Financial review

"Following the demerger of Cookson, Vesuvius has a strong balance sheet and a determination to improve its financial and operational flexibility."

CHRIS O'SHEA,
CHIEF FINANCIAL OFFICER

INTRODUCTION

We start our journey as a new company in a very strong financial position. We are a well funded company, with net debt of £295 million and committed debt facilities of £580 million with maturities out to 2020. Gearing, with net debt representing slightly over one and one half times EBITDA, is healthy and well within our debt covenants. Our business is strongly cash generative with a relatively low capital intensity. In short, we are well positioned to provide superior returns to shareholders, invest in organic projects, and fund attractive acquisition opportunities as they arise.

Vesuvius has a well invested manufacturing base, having spent £260 million of capital expenditure over the last five years. We have aligned our production footprint to match customer locations and improve cost leadership. Since 2002, the number of operations in emerging markets has increased from 23 to 38, whereas the number of sites in developed markets has decreased from 55 to 34 over the same period. As part of this alignment, we have established a cost-effective manufacturing presence in lower cost countries such as Mexico, Poland, the Czech Republic, India and China, with investment in state-of-the-art facilities benefiting from lower operating costs. We intend to maintain our cost leadership position and will continue to ensure our production footprint is closely aligned with customer locations in lower cost countries.

In addition to a drive for cost leadership, we have also focused, in recent years, on improving our financial and operational flexibility. We have a robust balance sheet with ample liquidity headroom under long-term financing arrangements. We also have a flexible workforce, with almost half of our European workforce either being employed on temporary contracts or members of government-subsidised working hour reduction schemes.

We will continue to focus on improving our financial and operational flexibility in order to ensure that we are able to react appropriately, and quickly, to changes in end-market conditions. These continued cost and working capital management actions, combined with our strategy of further penetration of our value pricing model, selected bolt-on acquisitions in high margin segments and selected disposals of low margin activities should further improve margins and position Vesuvius well to take advantage of growth in our markets.

BASIS OF PREPARATION

The creation of Vesuvius plc on 17 December 2012, and the subsequent demerger of Alent plc on 19 December 2012 gives rise to some complications in the presentation of financial information for 2012. The income statement and cash flow statement both include the results of Alent plc from 1 January 2012 to 18 December 2012; the balance sheet at 31 December 2012 does not include any assets or liabilities relating to the demerged Alent plc business.

The 2012 income statement, together with the 2011 comparatives, shows the results of Alent plc as discontinued operations, together with the results of the whole of the Precious Metals Processing division, as management anticipates a 2013 disposal of the remainder of the division not disposed of in 2012. Most items within the income statement are reasonably attributable to the Vesuvius and Alent operations, with the principal exception being finance income and costs. The majority of external debt in 2012 was held by companies remaining within the Vesuvius Group and accordingly, finance income and costs are shown principally within Vesuvius results from continuing operations. Vesuvius has adopted a columnar presentation format to separately identify Headline Performance results, as it is considered that Headline Performance gives a better view of the underlying results of the ongoing business.

The pro forma results shown in the table below include only the finance income and costs that would have been incurred by Vesuvius as a stand-alone entity in 2012, using the 66:34 split of net debt between Vesuvius plc and Alent plc adjusted for the fact that all US Private Placement notes ("USPP") remained with Vesuvius; the remaining costs are those which Vesuvius management believe are attributable to the demerged Alent plc business.

The cash flow statement (including note 14) separately identifies cash flows from operations and free cash flows relating to continuing operations.

The balance sheet at 31 December 2011 represents the Cookson Group plc balance sheet, including assets and liabilities relating both to the demerged Alent plc and the Precious Metals Processing division (the discontinued operations), and the continuing Vesuvius business. The balance sheet as at 31 December 2012 comprises the continuing Vesuvius plc business with the Precious Metals Processing division classified as held for sale. The additional disclosure in the income statement and the notes to the cash flow statement have been provided to help readers better understand the drivers of the movements between the balance sheets.

TRADING RESULTS — HEADLINE AND PRO FORMA PERFORMANCE

2012 was a difficult year, with a marked slowdown in trading experienced in the second half of the year. Total revenue of £1,548 million was weighted towards the first half, with a fall of 11% in revenues experienced in the second half of the year when compared with the first half. The fall in trading profit was more pronounced in the same period with a 33% reduction in the second half.

On an underlying basis, adjusting for the effects of acquisitions, disposals and foreign exchange movements, revenue fell by 4%.

In our Steel division, revenues fell 6% to £1,018 million with the fall principally related to the Australian Andreco-Hurll business disposed of in the year. Trading profit fell by 22% reflecting the lower revenues and increased provisions for doubtful debts.

Overall margins in the Steel division fell from 9.9% in 2011 to 8.2% in 2012 (and from 10.4% to 8.7% on an underlying basis, adjusted for exchange rates, acquisitions and disposals).

Foundry revenues fell by 9% to £530 million at constant exchange rates, largely due to a continued decline in the selling price of our Solar Crucibles products, together with a 3% reduction in other foundry revenue. Trading profit fell by 36% (31% at constant rates), reflecting losses in the Solar Crucibles business and a 15% reduction in profitability in other foundry products.

PRO FORMA HEADLINE PERFORMANCE		2012	2011	Variance Reported rates	Variance Constant rates
Revenue (£m)	— Steel	**1,018**	1,078	(5)%	(2)%
	— Foundry	**530**	608	(13)%	(9)%
	— Group	**1,548**	1,686	(8)%	(5)%
Trading profit (£m)	— Steel	**83.8**	107.2	(21)%	(19)%
	— Foundry	**49.2**	76.3	(36)%	(30)%
	— Group	**133.0**	183.5	(27)%	(23)%
Return on sales (%)	— Steel	**8.2**	9.9	(1.7)pts	(1.5)pts
	— Foundry	**9.3**	12.6	(3.3)pts	(3.0)pts
	— Group	**8.6**	10.9	(2.3)pts	(2.1)pts
Profit before tax (£m)		**118.2**	162.1	(27)%	
Effective tax rate (%)		**26.7**	26.6	0.1pts	
Earnings per share (p)		**29.4**	41.0	(28)%	
Dividend per share (p)	— Final	**9.5**	n/a		
	— Interim	**7.5**	n/a		

Margins in the Foundry division fell from 12.6% in 2011 to 9.3% in 2012 (and from 13.1% to 11.6% on an underlying basis, adjusted for exchange rates, acquisitions and disposals).

Headline earnings per share ("EPS") from continuing operations before separately reported items were 27.5 pence for 2012 (2011: 39.4 pence). After the pro forma interest charge adjustment referred to above, pro forma headline EPS were 29.4 pence for 2012 (2011: 41.0 pence).

TRADING RESULTS — DISCONTINUED OPERATIONS

Reported as discontinued operations are the consolidated results of the Alent plc group of businesses up to 18 December 2012, plus the results of the Precious Metals Processing division; the latter comprising the results of the US Precious Metals operations up to their disposal on 1 May 2012 in addition to the full year results of the European operations which are held for sale at the end of 2012.

Total revenue of Alent plc for the period up to the demerger was £698 million, compared with £814 million in the full year 2011. Trading profit for the period was £99.8 million, compared with £99.6 million in the full year 2011.

Revenue of the Precious Metals division for 2012 was £190 million, down from £326 million in 2011, due to the sale, on 1 May 2012, of the US operations of the division. Excluding the results of the US operations, revenue of the European businesses was £148 million in 2012, down 19% on the prior year (15% at constant exchange rates), which reflected continuing weak retail jewellery markets, partially offset by good levels of precious metals recycling. Trading profit for the year of £17.2 million showed an increase of £10.1 million on the prior year, principally due to the removal of the loss-making US business.

RESTRUCTURING

The majority of the restructuring charge in the year relates to the Solar Crucibles product line where, due to a severe downturn in the market, the decision was taken in 2012 to close manufacturing facilities in the Czech Republic, Poland and China, leaving one plant in China producing Solar Crucibles. Subsequent to the end of the year, the decision was taken to exit the Solar Crucibles product line completely as it became clear that, despite the substantial restructuring measures implemented in 2012, the business would remain loss-making for the foreseeable future.

In addition, the Steel Flow Control plant at Tianjin in China was closed in 2012 as production was absorbed within other Chinese plants.

Of the total restructuring charge of £57.0 million, £46.3 million related to the closure of the Solar Crucibles operations, £40.8 million of which related to non-cash asset write-offs. The remaining £16.2 million of restructuring charge represents cash costs, some of which will be incurred in 2013 and later years, related mainly to redundancy programmes initiated during the year.

DIVESTMENTS

On 19 December 2012, the Company demerged the Alent business (formerly the Performance Materials division of Cookson Group plc), at which date the fair market value of Alent plc was £862.4 million. The net assets of the Alent group of businesses as at the date of the demerger, 19 December 2012, was £307.0 milion, resulting in a profit on disposal of £555.4 million.

As part of the strategy to exit low margin businesses, principally in the Advanced Refractories product line of the Steel division, Andreco-Hurll, a construction business in Australia was disposed of on 24 July to Veolia Environmental Services for a cash consideration of Aus$8 million (£5 million). In 2012, Andreco-Hurll had revenue of Aus$19 million (£12 million; 2011: £57 million) and a trading profit of Aus$0.7 million (£0.4 million).

On 22 February 2012 we entered into an agreement to sell our loss-making US Precious Metals business to Richline Group, Inc. a subsidiary of Berkshire Hathaway Inc. for a cash consideration of £18 million. The sale completed on 1 May 2012. Following the decision, in late 2012, to completely exit the Precious Metals Processing business, the results of this entire division is reported within discontinued operations. As announced on 27 March 2013, we have reached agreement with Heimerle + Meule GmbH, a subsidiary of L. Possehl & Co, mbH ("Possehl") to sell the European Precious Metals Processing business for a consideration of €56.8 million. The cash consideration will be subject to closing balance sheet adjustments. Completion, which is expected by the end of the first half of 2013, will be subject to conditions including approval by the European Commission and by the Supervisory Board of Possehl.

ACQUISITIONS

During the year Metallurgica was purchased for £28 million. Metallurgica, headquartered in Germany, is one of the world's leading suppliers of fluxes, a range of powders used alongside refractory products in the enclosed continuous casting technology for steel production. As well as absorbing impurities in the molten steel, these powders also help lubricate the mould and prevent oxidation of the molten steel during the production process. In 2011, Metallurgica had revenue of approximately £40 million and trading profit of approximately £3.8 million. Gross assets as at 31 December 2011 were approximately £20 million.

CAPITAL EXPENDITURE

Capital expenditure in the year, excluding acquisitions, comprised £57.2 million on continuing businesses, with £38.5 million invested in our Steel division and £18.7 million invested in Foundry. This represents a reinvestment rate of 1.3 times depreciation of £43.1 million.

NET FINANCE COSTS

Interest payable on borrowings fell by £2.8 million reflecting the reduction in the Group's overall interest rate on borrowings following the repayment in May of US$190 million of the Group's US Private Placement loan notes which attracted an interest rate of 8.1%.

Continuing operations	**2012 £m**	2011 £m
Net interest payable on borrowings	**20.6**	23.4
Finance costs — pensions	**0.6**	1.4
Other finance costs	**1.0**	1.0
Headline Performance	**22.2**	25.8
Separately reported	**—**	1.9
Total net finance costs	**22.2**	27.7
Of which:		
Pro forma stand-alone equivalent	**14.9**	20.2

The pro forma finance costs noted above, as described under Basis of Preparation, represent the estimated finance costs attributable to the Vesuvius continuing operations had they been a stand-alone entity throughout 2011 and 2012.

The average interest rate on the aggregate bank debt and US Private Placement loan notes was 3.6% in 2012 (2011: 4.2%). The average interest rate expected in 2013 is 3.7%.

TAXATION

The Group's effective tax rate, based on the tax charge on ordinary activities from continuing operations of £29.6 million (2011: £41.9 million), was 26.7% in 2012 (2011: 26.6%).

At the end of the year the Group had an unrecognised deferred tax asset of £336.6 million (see note 12), which principally comprises unutilised tax losses.

PENSIONS

Substantial progress was made in 2012 to de-risk the Group's pension liabilities in both the UK and the USA and substantially reduce the Group's exposure to future volatility in pension funding.

The offer of enhanced transfer values to deferred members of the UK defined benefit pension plan ("the UK Plan"), launched in 2011, was successfully completed in the first half of 2012. In total 550 members took advantage of the scheme and, as a result, longevity and investment risk has been eliminated in respect of £50 million (*c.*10%) of the Group's total UK pension liabilities.

On 19 July 2012, the Trustee of the UK Plan and Pension Insurance Corporation announced that they had signed a pension insurance buy-in agreement covering all of the pensioner members of the UK Plan. This eliminates inflation, interest rate, investment and longevity risk in respect of around 60% of Vesuvius' total UK pension liabilities for a premium of £319 million.

In 2012, 67% of the deferred pensioners in the US defined benefit pension plan accepted an offer of a lump sum payment in full and final settlement of the Group's pension liability to them, thus eliminating all future risks relating to these liabilities.

The net pension deficit at 31 December 2012 was £69 million (31 December 2011: £32 million, excluding deficits of £26 million in plans which were demerged with Alent plc). The net increase in the deficit on an accounting basis under IAS 19 arose principally as a result of the liabilities insured by the UK pension buy-in agreement being valued some £50 million lower for accounting purposes than the premium paid.

On a funding basis, which uses more conservative discount rate assumptions to value future pension liabilities, the liabilities insured under the pension buy-in were valued around £10 million higher than the premium paid. Accordingly, the pension buy-in has simultaneously increased the funding surplus of the UK plan by £10 million whilst increasing the accounting deficit by £50 million.

In connection with the demerger, a cash injection of £38 million was agreed with the UK Plan Trustee to be paid into the UK Plan in mitigation for the liabilities of the two Alent plc participating employers being discharged in full on the demerger. This mitigation payment did not represent a charge to the income statement under IFRS, but is in effect an accelerated funding payment into the UK Plan, and as such is neutral when looking at total enterprise value. Of the total £38 million, £34 million was paid in December 2012, with the remaining £4 million paid in January 2013.

For the year ended 31 December 2013 the Group is required to adopt IAS 19 (revised), Employee Benefits. Whilst we do not expect there to be a material change in the Group pension deficit as a result of the adoption, it will impact the Group's income statement and the impact on the 2012 pension charge had the revised standard been in force is summarised in the table below.

	2012 Current £m	Reclassify admin costs £m	Discount Rate adj £m	2012 Revised £m
Operating costs	**3.3**	1.6	—	4.9
Net finance charge	**0.6**	(1.6)	1.2	0.2
Total IAS 19 charge	**3.9**	—	1.2	5.1

The £1.6 million increase in operating costs in 2012 results from the requirement to reclassify pension scheme administration costs from net finance charge to operating costs, reducing trading profit and net finance costs by the same amount and thus not impacting earnings. In addition, the revised standard requires the expected return on assets to be calculated by applying a corporate bond yield discount rate to the balance sheet pension-related assets, which has the effect of increasing the net interest charge. This would have given rise to an additional charge, and therefore reduction in pre-tax earnings, of £1.2 million in 2012. The latter change, combined with the reduction in 2012 of the net accounting surplus in the UK Plan, is projected to increase the net finance charge in 2013 by some £2 million.

WORKING CAPITAL

We have embarked on a focused effort to reduce the level of working capital in our businesses and in 2012 we saw a reduction in trade and other working capital of £11.2 million. Average working capital to sales for the year was 27.3% (2011: 26.4%), reflecting the fact that the fall in revenue in the fourth quarter was steeper than the more continuous programme of structural working capital reductions.

CASH FLOW

Free cash flow from continuing operations of £54.2 million was generated in 2012 (2011: £32.1 million).

Cash generated from continuing operations, after capital expenditure but before outflows for restructuring, demerger costs and additional pension funding contributions, was £131.8 million in 2012 (2011: £95.8 million); which represents a cash conversion rate of 99% (2011: 52%) in relation to trading profit from continuing operations.

FUNDING POSITION AND LIQUID RESOURCES

£ million	**2012**	2011
USPP Notes	**153.8**	283.7
Drawn credit facility	**267.3**	260.5
Other debt	**3.7**	7.8
Cash deposits	**(129.5)**	(188.1)
Net Debt	**295.3**	363.9

The Group is well funded, with £580 million of committed debt facilities available, of which £158 million was undrawn at year end. Of this, £425 million is a syndicated revolving credit facility with 16 banks which expires in 2016. The remainder comprises the US Private Placement notes, of which US$110 million are repayable in 2017, with the remaining US$140 million repayable in 2020.

Net debt at 31 December of £295.3 million was well within existing banking covenants of three times EBITDA.

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DIVIDEND

Dividends relating to 2012 amount to 17 pence per share. This represents the whole of the 7.5 pence per share Cookson Group plc interim dividend declared during the year and the 9.5 pence per share dividend recommended for approval by the Board to the Annual General Meeting in June 2013.

Dividends paid in 2012 of £61.2 million (2011: £51.8 million) relate to the entire Cookson Group plc 2011 final dividend of 14.5 pence per share (2010 final dividend: 11.5 pence per share) in addition to the entire Cookson Group plc 2012 interim dividend of 7.5 pence per share (2011 interim dividend: 7.25 pence per share).

SHARE BUY-BACK

Subject to the successful completion of the disposal of the Precious Metals Processing division, the Board has decided to return the majority of the net sales proceeds to shareholders through an on market share buy-back. This demonstrates a desire to exercise strong capital discipline and generate superior returns to shareholders. The strength of our balance sheet and the cash generative nature of our business allows us to return this capital to shareholders whilst retaining the ability to fund attractive growth opportunities as they arise.

DEMERGER COSTS

The cash costs associated with the preparation and execution of the demerger of the Alent group of businesses from Vesuvius plc, to the extent that they have been allocated to Vesuvius, have been reported as an exceptional item in the income statement. Costs totalling £15.7 million have been charged in the year (£10.0 million for Alent), primarily relating to professional advisor fees for financial, audit, accounting, legal and pensions advice. Fees in connection with the negotiated changes to the debt arrangements in order to provide Vesuvius with ongoing borrowings facilities were £2.0 million and have, as required by IFRS, been capitalised against the associated borrowings and are being amortised over the expected life of those debt arrangements. Tax-related costs of £11.4 million were incurred by Vesuvius (£2.9 million by Alent) in connection with the transactions necessary to reorganise the legal entity structure to facilitate the demerger.

SHARE CAPITAL AND RESERVES

On 14 December 2012, Vesuvius plc issued 278,448,752 ordinary shares of 638.5 pence each (£1,777.9 million) to the public shareholders of Cookson Group plc in exchange for the entire share capital of Cookson Group plc.

On 19 December 2012, the Company demerged the Alent business (formerly the Performance Materials division of Cookson Group plc), whereby the share capital of the Company was reduced, with £862.4 million repaid by way of the transfer by the Company to Alent plc of the entire share capital of Alent Investments Limited, in consideration of the allotment and issue by Alent plc of one Alent plc share for each Vesuvius plc share held by the Vesuvius plc shareholders at the date of the demerger; and the balance of £887.7 million was retained and transferred to the reserves of the Company to be available for future distributions, leaving issued share capital of £27.8 million.

CHRIS O'SHEA
Chief Financial Officer
28 March 2013