Cookson

9 March 2009

Transcript

2008 RESULTS PRESENTATION

Nick Salmon – Chief Executive

Good morning and welcome to this presentation of Cookson's results for the financial year ended 31 December 2008. Much of this will be "old news" as it comes so shortly after our presentation on 29 January when we announced our rights issue and gave both a 2008 profit estimate and an outlook statement.

The disclaimer.

The audited results we are presenting today have come in slightly ahead of the estimate we gave on 29 January, as you can see here - and they show a significant improvement over 2007 despite the weak fourth quarter. Trading profit of £216 million is up 28% as reported and Earnings per Share are up 9%. Net debt at 31 December was £732 million, as previously estimated.

The actions we announced in January to reduce our annual cost base by £40 million and to conserve cash are proceeding as planned.
The rights issue has been successfully completed with net proceeds of £241 million, reducing our debt by an equivalent amount.
Weak trading conditions have continued so far in the first quarter of 2009, as predicted.

Here is today's agenda and I will start with the Divisional Review.

Now the Ceramics Division, including Foseco post acquisition.
Due to the addition of Foseco, revenue of £1,264 million and trading profit of £167.7 million were significantly up on the prior year both as reported and at constant currency. The return on sales margin declined to 13.3% for the year due to the marked downturn in end markets in the fourth quarter. Excluding the contribution from Foseco and on a constant currency basis, 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 due to the fourth quarter performance.

The reported results consolidate Foseco for the last nine months of 2008. Here we show Foseco on a stand alone basis but this is the last time we will be able to do so.
The top group of figures shows Foseco's 2007 full year results, firstly as reported, then the eliminations which comprise the revenue and trading loss of the CBC business which we had to sell to clear anti-trust approvals, together with the cost of the former plc headquarters, which was promptly closed on acquisition. Subtracting the eliminations

from the as reported we get the pro-forma full year 2007 results for the businesses we retained.
Then in the bottom block of figures we show the Foseco revenue and trading profit for 2008, again excluding CBC and plc costs. In the left hand column, the values for the last 9 months which are consolidated within the Ceramics division's totals, then in the next column the full 12 month pro-forma figures. On the right we compare the 2008 Full Year pro-forma numbers with the 2007 retained businesses pro-forma numbers which shows a strong improvement, despite the weak final two months in 2008, with revenue up 18% as reported and trading profit up 24%.
The integration process has gone well. In January we announced that the synergy target was being increased to £24million of annualised savings by 2010.

Here you see the half year trends, as reported. Bear in mind that H1 2008 includes only one quarter of Foseco contribution whereas H2 includes two.
Global steel production, our main end market, grew 5% over the first 9 month of 2008 but then fell 14% in October, 20% in November and 24% in December. The pattern for Foseco's foundry markets was similar but the slowdown only started in November. While it is not our normal practise to give quarterly results information, given the marked change in the end markets we have broken down the H2 data between the two quarters. You will see from the note at the bottom of the slide that the return on sales margin fell to 10.5% for the fourth quarter as a whole but with Profitability falling through the quarter as steel and foundry end markets declined.

The left hand column shows the split of total 2008 reported revenue between the four product lines. In the middle column, on a pro-forma basis, we add in the first quarter Foseco pre-acquisition contribution excluding the disposed CBC business. The right hand column shows the underlying growth compared with 2007, at constant currency and as if Foseco had been acquired at the beginning of 2007.
Steel flow control grew by 1%, slightly ahead of global steel production which declined by 1% for the year as a whole. Underlying growth in Linings of 5% reflected some share gains in steel markets, capacity expansions in China and India, good performance in non-steel markets, which represent about 30% of revenue, and the pass through of raw materials pricing increases.
The foundry product line, which incorporates the bulk of the acquired Foseco businesses delivered underlying growth of 6%, reflecting Foseco's strong performance over the first 10 months of the year. Foundry markets slowed rapidly over the last two months, due in particular to automotive exposure which represents about 25% of revenue.
The fused silica product line grew 20%. Solar crucibles, which now represent half of total revenue, grew 44% while the glass rollers activity was flat for the year as a whole.

Now turning to the Electronics division.

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Revenue of £620 million was up 11% as reported but 1% down at constant currency. The Revenue value is strongly influenced by the pass through effect of commodity metals prices, principally tin and silver in the form of solder, the main product line for the Assembly materials business. The table at the bottom of the slide shows how tin and silver prices have varied through the year and, as noted in the bullet point, we shipped a total of some £200m worth of tin and silver within the reported revenue number.

Average tin and silver prices were31% and 14% higher than 2007 averages, which added some £54 million to the revenue number. On an underlying basis, excluding the impact of metals pricing and currency, revenue was down 9%, reflecting the marked slow down in the fourth quarter. Current tin and silver prices are well below the 2008 average, being around the 2008 year end levels. If this prevails the reported revenue will be significantly lower in 2009 for the same volume level.

Trading profit of £51.7 million was 22% lower than 2007 at constant currency and 11% lower as reported.

The half yearly reported data for Electronics. We have again shown the split of the H2 2008 performance between the 3rd and 4th quarters. The fourth quarter profitability was poor, with the return on sales margin of only 4.9%. The Chemistry sector was particularly weak , reflecting it’s exposure to the automotive as well as electronics markets.

The decline in underlying revenue for both Assembly Materials and Chemistry reflects the weak fourth quarter coming after nine months of basically flat performance compared to prior year. We have continued to improve the product mix in both sectors, by focussing Assembly Materials on higher technology products such as halogen free and low silver lead free solder and progressively reducing sales of the more commoditised lead based solder bar product line. In Chemistry we have been reducing re-sale of brought in, non-proprietary chemicals.

Lastly Precious Metals division. Net sales value at constant currency is the measure of our underlying activity level. This was up 3% as weakness in retail jewellery end markets was offset by additional volumes from the Leach and Garner business acquired in September 2007 and higher levels of gold reclaim business in Europe and gold coin blank production for the US mint. Overall profits were about half the prior year’s level. The US profits declined due to lower underlying volumes and a less profitable sales mix. Profitability in Europe improved slightly, reflecting the benefits of the prior year’s restructuring and an increase in the profitable reclaim activity.

The half year data shows a slight improvement in H2 2008 over H1, but less pronounced than in prior years. We are continuing to reduce headcount, particularly in the US, in light of the weaker market conditions.

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Now over to Mike for the Financial Review.

Mike Butterworth – Chief Financial Director

Thanks Nick.
Good morning ladies and gentlemen.
I will now bring together the results for the Group as a whole.

For the Group, revenue and trading profit increased strongly by 23 per cent and 11 per cent respectively at constant currency, principally reflecting the impact of the Foseco acquisition from the fourth of April 2008. Currency translation was a significant positive, such that revenue and trading profit at reported exchange rates increased by 36 per cent and 28 per cent respectively. The deterioration in trading in the fourth quarter resulted in a 0.7 percentage point decrease in return on sales, as reported, from 10.5 per cent to 9.8 per cent.

These are the half yearly trends for the Group over the last three years. The growth in revenue and trading profit in 2008 reflects the contribution of Foseco - three months in the first half and six months in the second half of 2008. The impact of the poor trading in the fourth quarter of 2008 impacting the second half of 2008 is clearly evident.

For 2008, our trading profit increased from £169 million to £216 million - 28 per cent growth at reported exchange rates.
What made up this profit growth?
At constant exchange rates, trading profit increased by £22 million with the £53 million post-acquisition contribution from Foseco more than offsetting reductions in trading profit for the rest of the Ceramics division, Electronics and Precious Metals.
For the first nine months of 2008, the Ceramics division - excluding Foseco - was reporting trading profit comfortably ahead of the corresponding period last year. For the same period, Electronics was broadly in line with last year. However, both divisions experienced very weak trading in the fourth quarter as Nick highlighted earlier and this impacted results for the year as a whole.
As anticipated, the translation impact of changes in currency rates on reported results has been a significant tailwind during the year and this is discussed on the next slide.
Sterling weakened significantly during the year, particularly in the second half. The table
Sterling weakened significantly during the year, particularly in the second half. The table
at the top of this slide shows the currency movements for our three most relevant currencies - the euro, the Chinese renminbi and the US dollar.

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As we always stress, whilst our Group has a significant translation exposure to currency movements our transactional exposure is limited.

As was indicated on the previous slide, currency translation increased trading profit by around £25 million - around 14 per cent - compared to 2007. Sterling remains comparatively weak, and if 2008 trading profit was restated at current spot rates this would result in a £30 million increase, around 15 per cent.

The negative aspect of the weakness of sterling during the year has been the translation impact on the non-sterling denominated debt we held up to the beginning of November. This translation impact increased our net debt by £86 million in the second half of the year giving a total translation impact for the full year of £99 million. In late October/early November we swapped out of our US dollar and euro debt - at rates significantly higher than current levels - and the majority of our net debt is now in sterling.

Starting with trading profit we can then move down the Income Statement to arrive at Headline Attributable Profit.
Interest charges have increased by £20 million, principally reflecting average net debt being around £490 million higher compared to 2007. This reflects the benefit in the first quarter of 2008 of the £151 million share placing in October 2007, being more than offset by the impact of the acquisition of Foseco at the beginning of the second quarter.
Headline profit before tax is £176 million, £26 million higher than for 2007, giving growth of 18 per cent.
Tax on headline profit is £48 million, giving an effective tax rate - pre Joint Ventures - of 27.5 per cent, in line with our previous guidance and marginally higher than for 2007.
Going forward we expect the effective tax rate of 27.5 per cent to be maintained for 2009.
Headline attributable profit is £125 million - 17 per cent ahead of 2007.

As required by accounting rules, the earnings per share numbers have been adjusted for the impact of the rights issue. The pre-adjustment numbers are given on this slide for reference and the mechanics of these adjustments, covering 2009, 2008 and prior years, is given in a slide in the Appendix.
Headline Earnings per Share - as adjusted - has increased by 9 per cent to 8.9 pence, with the 17 per cent growth in headline attributable profit more than offsetting the 8 per cent increase in the average number of shares resulting from the Foseco-related placing of just under 123 million shares in October 2007.
Given the significant number of shares now in issue post the rights issue, we are intending to seek shareholder approval for a 10 for 1 share consolidation at the Annual General Meeting in May 2009.

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No final dividend for 2008 is being recommended to shareholders such that the total dividend for the year consists only of the 0.88 pence interim dividend. As with the earnings per share numbers, dividends have been adjusted for the impact of the rights issue as detailed in the Appendix slide.
A decision to resume dividend payments will be made once 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.
A slide showing our balance sheet return ratios - return on net assets and return on investment - has been included as an Appendix.

Now the exceptional items that have been excluded from the headline results, splitting out those relating to the Foseco acquisition. The main exceptionals are as follows.
Foseco related integration costs of £17 million principally relate to the closure of their "plc" head office and the elimination of duplicate overheads. We currently expect to incur a Foseco integration charge of around £4 million in 2009, bringing the total integration costs to £21 million. This is £6 million ahead of the original guidance made at the time of the announcement of the acquisition, reflecting the increase in the cost saving target by a similar amount that Nick described earlier.

Amortisation of intangibles of £13 million is a non-cash item and arises following the recognition of £256 million of intangible assets on the acquisition of Foseco. The intangibles comprise the value of Foseco's customer relationships, intellectual property and trade marks.
Non-Foseco related restructuring costs of £23 million were incurred, of which £15 million were principally cash-related redundancy costs, and £8 million were asset write-offs relating to the announcement of the intention to close six Ceramic facilities during 2009. The higher than expected level of restructuring costs in 2008 reflects the prompt and decisive action taken by management to mitigate the impact of the sharp deterioration in end-markets in the fourth quarter. Additional non-Foseco related restructuring costs of £23 million are currently expected in 2009, of which £15 million relates to the intended closure of the six Ceramic facilities noted above.
The Precious Metal division has been experiencing weak end-markets and, as a result, all of the goodwill relating to this division of £40 million has been written-off as a non-cash charge.

Turning to cash flow.
EBITDA increased by £60 million to £264 million, reflecting the good growth in trading profit.
The cash outflow relating to restructuring and integration was £23 million, of which £15 million related to the integration of Foseco. A cash outflow for Foseco-related integration of around £5 million, coupled with £30 million relating to non-Foseco related cash flows, is expected in 2009.

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The cash outflow in respect of working capital in 2008 was £9 million, of which there was an inflow of £25 million related to trade working capital and this is explained in more detail on the next slide.
After deducting additional contributions to the UK pension plan - more on which later - and interest and tax payments, the net cash inflow from operating activities was £120 million, £51 million better than 2007.

The £25 million reduction in trade working capital for the Group was achieved, notwithstanding a £10 million increase in the Ceramics division resulting from the sharp increase in inventories, as is illustrated in the top right hand box. The increase in Ceramics arose from an increase in raw material inventory in the second half of 2008 driven by concerns over raw material shortages caused by the Beijing Olympics and the prevailing high commodity prices at the time. These higher inventory levels are expected to unwind during the first half of 2009.
The £21 million decrease in trade working capital in Assembly Materials was driven by the significant reduction in metal prices -notably for tin and silver - towards the end of 2008 as Nick discussed earlier. The percentage reductions in prices are given in the bottom right hand box. Prices for tin, and to a lesser extent silver, have remained relatively low in 2009 to date.
The deterioration in the trade working capital to sale percentage for Ceramics, Electronics and the Group as a whole - given in the bottom left hand box - largely reflects the sharp reduction in revenue in the fourth quarter.

Moving now to Free Cash Flow.
Capital expenditure in 2008 was £73 million, ahead of last year and reflecting the completion of a number of capacity-related projects, particularly in Ceramics.
A cash outflow for capital expenditure of not more than £45 million is expected in 2009 reflecting the suspension of all capacity expansion projects until there is clear evidence of market recovery.
Free Cash Flow was positive £73 million, £25 million higher than for 2007.

This slide reconciles free cash flow to the increase in net debt.
Acquisition payments for Foseco totalled £620 million and are detailed in the top right hand box and were covered in the half-yearly Results presentation.
Included in ‘Disposals’ are the proceeds from the sale of Foseco’s CBC business and Vesuvius’ Hi-Tech business as required by the anti-trust authorities following the Foseco acquisition.
Included in the additional contributions to pension plans is £22 million relating to “top-up” payments to the UK plan. You will recall that at the time of our half-yearly results, we announced the reduction in the level of “top-up” payments from £26.5 million to £14 million with effect from September 2008. It has recently been agreed with our trustees to suspend all “top-up” payments for 18 months from February 2009 - unless the payment

of dividends is resumed in which case the monthly contributions will recommence. In mid-2010 we would expect to have the results of the next triennial actuarial review for December 2009 which will determine the level of “top up” contributions, if any, from this date.
A negative translation impact of £99 million arose during the year as discussed earlier giving an increase in net debt for the year of £681 million. With net debt at the beginning of the year of £51 million, we ended the year with net debt of £732 million. On a pro-forma basis, taking into account the recently received rights issue proceeds, year-end net debt would have been £491 million.

Debt maturities and covenants.
This slide is similar to the one we presented at the time of the rights issue announcement and shows the maturity profile of our committed debt facilities (both the syndicated bank facility and the US private placement loan notes) as indicated by the green and red lines, 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 31 December 2008 which stood at £732 million and below this the level of net debt at year end on a pro-forma basis adjusting for the rights issue proceeds which gives net debt of £491 million.
Following the rights issue and based on the previous level of our committed debt facilities - as indicated by the green dotted line - we had a very significant level of liquidity headroom over our committed facilities. Given this excess liquidity headroom - which we had no realistic expectation of needing over the next 18 months and which therefore was of no value to us but which is of considerable value to our lending banks - we have very recently come to an agreement with our banks whereby we will prepay the £111 million maturities due in October 2010 - the green dotted bar - in exchange for a delay in the tightening of the net debt to EBITDA covenant for a further year. As a result, this covenant remains at 3.5 times for 30 June 2009 and 31 December 2009, before tightening to 3.0 times for 30 June 2010.
Following this agreement - and with the revised level of committed facilities indicated by the red line - we still have substantial liquidity headroom remaining with no significant maturities in 2009 and with the principal maturities due in 2011 and 2012. Under this agreement we still maintain the attractive, pre ‘credit crunch’, margins in our current bank facility of between 65 to 105 basis points, as long as our leverage remains below three times.
For forecasting purposes, you should note that our average interest rate on gross borrowings (excluding pension interest) for 2009 is expected to be around 6 per cent, with 80 per cent of our borrowings at fixed rates.

Finally, the employee benefit deficit.
This slide rolls forward the Group’s employee benefit deficit from the beginning of the year. Overall, the deficit remained unchanged during the year at £95 million, despite the

acquisition of Foseco (which, at the acquisition date, had a net deficit of £29 million) and a negative currency translation impact due to the weakness of sterling of £40 million. The level of the employee benefit deficit benefited from the £22 million of “top-up” contributions into the UK plan - with these payments now having been suspended as described earlier, the application of higher discount rates in the UK and a strong asset performance in the UK as a result of the risk mitigation arrangements we entered into in 2006.

I will now hand you back to Nick.

Nick Salmon – Chief Executive

Thanks Mike. For the outlook, little has changed since our 29 January announcement but I must say that if there has been any good news on the general economic outlook since then, I must have missed it.

This is the slide we presented in January on the Market Outlook- when I highlighted that since Cookson supplies consumable products on short lead times, our visibility of end market trends is limited and that forecasting is particularly difficult in the current economic environment. We are trying to forecast the depth of the decline in our markets and the timing and strength of recovery as the supply chains we serve themselves go through a de-stocking phase before establishing new, lower, levels of sustained economic activity.
The table sets out the range of end market trends we are assuming in planning the restructuring and other management actions we have initiated.

Those management actions are summarised here.
We have already announced two phases of cost reduction involving headcount reductions of over 1,350 people and the permanent closure of 6 manufacturing plants. We are evaluating further closures and overhead cuts for a possible third phase, should markets deteriorate further.
On cash and debt; the rights issue has been successfully completed, reducing our debt by one third. We have a company wide programme focussed on reducing working capital in line with the reduced activity levels. Suspending expansion capex, dividends and UK pension top-up payments reduces cash outflow by over £85m compared with 2008. The recent agreement with the Banks to delay the tightening of the net debt to EBITDA covenant by a year provides further covenant headroom until June 2010.

As an update, I can confirm that end markets have remained weak through January and February. Global steel production in January was down 24% on prior year, the same percentage as in December. Within this NAFTA and the EU were down 51% and 46% respectively while China showed 2.4% growth. We will not get the February statistics from the World Steel Association until around 20 March but based on our own trading I would expect February to be similar to January.

We expect to see a slow improvement in our end markets through the second quarter as the de-stocking phase comes to an end. Further improvements are expected in the second half of the year reflecting the Group's normal trading seasonality and supported by the anticipated boost to infrastructure demand from the fiscal stimulus packages announced by governments around the world.

Clearly trading for 2009 will be determined by the depth and duration of the global economic downturn but our results will benefit from the cost reduction plans announced in January, the full 12 month contribution from Foseco and the anticipated incremental Foseco synergy savings of £12 million. The reported results will also benefit from significant currency translation gains if sterling remains weak.

I hope that a clearer picture of market and trading performance trends will develop over March and April so that we can give improved guidance when we issue the Interim Management Statement on 14 May.

Thank you. Now for questions.

Q & A

Oliver Wynne-James, *Panmure Gordon:*

Morning, I'm Oliver Wynne-James, Panmure Gordon. Could you talk about run rate sales and margin trends for January and February, compared to the detail you've given on Q4 '08 trading?

And then secondly, the decision to suspend payments to the -- top up payments to the pension fund, when was that taken, or proposed, which week, and was it very relative to the rights issue?

Nick Salmon:

On the run rate, as I think I said, while the fourth quarter -- through the fourth quarter, trading deteriorated significantly. October was -- started to show weakness, November was poor, and December was very weak, and it's through December we were trading just about breakeven level. And that's the trend that's continued through January and February, as we expected. And we expect to see the pick up coming through the second quarter.

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The level of revenue decline is in line with the revenue of global -- sorry, the level of global steel production declined 25%, 30%.

On the top up payment, Mike?

Mike Butterworth:

Yes, that's been agreed with the trustees over the last month with obviously the rights issue. It was post the rights issue announcement.

Nick Salmon:

We approached the trustees after the rights issue announcement and concluded agreement with them last week.

Oliver Wynne-James:

Just a follow up; the Ceramics -- if you look at Ceramics, excluding Foseco, the margin is a lot lower in H2 and probably [also] in Q4. Will it -- was that affected by the -- maybe some of the write-down of the inventory, or selling the inventory at lower prices?

Nick Salmon:

No, but it was affected by the cut back in production. Just as many of our customers shut down their facilities through December, January, we also shut down all of our plants, and were selling out of inventory. So the overhead recoveries were much reduced through December.

Oliver Wynne-James:

Thank you.

Nick Wilson, ICAP:

Good morning, it's Nick Wilson from ICAP. Following on that question, you mentioned attractive credit margins, but given, if you're only trading break even in January and February, unless my math is wrong, I would have you over your -- the three times net debt headline EBITDA. Obviously not if you have an H2, '09 bounce back. But my question is, how often do the banks actually review that credit facility and covenant? Is it on a monthly basis, a quarterly basis, or of a full year basis?

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Mike Butterworth:

The slide in the appendix, slide 37, that just mechanically explains how covenants work. No, the one before, the one prior. And you see on the second bullet, the two bank covenants, which are net debt to EBITDA and interest cover, which is interest on borrowing to EBITDA, are both tested twice a year, June 30 and December 31. And bear in mind that the covenant at June 30 is based on a trailing 12 months, so half of those -- half of that EBITDA has already been earned.
And just to help you through the numbers, the following slide, slide 38, it sort of allows you to sort of fill in the boxes and do the calculations for yourself. And you can see that with the June 30 covenant at the bottom we've already earned GBP129 million of EBITDA, in the second half of 2008. And the question mark is; what do we earn in the first half of 2009? And you can do the math, given that we already have depreciation of around GBP30 million, which will happen, irrespective of trading in the first half of 2009. You can do the math to work out what the EBIT, the trading profit needs to be in the first half of this year, based on any given level of debt.
Now, clearly, the covenant is two sided and you must also look at the net debt number, and obviously we're doing all we can to ensure that the net debt number is as low as possible, which is consistent with -- as the business starts to shrink, because of difficult trading, you would expect an improvement in working capital. We're obviously slimming back CapEx to a bare minimum.
We've stopped the pension top ups, and the only major outflow would be restructuring costs, which we've outlined in the slide.
So, as you can see, based on a 3.5 times covenant, it means we don't have to really earn any trading profit or very small amount of trading profit in the first half of the year. But we do expect a pick up in trading in the second quarter, as do most commentators who look at our industries, particularly steel.

Nick Wilson*:*

Okay, thanks. That brings me onto the second, obviously, potentially crunch is then, December 2009, rather than June, so I understand the rolling nature of it. As you run your business for cash, obviously short-term, that's going to put impact on your trading profits, because of your lower throughput in your plant. So I'm just trying to understand -- you have my sympathy, I know exactly why you're doing it. You have to run your business for cash.
But the issue is, what kind of capacity utilization rate in your plants, do you then have to take that third decision to the next tranche of closures? Are we talking when capacity utilization rates in Ceramic plants are sub 65%? I'm just trying to get the feeling for, if we don't see a second half recovery, or if it's delayed, when do you hit the button on that third round of plant closures?

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Nick Salmon:

I think the first point to stress, is that our plants are not particularly capital intensive, even in the good times, we don't run them 24/7. They run typically on five day, two shift patterns. So we don't have the type of facilities that have to be run permanently and, therefore, capacity utilization is more flexible. By taking out labor and running on -- many of our plants, for example, are currently running on four day week.

The decisions on taking out further capacity, are really driven by a view as to what the new sustained level of the end markets is going to be. We're going from the 2008 level, to some as yet not clear level, as to what it'll be in 2009, but in between those two points, we're going through this de-stocking trough, and that's the rebound we hope to see.

If we can see that the -- once we get a clearer view as to where that 2009 and '10 and ‘11 level is going to be, that'll be what determines the decision on what further capacity to take out. We don't want to cut capacity too far, to the point that we're then having to re-establish capacity shortly thereafter.

When will that be? It's something we keep under permanent review Nick. At the moment, I would -- we are developing contingency plans. We have those plans. I certainly wouldn't expect to trigger any further action until midway through the second quarter.

If we're not seeing a pickup midway through the second quarter, then we'll have to move to further actions.

Nick Wilson:

Nick, under the assumptions you're making for the year, in your -- I guess, in your budgeting process on steel, you have a base case and I guess a worst case. What sort of working capital generation do you think you can get out of those scenarios, to help the cash flow?

Nick Salmon:

Quite a complicated question, and something we spend quite a lot of time modelling because, in fact, in the base case, we're -- it's not just the level of activity for the year as a whole, but in the base case we're assuming that activity levels are actually starting to recover quite well through the second half. And the less strong recovery in the downside case in the second half. And we actually end up absorbing working capital, as we exit the year, in the base case, and if we generate slightly less cash in the base case than the downside case. So it's complicated.

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Mike Butterworth:

In broad terms, I would say the difference between the two is probably GBP15 million to GBP20 million of working capital, but I have to say it's a very difficult number to forecast. And outside of steel, it's also going to be impacted by the price of tin and silver.
As you've seen, we had a strong inflow of cash in November and December, because tin prices came down from historically high levels to low levels at the end of 2008. They've remained at those levels since then. If they were to fall further, that would be a major positive. If they were to go up again, that would be a negative. And it's something we can't control, obviously.

Nick Wilson:

And just one follow up, can you just update us where we are on the time banks that you have? And the flexible component of your labour costs, how soon will those be used up? Thank you.

Nick Salmon:

I think you're referring to, in particular, our German union agreements where, as is typical -- well, not typical but certainly not unusual, we have arrangements where over an 18 month period we can team and ladle working hours. So, out of the period of light activity, we could just ask the work force to not work, and as long as we make up those hours within the 18 month period.
And with the very strong performance through the third quarter and into October, we were actually in credit. So, we've probably got a good 18 months to work through on that arrangement.

Peter Reilly, *Deutsche Bank:*

Good morning. It's Peter Reilly from Deutsche Bank; two questions, please. On your downside scenario, how close are you to a covenant breach for full year 2009?
And then secondly, you talk in the outlook statement about hoping to benefit from stimulus packages in the second half of the year. You are, I think, the only company I've come across that expects any material impact in the second half of this year. Can you say where this is going to be? Is it China or other parts of the world? It seems to be reasonably optimistic.

Nick Salmon:

I think, just to answer your first question, to simply say we don't expect to breach the covenants at the year end.

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Mike Butterworth:

We wouldn't have been able to sign up our prospectus if we thought we were. And bear in mind, that prospectus, which, obviously, came out at the end of January, had a clean working capital opinion, which included both our base and downside case. And you can appreciate -- as you would expect, that was subject to some review by external parties.

Nick Salmon:

On the stimulus package point, Peter, I think you're right. The main benefits will certainly come in next year, in 2010 rather than 2009, because of the lead time in, particularly, infrastructure projects, in planning, in environmental review and so on, but certainly, in China, where those planning procedures are, so we say more streamlined than in the West. We would expect to see an earlier recovery in China than we will in Western Europe, with the States being somewhere in between.

The main recovery we're expecting is the completion of destocking rather than the growth in underlying demand.

Further questions? One here.

Harry Philips, *Evolution Securities:*

It's Harry Philips from Evolution. A couple of questions, please. Just in the comments about breakeven so far, would it be right to assume from that that Chemistry is in loss, reflecting current auto conditions?

And in terms of the Foundry business, which, obviously, just cracked a little bit later than steel, is the Foundry business – or rather, where does the Foundry business stand in the context of breakeven, profits, or loss?

Nick Salmon:

The Chemistry business has had small losses over the first two months, and the Foundry business has been profitable over the first two months. We certainly don't want to get into profit by business, by month though.

Mike Butterworth:

Just bear in mind that the month of January, as with December, doesn't reflect all of the cost. You've the impact of the cost savings that we've outlined today and outlined in the right's issue announcement, and there is always a delay in getting people out.

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Nick Salmon:

And the fact that Chinese New Year was January 25, Asia was very quiet for two weeks before that, two weeks after that. January and February were always going to be quiet months because of the Western New Year hangover and then the Chinese New Year hangover. And it's really March/April that will give us a better feel as to underlying market trends.

Mark Troman, *Merrill Lynch:*

Thank you. It's Mark again from Merrill's. Just a quick question on your big steel customers, obviously, ArcelorMittal and Tata Corus, etc., what are they saying regarding the restocking cycle? Have they given any update that it's more or less or optimistic than the planning assumptions that you outlined at the beginning of the year?

Nick Salmon:

Well, Mike's just helpfully bought out Lakshmi Mittal's comments from -- when was that?

Mike Butterworth:

February 12.

Nick Salmon:

February 12 when, I'm sure you will have heard, Mittal gave their announcement. And they were certainly not calling a sharp upturn. But Mittal said in response to questions that he expects a pick up of some kind; that the first quarter will mark the bottom of the market, pick up in the second quarter. Steel demand could fall by 10% for the year as a whole. This is plausible, was what Mittal said four weeks ago.
So, I would say there is -- nobody is yet calling the upturn the destocking phase is over, but I think most people are suggesting that we are at the bottom.

Mike Butterworth:

And certainly Corus, when they announced their restructuring a few weeks back, he was quoted in the press, Philippe Varin, I think, of saying that he thought steel would be down 10% year on year.

Nick Salmon:

Any further questions? In which case, thank you all for your interest.