



2009 HALF YEAR RESULTS PRESENTATION

NICK SALMON

Good morning and welcome to this presentation of our results for the first 6 months of 2009 which starts with the obligatory disclaimer.

These are the highlights from this morning's press release. The global economic crisis started to affect our end markets and trading early in the fourth quarter of last year and for the first six months of this year we have continued to face very tough trading conditions. Group revenue of £929 million for the first 6 months of 2009 was down by a third on an underlying basis when compared with the same period in 2008.

The good news is that despite this dramatic fall in volumes, all three divisions were profitable at the trading profit level – albeit much below prior year. Overall we are posting a trading profit of £16.5 million for the first half. Having traded just above break even in the first quarter, profits have improved progressively through the second quarter which benefited from the ongoing cost reduction programmes, a progressive pick up in electronic materials markets since March and the first signs of a pick up in ceramics end markets in June.

The key to maintaining profitability has been the rapid implementation of our cost reduction programmes which altogether will reduce our cost base by over £65 million per year and reduce headcount by over 3200, 19%.

Net debt has been reduced by almost £300 million since the start of the year, £241 million of which came from the rights issue launched in January and the balance via a very strong focus on cash management, notwithstanding a £24 million cash outflow in the period for restructuring.

I am pleased to say that we have recently seen some signs of recovery in Ceramics end markets and that the progressively improving trends in electronics end markets since March are continuing into the third quarter.

Here is today's agenda. First Mike will present the details of the financial results and then I will come back with a review of operations covering market trends, trading performance and prospects. Mike...

MIKE BUTTERWORTH

Thanks Nick.

Good morning ladies and gentlemen.

I will now run through the results for the Group as a whole before Nick gives you more detail on the financial performance of each division.

Revenue of £929 million was down 27% at constant currency, but down by one-third on an underlying basis – i.e. at constant currency and metal prices, and as if Foseco had been acquired on 1 January 2008.

This significant decline in revenue resulted in trading profit for the half year of £16.5 million, with virtually all of this profit earned in the second quarter.

The return on sales was 1.8%.

These are the half yearly trends over the last three and a half years. This shows the impact of the downturn starting in the fourth quarter of 2008 and continuing into the first half of 2009, particularly considering that the first half of 2008 numbers include only three months of Foseco's results versus six months in the first half of 2009.

For the first half of 2009, our trading profit decreased from £113 million to just under £17 million with significant reductions in our two largest divisions - Ceramics and Electronics, and marginally higher profitability in Precious Metals but despite the severe reduction in revenue, all three divisions remained profitable in the half year.

Sterling was relatively weaker this year against the majority of currencies in the countries where we do business. Retranslating the H1 2008 results at 2009 rates increases the reported 2008 result by £23 million.

Starting with trading profit we can then move down the Income Statement to arrive at Headline Attributable Loss.

Interest costs have increased by £6 million, primarily due to the impact of a higher level of average gross borrowings between the periods arising from the completion of the acquisition of Foseco mid-way through the first half of 2008. This more than offset the beneficial impact of lower interest rates.

Notwithstanding a pre-tax loss of £3 million, we have recorded a tax charge of just under £10 million. This has arisen due to the geographic split of the Group's trading profit and headline loss before tax in the current depressed trading conditions. For the first half of 2009, the Group made all its profits in tax-paying jurisdictions (such as China and India), whilst incurring losses in jurisdictions (such as the UK and the US) where it is not appropriate to record a tax credit due to the existence of substantial tax losses. The Group's effective tax rate for the full year will similarly be impacted by the geographic split of profit before tax. Whilst this split is currently very difficult to forecast with certainty, given the current market conditions, it is likely that the effective tax rate for full year 2009 will be higher than the 27.5% experienced in full year 2008. However, in the medium term, and assuming that the Group's level of profitability returns closer to the levels experienced in the last few years, an effective tax rate in the high 20 per cents remains achievable.

The Headline Attributable Loss is £14 million, against an attributable profit of £71 million in the prior period.

As required by accounting rules, all historic per share data here has been adjusted to reflect both the impact of the bonus element of the rights issue, and the 10 for 1 share consolidation in May 2009.

Headline Loss per Share is 6.2 pence versus earnings per share of just over 50 pence in the first half of 2008. The 63 per cent increase in the average number of shares principally reflects the rights issue of 255 million shares in March 2009.

As we announced at the time of the 2008 preliminary results in March, dividend payments have been suspended until we can see a clear recovery in our end-markets and trading performance and in the context of the Group's cash requirements at that time.

Now the exceptional items that have been excluded from the headline results, the majority of which reflect the management actions taken in response to the economic downturn.

Restructuring and integration charges of £66 million include £4 million in respect of the completion of the integration of Foseco and £46 million in respect of the three Phases of the cost-reduction initiatives which Nick will be detailing later in his presentation.

Phases I and II are now substantially complete but further costs associated with the completion of Phase III by the end of the year is expected to result a total for full year 2009 of £70 million for cash-related restructuring and integration charges.

Of the total restructuring charge of £66 million, £44 million relates to items - principally redundancies where there will be a fairly immediate cash cost and £22 million to a number of provisions for onerous property lease obligations where the cash outflow will be spread over the remaining years of the related leases.

An explanation of the £16 million charge for the Onerous Lease Provision relating to the Electronics divisions UK operations, and the £14 million in respect of the Interest rate Swap Close-out was given in the Interim Management Statement on 15 May.

Amortisation of intangibles of £8 million is a non-cash item arising from the recognition of intangible assets on the acquisition of Foseco.

Turning to cash flows.

As you will recall, the Group normally has a high degree of cyclical cash flows, which typically results in much weaker cash generation in the first half of the year as is illustrated on the left hand chart.

For the first half of 2009 - and notwithstanding the much lower profitability - cash generation has been very strong with positive free cash flow of £84 million, £78 million better than the first half of 2008.

The right hand chart illustrates the annualised free cash flow for the last five half year reporting end dates. Again this illustrates the strong cash generation in the last twelve months and the inherent cash generative nature of the Group.

Now let's look at Net cash Flow from Operating Activities. This is reconciled to Free Cash Flow on a later slide.

EBITDA decreased by £91 million to £44 million.

The cash outflow relating to restructuring and integration was £24 million. A cash outflow of around £50 million is expected for full year 2009.

The cash inflow in respect of working capital was £121 million, £185 million better than first half of 2008. Of this inflow, £113 million related to trade working capital and this is explained in more detail in the next slide.

The additional pension contributions of £10 million are also discussed in a later slide.

After deducting interest and tax, net cash inflow from operating activities was £87 million, £70 million better than the first half of 2008.

All of our businesses achieved a strong reduction in trade working capital due to the significantly reduced level of trading activity and continued management focus on cash generation. For the Group as a whole, both inventory and trade receivables were each reduced by just over £70 million over the last six months.

The Ceramics division delivered an £80 million reduction in trade working capital, which included a £34 million reduction in raw material inventories which had been built up in the second half of 2008.

The trade working capital to sales percentages for the first half of 2009 - as shown in the bottom left hand box - are broadly consistent between periods demonstrating that we have been able to successfully adjust our trade working capital in line with the lower levels of trading activity.

Moving now to Free Cash Flow.

Capital expenditure was £13 million, £12 million down on the first half of 2008, reflecting the suspension of all capacity expansion projects until there is clear evidence of market recovery.

A cash outflow for capital expenditure of around £25 million is expected in full year 2009.

This slide reconciles free cash flow to the decrease in net debt.

Net proceeds from the rights issue of £241 million were received in March 2009. The rights issue resulted in the issue of 255 million new shares at an issue price of 100 pence - both figures restated

for the subsequent share consolidation in May 2009 - with the shares being issued on the basis of 12 new shares for every 1 existing share.

As announced at the time of the preliminary results in March 2009, it has been agreed with the UK pension trustee to suspend "top-up" payments to the UK Plan from January 2009 until July 2010, or until such earlier time as the Group announces that it is to recommence payment of dividends to shareholders. A new triennial funding valuation for the UK Plan as at the end of 2009 is expected in mid-2010, based upon which a new schedule of contributions will commence in July 2010.

The 'Other' additional pension contribution relates to a "one-off" payment in respect of a US-based plan.

A cash outflow of £43 million arose on the settlement of forward foreign exchange contracts. These contracts were closed out at the beginning of the year to leave the currency profile of our borrowings now almost wholly in sterling.

With a £21 million positive impact from currency translation, net debt reduced by just under £300 million to end the half-year at £438 million.

Debt maturities and covenants.

This slide is similar to the one we presented at the time of the preliminary results, and shows the maturity profile of our total committed debt facilities (both the syndicated bank facility and the US private placement loan notes) as indicated by the red line, along with the timing of the individual debt maturities which are shown as a bar chart. On the left hand side we have also indicated the level of net debt as at 30 June 2009 which stood at £438 million.

We have substantial liquidity headroom which has been enhanced by the recent rights issue and the strong cash generation over the last 12 months. Our principal maturities are in 2011 and 2012 and we have more than adequate headroom to deal with the £106 million of maturities arising over the next 12 months.

For forecasting purposes, you should note that our average interest rate on gross borrowings (excluding pension interest) for the remainder of 2009 is expected to be around [6] per cent, with [50] per cent of our borrowings currently at fixed rates.

This slides details how the various elements of the two financial covenants contained in our syndicated bank facility - net debt to EBITDA and interest cover - come together.

I think the mechanics of our covenants are now well understood but we have included an explanatory slide in the Appendix.

As at 30 June 2009 we were in full compliance with both covenants. The net debt to EBITDA ratio at 30 June 2009 was 2.6 times, comfortably within the covenant requirement of not more than 3.5 times.

The interest cover ratio was 4.5 times versus a covenant requirement of not less than 4 times.

Moving to the next covenant testing date at 31 December 2009. We currently expect - based on our current forecasts for both year-end net debt and the full year charge for interest on borrowings - that both of the financial covenants would "bite" at around the same level of earnings. Our current forecasts, which assume some continuing recovery in our end-markets going forward, indicate that we will continue to be in compliance with our financial covenants for the foreseeable future. However, in the event that the improvement in our end-markets does not happen to the extent or as quickly as we currently anticipate, and this puts the covenants under pressure, then we are confident that we will be able to renegotiate the terms of our bank facilities in order to avoid a covenant breach, albeit at potentially significant additional cost.

Finally, the employee benefit deficit

This slide rolls forward the Group's employee benefit deficit from the beginning of the year. Overall the deficit increased by £37 million. At the preliminary results presentation in March 2009, we

highlighted that the recent abnormally high level of credit spreads - one of the components of the discount rate used to value pension liabilities as required by the accounting rules - was flattering pension deficits for UK corporates. During the first half of 2009, the level of credit spreads in the UK has eased and this accounts for the largest element of the negative movement in the employee benefit deficit.

I will now hand you back to Nick.

NICK SALMON

Thank you Mike. For each of the Divisions I will now try to give some insight into end market trends and then discuss the Division's results and short term prospects in this context.

Firstly Ceramics division. Here you see on the left the split of revenue by product line and on the right by end market. The figures are based on full year 2008 to show a relatively normal situation. The steel production end market accounts for 100% of Flow Control sales and about 75% of Linings sales and thus represents about 55% of total divisional sales. Foundry activity is based upon the Foseco acquisition and represents about one-third of the division's sales.

The most important end market for the Ceramics division and for the Group as a whole is global steel production and I will devote the next few slides to this market. On the left here you see steel production by year from 1981 to 2008 divided between China (in light blue) and the world excluding China (in dark blue). On the right you see the year on year % change rates for the total world, including China (in grey), China on its own and the world excluding China, including the % changes over the first half of 2009.

Clearly global production growth over the past decade has been driven by China as the country modernises, a process which still has a long way to go. The trends outside China have been relatively stable over the past 30 years with a close correlation to GDP trends, that is until the last 9 months when, in the face of the economic crisis the steel industry has undergone a radical de-stocking phase.

While China now represents some 40% to 50% of global steel production, it represents less than 10% of our steel related sales. In Flow control China represents a little below 20% of total sales ; a relatively low market share due to the fact that the majority of steel production in China is not yet based on enclosed continuous casting technology which uses Flow Control products. Our addressable market will grow as the steel industry in China continues to modernise and increasingly adopt enclosed continuous casting. In the Linings product line there is almost no revenue arising in China as yet as we have only recently started to address this market. However Linings sales are set to grow significantly over the coming years based on the recently formed JV with Anshan steel which will start production later this year.

It is worth noting that the strong improvement in the Ceramics division's performance over the past 5 years while partly related to growth in China was mainly due to efficiency improvements and market share gains outside China.

Looking more closely at the last 2.5 years by quarters, you can see fairly stable growth trends up to and including Q3 2008 and then a sudden crash in Q4. China recovered remarkably quickly in Q1 2009 but the rest of the world excluding China remained down some 38% in Q1 2009 and 33% in Q2. It is these "world excluding China" trends which are most significant for Cookson given as I just explained over 90% of our steel related sales are outside China.

And looking at the monthly trends over the past year you can see that the market bottomed in December, China then recovered but the world excluding China stayed down with very limited growth until June when the first real signs of a pick up emerged.

Global steel production was down over 20% year on year for every month from December to May inclusive, as the table at the bottom of this slide shows, but for June production was down much less at minus 16%. June's figures show an improving trend in each major steel producing region.

This shows the weekly steel production data for the USA over the past 4.5 years right up to 25 July. Steel production fell by over 50% over the last quarter of 2008 and stayed down until May. It was a similar picture in Europe and indeed most regions except China and India. Since May there has been a progressive recovery of US production as the de-stocking phase appears to be over. While production is still at a low level it is now up by over 20% from the levels of the previous 6 months. The \$64 million question is "is this a sustainable trend driven by underlying demand or is it a short term re-stocking which may peter out? This is not just a question for the US but more generally. There is currently a fairly wide divergence of views on this question by industry participants and analysts. I think pretty well everyone expects 2010 to show significant growth over 2009 but views vary considerably on the scale and timing of recovery through the second half of 2009 itself. Trends we are seeing through July and into August seem encouraging but we do not have visibility beyond this at this stage.

Now turning to Ceramics other main end market, Foundry. Under the Foseco brand, we are the world leading supplier of consumable ceramics used in the production of metal castings. Those castings end up in a very wide variety of engineered products as illustrated in the right hand pie chart. The biggest end market is automotive – cars and trucks which combined represent some 40%. On the left you see the geographic distribution of our sales. The main geographic markets are Europe, Asia, Brazil and North America.

These are the J D Power statistics for car and light truck production over the past year. The August 2008 dip was normal seasonality. A collapse from October onwards is evident and production dropped by over 40% in Q1, then picked up through the second quarter but is still down some 20%. Our foundry business sales have lagged these auto production trends, starting to fall slightly later in Q4 but continuing to fall in the second quarter this year such that our Q2 sales were some 13% lower than Q1's.

We believe this lag reflects the destocking of the overall production supply chain. The downturn in our Foundry sales started a couple of months later than the fall off in our steel related product lines and we expect this market to also recover more slowly than for steel. Again there is currently quite a wide divergence of views on the speed and timing of the recovery in auto production through the second half of 2009.

The ceramic's division's revenue by product line is shown in the top left here. Steel flow control was down 38% on an underlying basis, broadly in line with the steel market trends outside China. Linings was less affected by the downturn in the steel markets as around one quarter of its sales are to other industrial process markets. Also Linings has a maintenance and installation project workload and entered the period with a backlog which it has been working down. Foundry sales were down 42% for the half year with the second quarter weaker than the first, as I just explained. Fused Silica was also down markedly reflecting weakness in its two principle end markets of glass manufacture and solar panel production.

Hence, Ceramics total revenue for the half of £543 million was down 35% on an underlying basis. The trading profit of £11.4m was largely earned in Q2 with the cost reduction measures coming through and with some pick up in steel activities in June.

In looking at the half year trends in reported results shown at the bottom of the slide, bear in mind that H1 2008 includes only 3 months of Foseco trading versus 6 months in H1 2009. Hence the revenue decline this year was actually more pronounced than it appears here.

It is probably more relevant to look at the quarterly trends over the past year at constant currency. The market decline started in Q4 and revenues continued to fall through Q1 and Q2. In Q2 Flow control sales rose over Q1 levels but this was more than offset by reductions in the other product lines, notably foundry.

The pick up in profitability in Q2 was mainly due to the increasing benefits of the cost reduction programmes and the pick up in Flow Control sales in June.

Now the Electronics division, with the left hand pie showing the split of sales between the two product lines and on the right the split of sales by end market. Almost three quarters of the sales are generic consumable materials, mainly electro-plating chemicals and all forms of solders, used to produce semiconductors and assemble them on printed circuit boards for use in all types of electronic products. And a little over a quarter of the sales relate to automotive and industrial markets – mainly in Europe and North America.

On the left here you see data on semiconductor shipments, showing a dramatic drop in Q4 and more so in Q1, as the supply chain rapidly de-stocked, and then a sharp recovery in Q2. Intel commented last month that they had experienced a record QoQ pick up in Q2 of 2009. The forecast here by Prismark Partners indicates that by Q4 of 2009 the market should be above the Q4 2008 level.

Semiconductor trends serve as a lead indicator for printed circuit board production, and hence solder consumption, and in turn for finished products, such as mobile phones shown on the right.

In these difficult markets, underlying revenue was down 34% in Assembly Materials where the pass through of lower tin and silver prices reduced revenue by some £29 million. Chemistry's underlying revenue was down 32% and hence for the division overall underlying revenue was down 33%. Again we made a small trading profit.

Rather than dwell on the half year, as reported, trends shown at the bottom of the slide let's turn to the quarterly trends at constant currency.

With very low volumes in Q1 we were just below break even and profitability improved progressively through the second quarter as revenue picked up based on electronic materials sales in Asia and as more cost reduction benefits dropped to the bottom line. The auto and industrial markets, however remained flat.

Lastly Precious Metals; Retail jewellery markets have been very weak in our main markets in the US and Europe. This has been partly offset by high levels of precious metal reclaim business in Europe, particularly in Spain, as people are cashing in their jewellery at the current high gold price. Also in the US we have benefited from a high level of demand from the US mint for gold and silver coin blanks. Overall net sales value at constant currency was down 6%. Europe was more profitable than in H1 2008, benefiting from our prior year restructuring initiatives and the high level of reclaim business. The US was loss making in Q1 but we have now reduced the headcount by over 20% and the business returned to profitability in Q2.

We would expect profits to improve slightly in the second half given normal seasonality and the turnaround achieved in the US business in Q2.

The top part of this slide re-caps the previously announce cost reduction programmes – Phases 1,2&3 and the completion of Foseco integration. All three divisions have made significant headcount reductions in both production capacity and overhead structures, with the cuts being mainly in Western Europe and the US. Also many production sites have been on short-time working and discretionary spending in areas such as travel and expenses has been suppressed. All of the programmes are proceeding as planned. Altogether they should reduce our cost base by some £68 million per year compared with the Q3 2008 cost base level.

The bottom part of this slide shows the expected phasing of these cost reductions coming through. The first half 2009 results benefited by some £16 million, largely from Phase 1 and Foseco Integration. Phase 2, involving the closure of 6 factories and a further overhead reduction programme, was substantially completed by the end of Q2. The second half of 2009 should see about £31 million in cost savings, an incremental benefit over the first half of some £15 million, basically due to Phase 2 and part of Phase 3 which will be substantially completed by the end of H2. 2010 will see the full benefits of 34 million per half , 68 million for the year.

At the very bottom you see the headcount reductions, achieved and planned. Overall the headcount will fall by over 3,200 by December 2009 – a 19% reduction.

A quick comment on raw materials and pricing pressures.

Prices of our main raw materials, such as bauxite and magnesite, have been coming down since the middle of 2008, but so far we have not benefited significantly from this as we have been working off excess inventory levels, particularly in Ceramics and not buying raw materials in any bulk. However now our inventory levels are where they should be and we are again re-ordering and should benefit accordingly.

The next point is that despite the low level of revenue through H1, the margin over materials, that is to say revenue less raw material costs as a percentage of revenue, has been maintained across the board, demonstrating that pricing discipline has been maintained.

For the second half, we do expect some pricing pressures but also expect to offset these by savings in raw materials and hence continue to maintain margins.

Lastly the outlook

As you have seen, Ceramics end markets remained weak throughout H1 but we have recently seen some signs of a pick up in steel production. Electronic materials markets have been picking up since March and this trend continues. Precious metals profitability should improve in H2 with normal seasonality.

Having said that, visibility remains very limited and it is difficult to predict the timing and extent of recovery in the global economy and our end markets.

However we continue to expect a progressive improvement in our performance in H2 as further cost reduction benefits materialise and as sales volumes improve.

Our reduced cost base and high operational gearing should ensure performance picks up strongly as and when end markets improve.

QUESTIONS & ANSWERS

Mark Troman - *BAS-ML - Analyst*

Good morning, Nick, and Mike. It's Mark Troman from Bank of America Merrill Lynch. Nick, I wonder if you could give an idea of how trading progressed through Q2 in each of the divisions and what sort of run rate, I guess, you'll exit in Q2, as you move into the second half as, obviously, we try and predict what numbers could be achieved for the full-year. Thank you.

NICK SALMON

Well, we have given quarterly data, which is not our normal practice but realizing that that's a key question. I think the way to answer your question is to say almost half of the trading profit was made in June.

Mark Troman - *BAS-ML - Analyst*

Thanks very much. And just a follow-up, working capital very strong in the first half, clearly, to what extent can you -- obviously, if there's a volume recovery I guess you wouldn't expect the same sort of performance H2, but if you could comment to what extent you could squeeze working capital in H2.

NICK SALMON

Mike, do you want to --?

MIKE BUTTERWORTH

It's always a very difficult number to forecast, and I guess a number of trends. One is that we're hoping revenues will start to grow, particularly in Q4, and that will, obviously, typically absorb working capital. On the other hand, there is continued management attention on squeezing working capital further.

So, in terms of giving guidance, and I stress how difficult it is to give accurate forecasts for working capital, I would expect and hope working capital will be no worse than flat in the second half of the year. So, strong inflow in the first half; flat in the second half as the continuous focus on working capital offsets the impact of the growth in revenues. But I hope to be wrong and we actually generate a bit more cash. But flat, I think, is the best position to take.

Mark Troman - *BAS-ML - Analyst*

Thanks.

Andrew Carter - *Macquarie - Analyst*

Yes, thank you. It's Andrew from Macquarie. Just perhaps more on the interest charge in the second half, given what's been going on with Treasury and various things like that, should we be expecting the interest to be pretty similar in the second half to what it was in the first? Or does it go down with the lower debt level?

MIKE BUTTERWORTH

I think the guidance for the full-year, if you just exclude pension interest, will probably be a couple of million lower than I was guiding maybe one or two months ago because of the better cash generation.

So, the guidance would be for interest on borrowings, which is the key number that goes into the covenants of around GBP36 million for the full-year, and previously I was probably indicating around GBP38 million. And then you've got to add in pension interest on top of that, which is between GBP5 million and GBP6 million for the full-year.

Andrew Carter - Macquarie - Analyst

And I guess one business that you haven't talked about, but I assume is very difficult in the first half, was the Solar business. Can you give us an update on what's going on there?

NICK SALMON

We did put a slide in the appendix, slide 41, just to show -- the solar industry got ahead of itself in the second half of 2008 in that there was a lot of inventory overbuild in solar panels, particularly in China, in anticipation of continued strong demand. But with the cutback in subsidies, and in particular in Spain, demand has been, if anything, slightly lower in the first half of 2009 and we've been seeing a working-off of inventories. And you can see from this forecast here that it's showing demand in 2009, overall, being slightly lower than 2008, but then recovering into 2010.

So, we saw low -- in fact, the similar picture in Fused Silica to steel, that it was pretty flat for five months but in June it started to recover again. And we are hopeful that will be a growing trend through the second half as we're through the destocking.

Stephen Swanton - UBS - Analyst

Morning. It's Stephen Swanton from UBS. Just on your closing comment on pricing pressure, can you give us a bit more color on where you're seeing that and what's driving that pricing pressure?

NICK SALMON

It's not so much that we're seeing it, as we're anticipating it. We expect that now there is a bit of new business to chase after that that will put the purchasers back with a bit more purchasing power. So, we're not yet seeing it but we expect it to happen, but not to major extent. So, we're talking a few percent, which we will be able to cover by the more significant reductions in our raw material costs.

Stephen Swanton - UBS - Analyst

And that's both in Ceramics and Electronics?

NICK SALMON

More so in Ceramics.

Stephen Swanton - UBS - Analyst

And also, just on the Foundry business, I guess much depends on vehicle production, how that recovers and the impact on that business. But would you expect Q3 to be weaker than Q2, given customer plant shutdowns and so on over the summer?

NICK SALMON

Given that, you saw from the other side, Europe is 50% of our market in Foundry, I think we do normally see a weaker third quarter due to the holiday season and then coming back September/October time.

Stephen Swanton - UBS - Analyst

And would Foundry be profitable in Q3 or loss-making?

NICK SALMON

Profitable.

Stephen Swanton - UBS - Analyst

Thank you.

NICK SALMON

It was profitable in Q2, but not a lot.

Peter Reilly - Deutsche Bank - Analyst

Good morning. It's Peter Reilly from Deutsche Bank. You've taken out 19% of your workforce, I presume mainly in the high cost countries, and you've also spent a lot in the last few years in terms of expanding capacity in low cost countries. What happens, going forward, when demand recovers? Can you keep the cost base where it is currently? Or will you have to start re-employing people and increasing the cost base?

NICK SALMON

Firstly, I think our expectation is that -- if we take steel production as an example, Western Europe and US will probably never recover to the first half 2008 levels, whereas the growth will come in Asia Pacific, which is why all of our factory closures, permanent closures, have been in Western Europe and North America.

In terms of the short-time working and shift lay-offs, yes, there will be some re-manning of existing facilities as demand picks up. But not -- the bulk of the cost savings, I think, will stick, even as we re-man, because a lot of the costs have actually come out of overheads rather than production.

Peter Reilly - Deutsche Bank - Analyst

And secondly, looking at the Ceramics business, can you give us a feel for the operational gearing inside the different components of Ceramics. I get the impression that Flow Control got much higher operational gearing giving you -- I mean Foundry had a poor second quarter but was still profitable and your profits started to pick up towards the end of the second quarter. So is the key dynamic Flow Control rather than Foundry?

NICK SALMON

In terms of margins Flow Control, which is highly specialist production product where we have over half of the world market and other clear technology leads, is also not surprisingly our most profitable product line in normal times.

And so getting that business back to a more normal level of activity and getting the higher profit generation from that is the key turnaround for the Group.

Harry Philips - Evolution - Analyst

It's Harry Philips at Evolution, several questions please.

Just in terms of your total capacity now and what it will end up being compared to say end of the first half 2008, how much structural capacity have you removed from Cookson Plc if you like?

Secondly, in terms of cost savings, the slide you put up Nick, on page 35, just to make absolutely clear, we have GBP47 million of savings by the end of the current year and should I add GBP47 million and GBP68 million or is GBP68 million the total?

NICK SALMON

What I've tried to show on slide 35 is the run rates by half, so the GBP47 million is the sum of GBP16 million and GBP31 million and then the run rate gets up from GBP31 million to GBP34 million per half and the GBP68 million is the increment over GBP47 million.

Harry Philips - Evolution - Analyst

So the cash then generates savings of GBP68 million by second half 2010. Yes, fantastic.

And then just in terms of working capital, it is an incredibly strong performance in working capital and obviously raw materials moving about in there as well. In terms of any volume pick-up, you would hope to hold your working capital ratios with that volume so that would just be a normal mechanical or mathematical process if you like, in terms of our assumptions. We shouldn't---

MIKE BUTTERWORTH

I would hope there's probably a little bit more we can squeeze out of working capital such that we can offset that increase.

One of the wild cards is commodity prices, particularly the price of tin affecting the Assembly Materials business. We've seen the price of tin go from \$21,000 per ton at the back end of 2008 down to as low as \$12,000 per ton and it's now around \$14,000. That's just one thing that's out of our control that can affect working capital.

But I would hope that as revenues pick up we can offset that negative in the capital working budgets, working a bit harder on working capital.

NICK SALMON

But as a percentage we would hope to improve, as I say, reduce the percentage working capital sales as sales pick up. It's more difficult controlling it as your sales are falling than when they're rising.

Harry Philips - Evolution - Analyst

And sorry, just coming back to the capacity issue, how much capacity do you think you have, structurally rather than just put on, sort of mothballed or short time working?

NICK SALMON

Structurally very little, but the reason for that is -- as I think you know our factories are not particularly capital intensive and we don't run them 24/7 even in busy times. So the optimum economic productivity is typically running five days a week, two shifts, some activity on three shifts. Whereas we're now down in most parts of the world, certainly in Western Europe and North America we've been on four day working.

So as markets recover we will be able to improve capacity utilization by working our -- and it's our more modern assets that we've kept and the older, less efficient assets that have been closed. But I don't there's very much, if any, structural reduction in our capacity.

Harry Philips - Evolution - Analyst

And then maybe developing Peter's question, when -- how much -- is it just bringing people off short-time working, boost up manning levels to match demand?

NICK SALMON

That's the first step. You may also remember that particularly in Western Europe, and particularly in Western Europe in Ceramics, we were running with 10% temporaries in 2008 because -- just so that we can respond quickly in countries where restructuring is statutorily a slow process. So the next step would be to take on temporary work until we are clear as to where the medium-term trends are going and then there will be some re-manning.

Harry Philips - Evolution - Analyst

And then just very finally on, Mike on the covenants slide, you made a comment which I didn't catch. It was to slide--

MIKE BUTTERWORTH

18?

Harry Philips - Evolution - Analyst

It wasn't the detailed one it was the -- it wasn't so much 18 but you just made -- yes it was 18, sorry. You made a comment about currently expecting and I didn't catch --?

MIKE BUTTERWORTH

Sorry, I think it was the observation that based on the guidance or our expectations for the interest costs for the full year and assuming debt remains at -- the year-end level is broadly in line with the half-year position, then just the observation that both covenants, the net debt to EBITDA and the interest cover covenant coincidentally bite at around the same time, so --

NICK SALMON

The same level as earnings.

MIKE BUTTERWORTH

The same level as earnings. That was just that observation, because people -- in the past we've been focusing more on net debt to EBITDA and then we reminded people that the interest cover also is also out there. And they're actually both, as I say, coincidentally biting at around the same time, assuming that the guidance on net debt and interest is correct.

NICK SALMON

And the importance of that is that some people have been speculating that we would undertake another rights issue. Which we won't because that doesn't do anything to help the interest cover on a trading 12 month basis.

Harry Philips - Evolution - Analyst

Thank you very much indeed.

Oliver Wynne-James – Panmure Gordon - Analyst

Good morning, Oliver Wynne-James at Panmure could you give us a margin bridge of why the margin jumped in June, how you can account for that? And is that sustainable in Q3 and Q4 because you need that level of margin in order to avoid an interest cover breach?

NICK SALMON

It's the impact of the cost reductions coming through, together with the pick-up in Flow Control in June and the progressive pick-up in Electronics through April, May, June.

Oliver Wynne-James – Panmure Gordon - Analyst

(Inaudible question - microphone inaccessible)

NICK SALMON

Provided sales levels stay where they are, it will improve. If there was no change in our revenue from June onwards, we'd get the roughly GBP8 million a month plus GBP15 million of additional cost savings which we flagged.

And then we are actually seeing a continued pick-up through July and August in steel production in Flow Control. And hence, as Mike said, we do expect to generate sufficient EBIT, provided those modest improvements in end-markets continue, to avoid any covenant issues at the year-end.

Andy Chambers – MF Global - Analyst

Sorry Nick, just following on from your last point there, clearly you're seeing mills being turned back on around the globe. We've moved up from about 45% capacity utilization in the US steel industry to 55% so far. What do those mills that you, or the plans that you've seen indicate capacity should be running at come September, capacity utilization?

NICK SALMON

Anna, could you flip to the US steel slide which is 25? I haven't got a pointer so I'll point. The end of June was about there you know and even through July, taking the American Iron and Steel Institute, the trend has continued. Capacity utilization or you can see production is around, is now just above half its historic average of about 2.1 million tons a week, we're now operating at 1.2 million tons a week.

Our expectation is that capacity utilization will get up to about 65% by the fourth quarter, but as I say we don't have any visibility beyond, really, the third quarter. That's clearly the risk which we're saying. If there is a -- if this restocking, if this is just a restocking and there isn't the underlying demand to keep that sucking through, but we believe there is, there's always the risk it will go backwards again.

But expectation is for a continuing trend as we go into the third quarter and fourth quarter.

MIKE BUTTERWORTH

Clearly steel mills are very capital intensive facilities so you don't turn them on or turn them off lightly. Therefore you hope that the mills that are getting turned back on again, the expectation is they remain open, but we shall see.

NICK SALMON

But it's not just the US, Mittal in Europe has announced the restart of mills in Belgium, France, Italy. Corus announced last week that they were delaying the shutdown of Teesside and they're keeping it full of molten steel because they've got work for it. So there is a flow of news around now that suggests that, after six months when there really wasn't anything to hang your hat on, that there is now a trend.

Harry Philips - Evolution - Analyst

It's Harry Philips again. Just the difference in the sales performance number by the Linings business and Flow Controls, and you mentioned obviously you've got maintenance business and some project work. If you stripped that out, is Linings down with the market or how much of a variable is it to the market?

NICK SALMON

So the Linings was down 25% as you saw and a quarter of Linings activities is not related to the steel industry. It's general process industries like power generation, cement, waste to energy. But that part of the business has at least so far been less affected. But again because we have projects, the backlog has actually shrunk over -- so in Linings Q2 sales were marginally lower than Q1. And so we would expect the Linings to recover more slowly also.

I think it's a pure coincidence but RHI announced their results this morning and their sales were down 25% and they're basically a Linings business.

MIKE BUTTERWORTH

Bear in mind, as you know, historically our margins in Linings are the lowest of the four product groups so as Nick said earlier it's really Flow Control that will, and to a lesser extent Foundry, that will move the needle rather than Linings.

NICK SALMON

Any more questions? In which case -- no more questions, thank you all for your interest on a busy day.