

Chief Executive Letter



March 2017

2016 results: A solid performance for our 100th year

Dear Colleagues,

At the time of releasing our 2016 results, we recognize significant efforts made by everyone and the benefit the group has achieved from them.

After the deep fall in activity in the USA and in the UK during 2015, we had to restructure our activities to adapt our organization to the new geography of our markets. Whilst progressing with the implementation of our action plans, we had to face the shock of the Brexit vote in the midst of 2016 and the consequential movement in the foreign exchange rates.

Although our markets did not improve in 2016, there were some signs of stabilization evident towards the end of the year. All in all, the cost reduction and the foreign exchange moves led to a moderate progression of our reported results.

Moreover, 2016 was a year of consolidation of our strategy.

Progression of our Strategy

Vesuvius' strategy stands on five pillars:

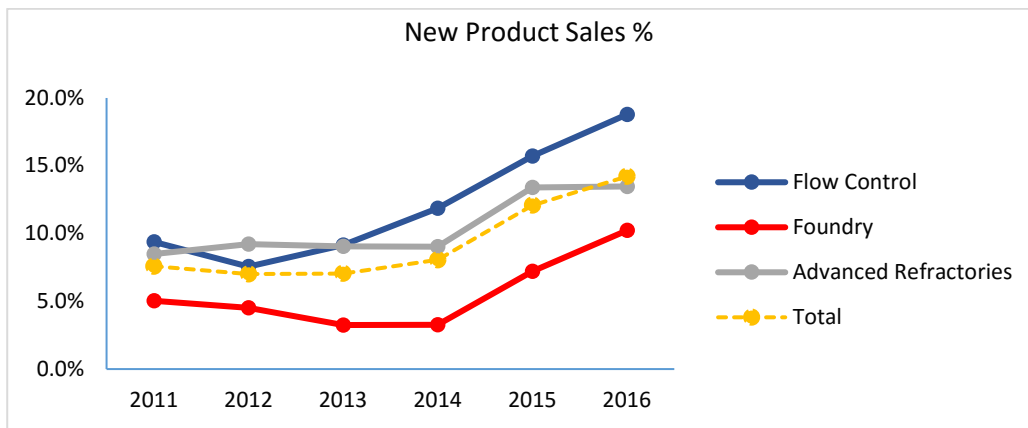
1. Maintain our technology leadership.
2. Increase the penetration of value creating solutions.
3. Grow in the developing markets.
4. Improve our cost leadership.
5. Build a Technical Services offering

Significant progress has been made in all these areas.

Technology

In 2013, we re-engineered the Management of R&D with the view to focus on fewer projects, applying focus on each of them and speeding up their time to market. The result has been growth in new products sales (products commercialised in the past five years) 75% of which in 3 years, from 8% to 14%, well ahead of our objective to double this percentage in five years.

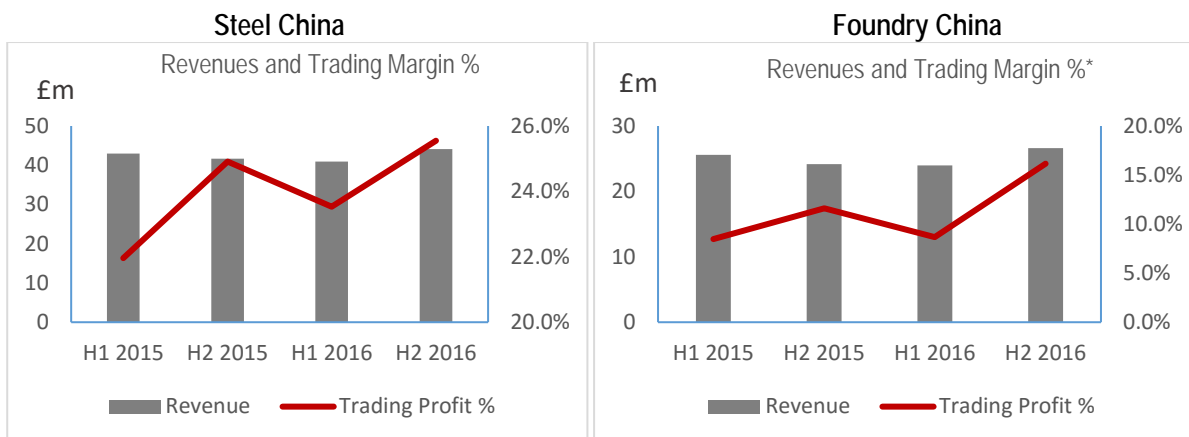
Our new objective is to reach 20% of new product sales, a percentage which has nearly been achieved by Flow Control, that appears in blue at the top of this chart.



Growth in Emerging Markets

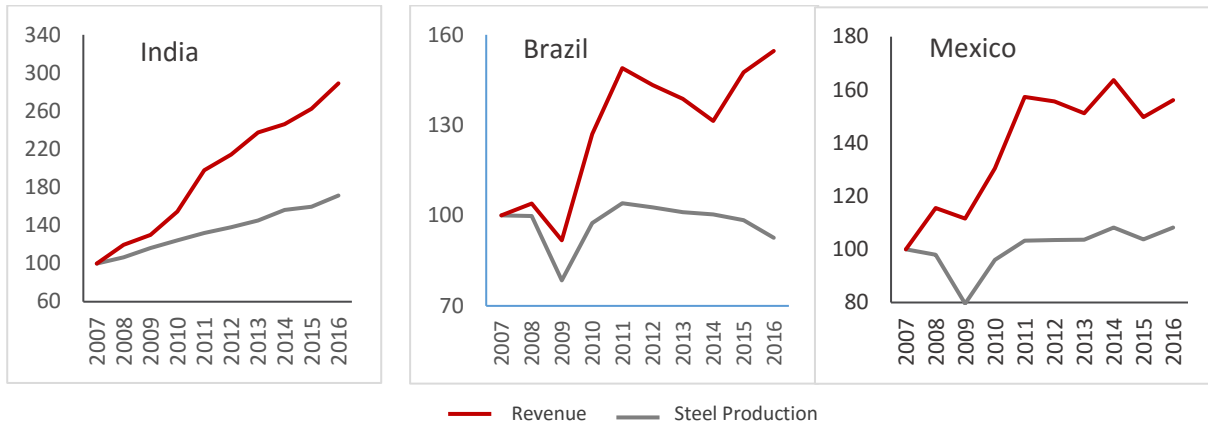
We are progressing well in China, despite the financial difficulties of the Chinese Steel Industry forcing us to apply strict customer selection criteria and credit screening. In the steel division, our sales are progressing well with circa 8% growth achieved in H2 versus H1. In Foundry, we saw a clear increase towards the end of the year with our new Changshu plant having ramped-up successfully. Sales were higher in H2 versus H1 by nearly 11%.

The Chinese Government has recently released the 'Made in China 2025' industrial plan which emphasizes the need for development of robotics, the application of information technology to production processes and the importance of pollution reduction, several objectives which match our product and services offering very well.



We are also progressing well in the other three markets we have identified for future growth:

- In India, where steel production grew by 7.4% last year, our sales increased by 14.3%.
- In Brazil, where the economic and political difficulties are still weighing on the steel activity, our sales have grown substantially.
- In Mexico, where a number of steel investments are taking place, we have consolidated our recent progression.



Cost Leadership

In terms of the implementation of our fourth strategic pillar, enhancing our cost leadership, we continued delivering on our restructuring activities during 2016 with the closure of three plants in Europe in the Flow Control division and further optimisation in the other divisions, in such a way that we were able to deliver £16 million of cost savings.

Moreover, our total savings objective from our restructuring programme has been revised upwards to £35 million to be delivered in full towards the end of 2017, for a cost of £45 million.

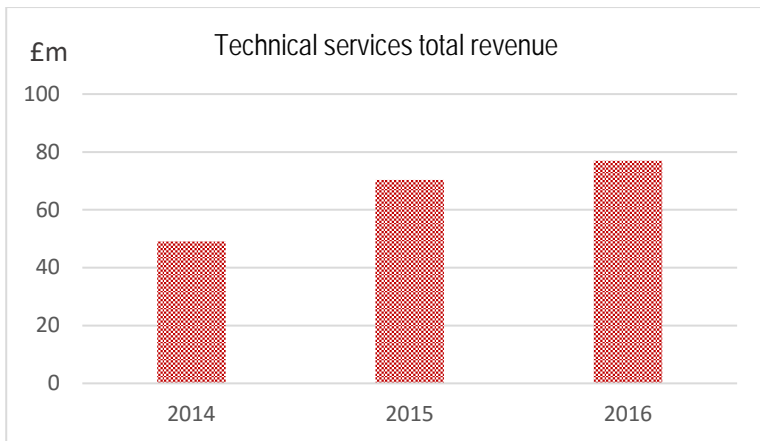
Building a Technical Services Offering.

We have made substantial progress with our Technical Services strategy which is aimed at evolving the business model of the company in all its activities, such that the development of Technical services takes place in all businesses and the progression is not limited to just the revenue we publish for the Technical Services business unit.

This transformation has a temporary negative impact on our sales because we are selling physical products into a continuous service over time rather than invoicing it as a once off sale up front. Part of the production of the newly acquired companies incorporated in the Technical Services business unit is now sold by the extended Vesuvius sales network and may appear in the other business units rather than Technical Services.

When adding, the sales made by all divisions in pursuit of this new strategy we see we are progressing year after year with a sales level now getting closer to our objective to reach a revenue of £100 million in five years.

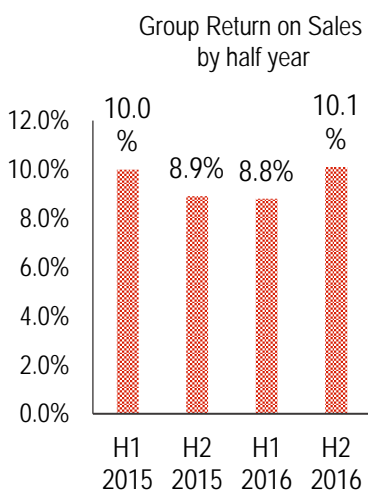
Accuoptix, the continuous temperature measurement system, is seeing strong demand growth and Laser orders are progressing rapidly as part of total refractory management contracts for ladles and converters. Moreover, SERT stopper riggings, coupled with the Avemis mold level control system XLEV, are aiding our Flow Control sales efforts by enhancing the overall product offering.



Group Performance

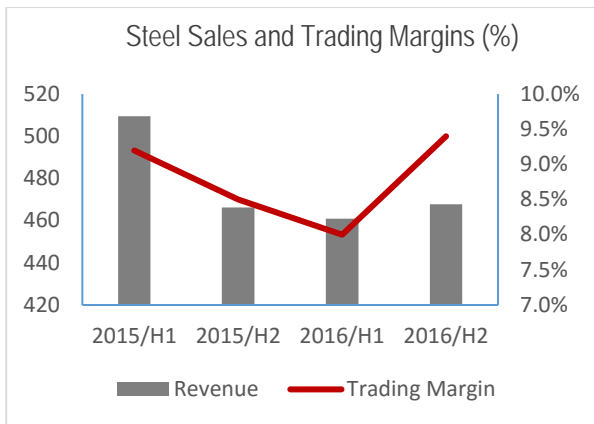
If we remove the impact of exchange rates and acquisitions from our results, our underlying sales declined by £59 million or 3.6%, as a result of subdued market conditions and some price decreases in line with raw materials softness. This level for sales decline should have generated a trading loss of around £23 million given our short-term drop through rate of about 40%. Thanks to our savings out of restructurings since mid-2015, we have reduced the loss of trading profit year on year to £2 million.

Actually, the recorded savings from restructuring in 2016 equate to £16 million. As a consequence, our return on sales percentage increased slightly to 9.5%. Our margin rate has been progressively improving over the year, achieving an average of 10% over the last three quarters, which demonstrates our resilience in difficult market conditions, an attribute which will benefit us when markets do improve.



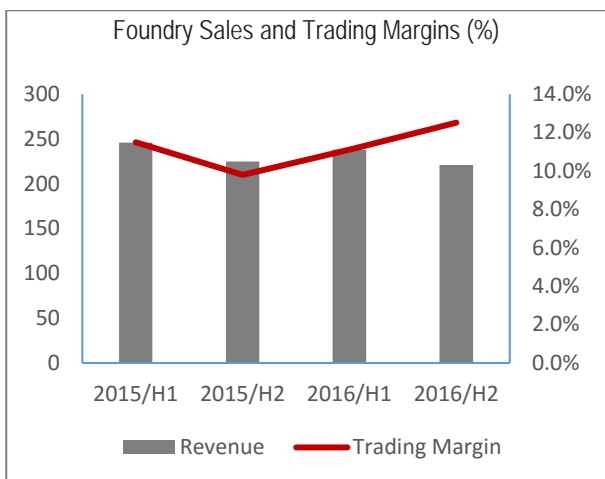
Underlying sales for the Steel division were down 4.8% versus last year due to adverse market conditions in the USA and in the UK, markets where we enjoy high penetration. Except for these two markets, our steel sales increased by about 2%. As a consequence of the lower sales, margins for the steel division declined slightly to 8.4%.

The positive effect of the restructurings, however, allowed margins to be at 9.5% in the second half versus 8% in the first half.



In Foundry, our sales continued to be affected by the poor conditions of our key market sectors of mining, construction and agriculture. Underlying revenue declined by 2.5%. However, continued focus on global cost reduction and consolidation of manufacturing in the USA helped improve the underlying margin to 11.8%.

Trading profit was up versus 2015 extending the good progress made in 2015. Here again, this progression was enhanced in the second half where margins increased to 12.6% despite lower sales.



Entering 2017

Going forward, our objectives for 2017 are to achieve growth based on progress in India and China, recovery in the USA and further progress with new products and Technical Services.

We must further strengthen our cash generation and reduce our debt with specific action plans to reduce inventories and debtors as well as extend our payables terms. Hence, our objective is to concentrate on the reduction of our debt in the absence of substantial M&A.

Whilst the market environment remains broadly stable, we are experiencing a relatively strong start to 2017. However, regardless of end market developments, we must continue to focus on creating value for our customers. We will continue to develop our strategy to build our Technical Services offering and to focus on the strategic growth areas in India, China, Brazil and Mexico.

Excellence

Since the first steps of Safety and Quality breakthroughs, we have taken a series of actions to increase the efficiency of the business and improve the value we bring to our customers. The Lean program has brought visible improvements in the way our plants are managed and more recently the New Product Introduction scheme has transformed the way we drive innovation. These were the corner stones of our road to Excellence. We must now encompass all our company activities and extend the application of Excellence's principles to all transactions and processes of our working life.

We will soon launch a new thrust for our Excellence program.

Excellence is an ambition, a discipline, a commitment to continuous improvement. Above all it is an attitude in the way we do business with our colleagues, with our customers and with our communities. A mindset to listen, to anticipate, to standardize, to simplify and to measure.

Excellence is our ambition. It must become the way we do business, individually and collectively. In that respect, it finds its place as our sixth company value.

In 2016 we celebrated the '100 years' Anniversary of Vesuvius'; one hundred years of innovation for our customers. It was a great opportunity for me to visit the sites and celebrate with them this meaningful event. It was also a year of extreme efforts to reorganize and adapt to adverse market evolutions.

I thank you for this new demonstration of your commitment to the Group and your professionalism.

2017 starts with slightly better prospects and I am convinced that together we will reap the fruits of all our efforts.



François Wanecq
Chief Executive

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