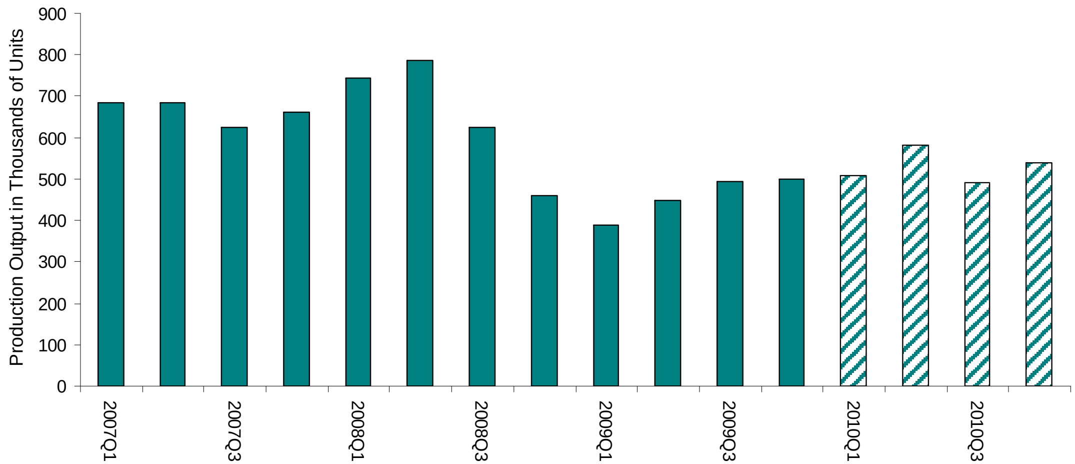
# Ceramics – End Markets: Foundry Castings

## Global light vehicle production forecast




## Global truck production forecast



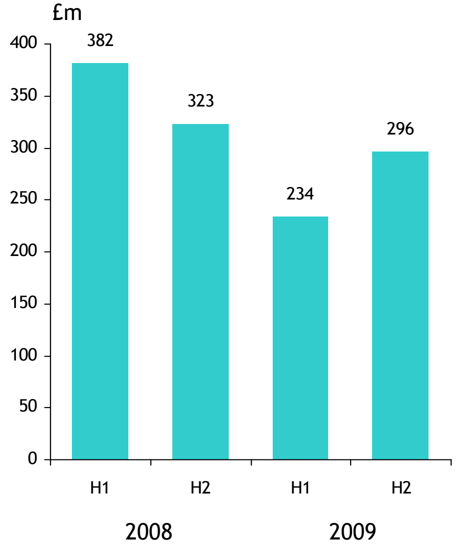

*Source: J.D.Power & Associates; January 2010 Light Vehicle & December 2009 Truck forecasts*

# Electronics

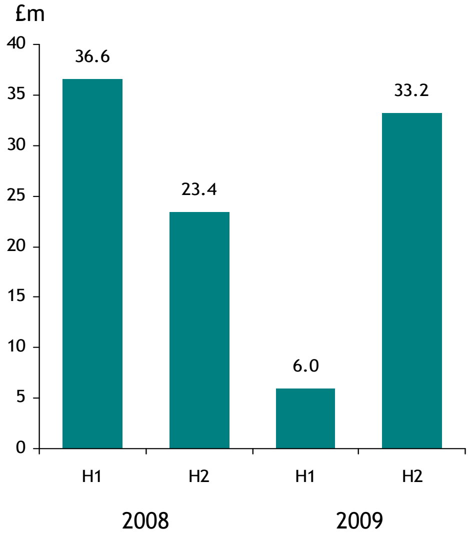
| | FY 2009 Actual | vs FY 2008 As reported | Constant currency | Underlying* |
|---|---|---|---|---|
| Assembly Materials | £308m | -20% | -29% | -22% |
| Chemistry | £222m | -7% | -18% | -18% |
| Total Revenue | £530m | -15% | -25% | -20% |
| Trading Profit | £39.2m | -24% | -35% | |
| Return on Sales | 7.4% | 8.3% | | |

- Pass through of lower tin and silver prices reduced Assembly Materials revenue by approx. £42m
- More profitable sales mix (e.g. innovative solder pastes and semiconductor copper damascene)

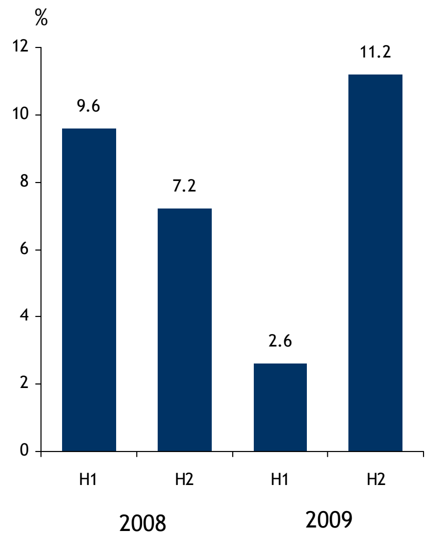
Revenue†




Trading Profit†




Return on Sales†




† *Constant currency*

* *'Underlying' is at constant currency eliminating the impact of commodity metal price variations (tin, silver etc.) and back-to-back equipment sales*



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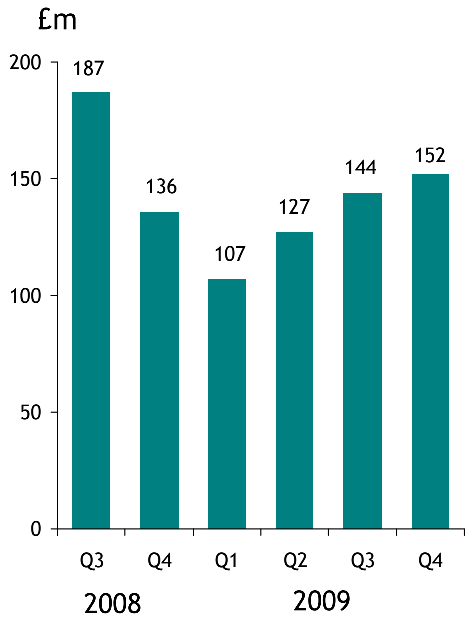
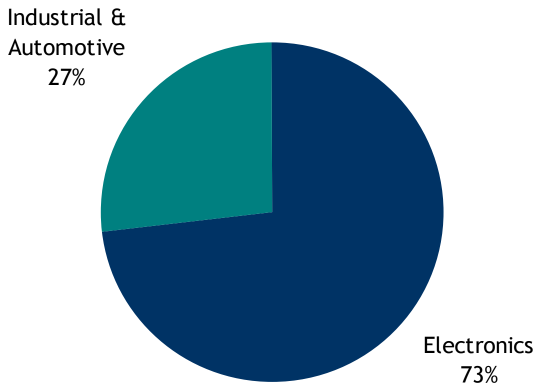
# Electronics

## Revenue (constant currency)




## Revenue by End-Markets (2008)



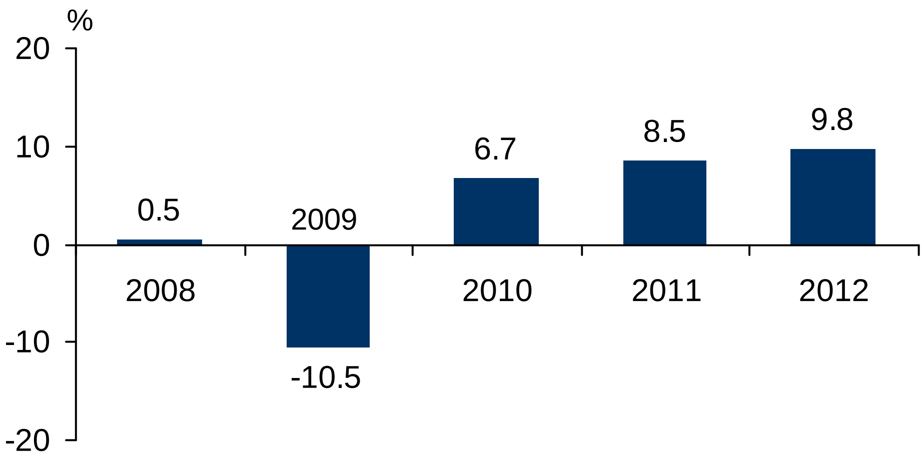

| | FY 09 vs FY 08* | H1 09 vs H1 08* | H2 09 vs H1 09* |
|---|---|---|---|
| Assembly Materials | -22% | -33% | +19% |
| Chemistry | -18% | -31% | +20% |
| Total | -20% | -32% | +19% |

**At constant currency and metals prices and eliminating back-to-back equipment sales*

# Electronics: End-Markets – Growth Rates

**World Production of Electronic Equipment**

*(value growth rates – constant $)*

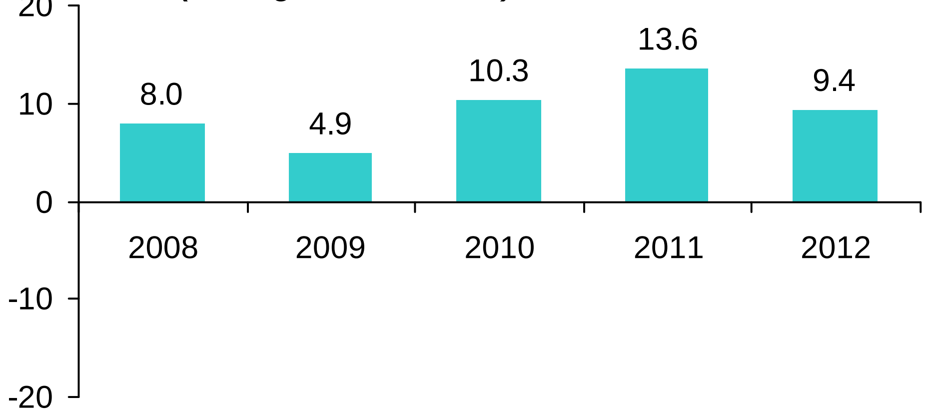



**Global Production of Automotive Electronics**

*(value growth rates – constant $)*

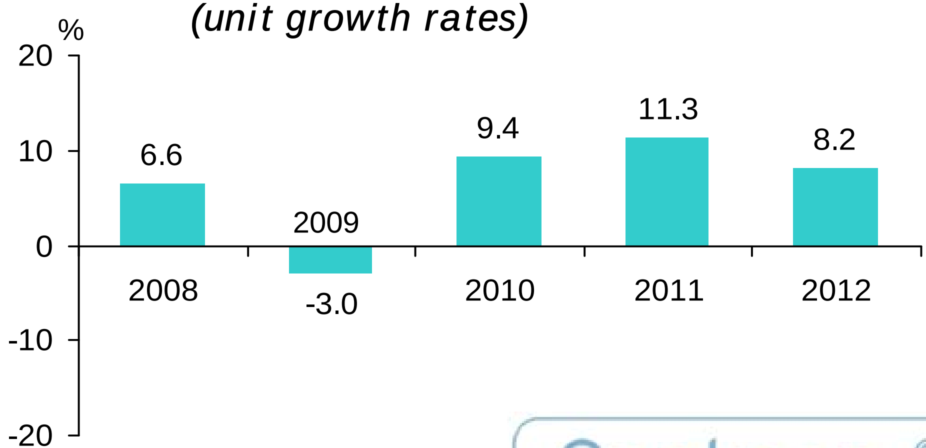

**Global Shipments of Personal Computers**

*(unit growth rates)*




**Global Shipments of Mobile Phones**

*(unit growth rates)*




*Source: Henderson Electronic Market Forecast, February 2010*



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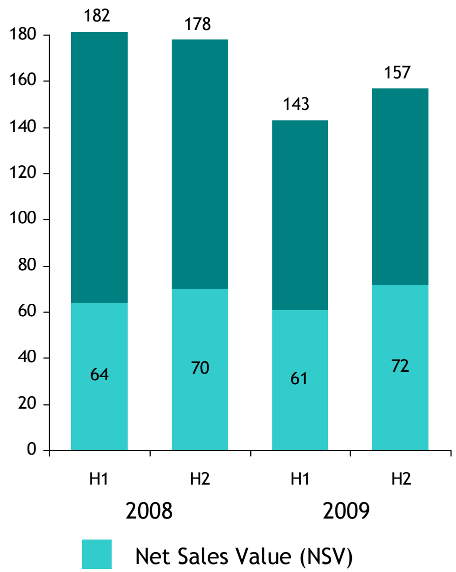
# Precious Metals

| | FY 2009 Actual | vs FY 2008 As reported | vs FY 2008 Constant currency |
|---|---|---|---|
| Revenue | £300m | -6% | -17% |
| Net Sales Value* | £133m | +13% | Unchanged |
| Trading Profit | £8.9m | +98% | +75% |
| Return on NSV | 6.7% | 3.8% | |

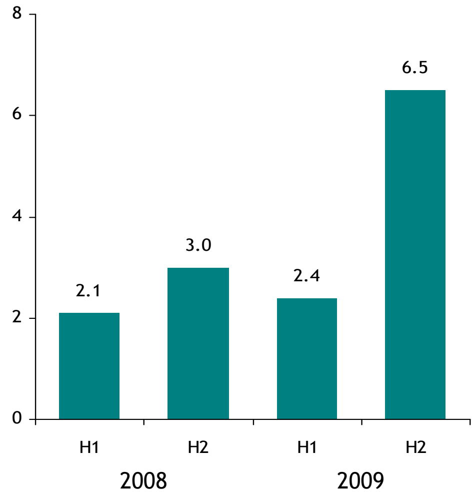
* Net Sales Value is revenue excluding the precious metals content

- NSV unchanged: weaker retail markets offset by strong sales of coin blanks to US Mint and high reclaim activity in Europe
- Improved profitability in both the US and Europe. US restructured in Q1 2009

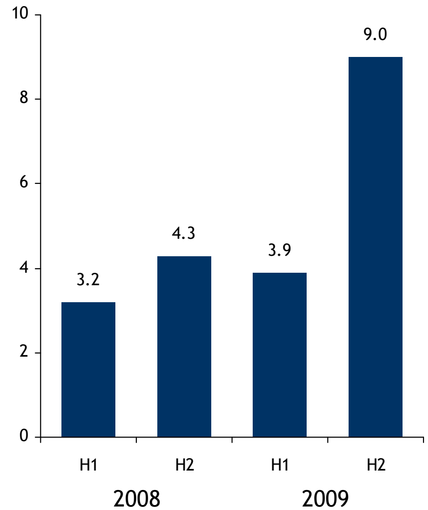
**Revenue†**




**Trading Profit†**




**Return on Net Sales†**




† At constant currency



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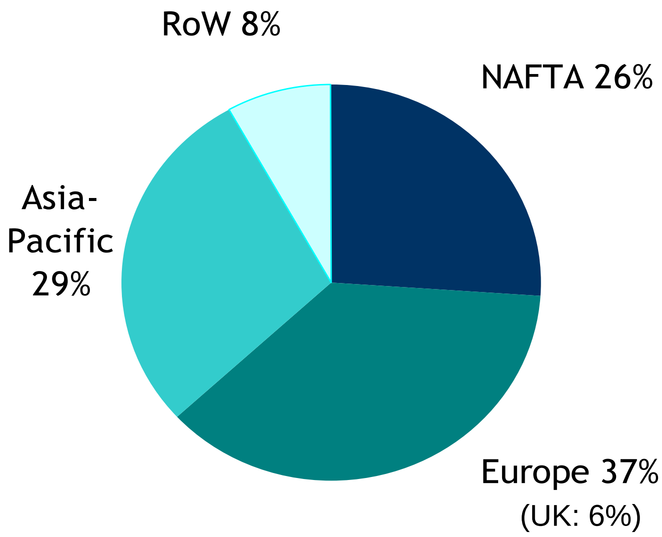
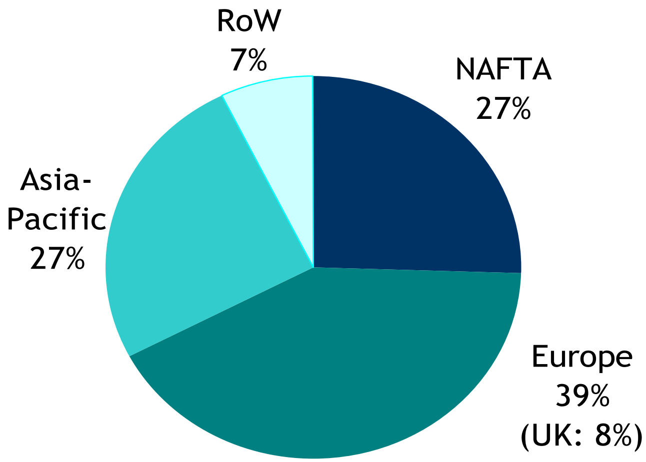
# Global Market Coverage

- Regional split of 2009 Group revenue




**By Customer Location**




**By Operating Location**

Strong, established local presence in all major economic regions



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# Priorities for 2010

- Continued tight control of costs and working capital as activity levels increase
- Investment in further production capacity and people in our fastest growing markets such as China and India
- Continued R&D investment to further expand our portfolio of higher technology products
- Further reduction and de-risking of our post-retirement benefit obligations

# Outlook

- Improvements in steel production and electronics end-markets from H2 2009 continuing so far in 2010
- Whilst outlook for global economic growth is uncertain, we currently expect progressive growth in steel production and electronic end-markets through 2010 but at a slower rate than in H2 2009
- Outlook for foundry castings market still unclear, yet to see evidence of recovery
- Precious metals markets expected to be similar to 2009
- Cost base has been considerably reduced over past 18 months

**Performance should continue to recover significantly as end-markets improve**