

2010 Full Year Results

24 February 2011



Stephen Harris

Chief Executive



S/P - Kolsterising®

A proprietary surface treatment for stainless steels
which provides superior wear and corrosion

- Highlights: Stephen Harris
- Financial Review: David Landless
- Business Review: Stephen Harris

- Demand:
 - Good recovery in Automotive and General Industrial
 - Aerospace and Energy yet to recover meaningfully
 - Defence flat
- Revenue: 14.8% higher than 2009 (17.8% like for like)
- Headline Margin: 10.4% (1.8% in 2009)
- Restructuring: Cost savings £14.1m higher than 2009
- Cash: Profit to cash conversion at 148%
- Capital expenditure: Tightly controlled and 0.8x depreciation
- Strategy: Delivering results, with more to come in 2011
- Dividend: Final dividend increased to 5.75p, total of 8.7p for the year

David Landless

Finance Director



HIP Product Fabrication

A method of manufacturing fully dense, often complex metal parts from metal powder. The

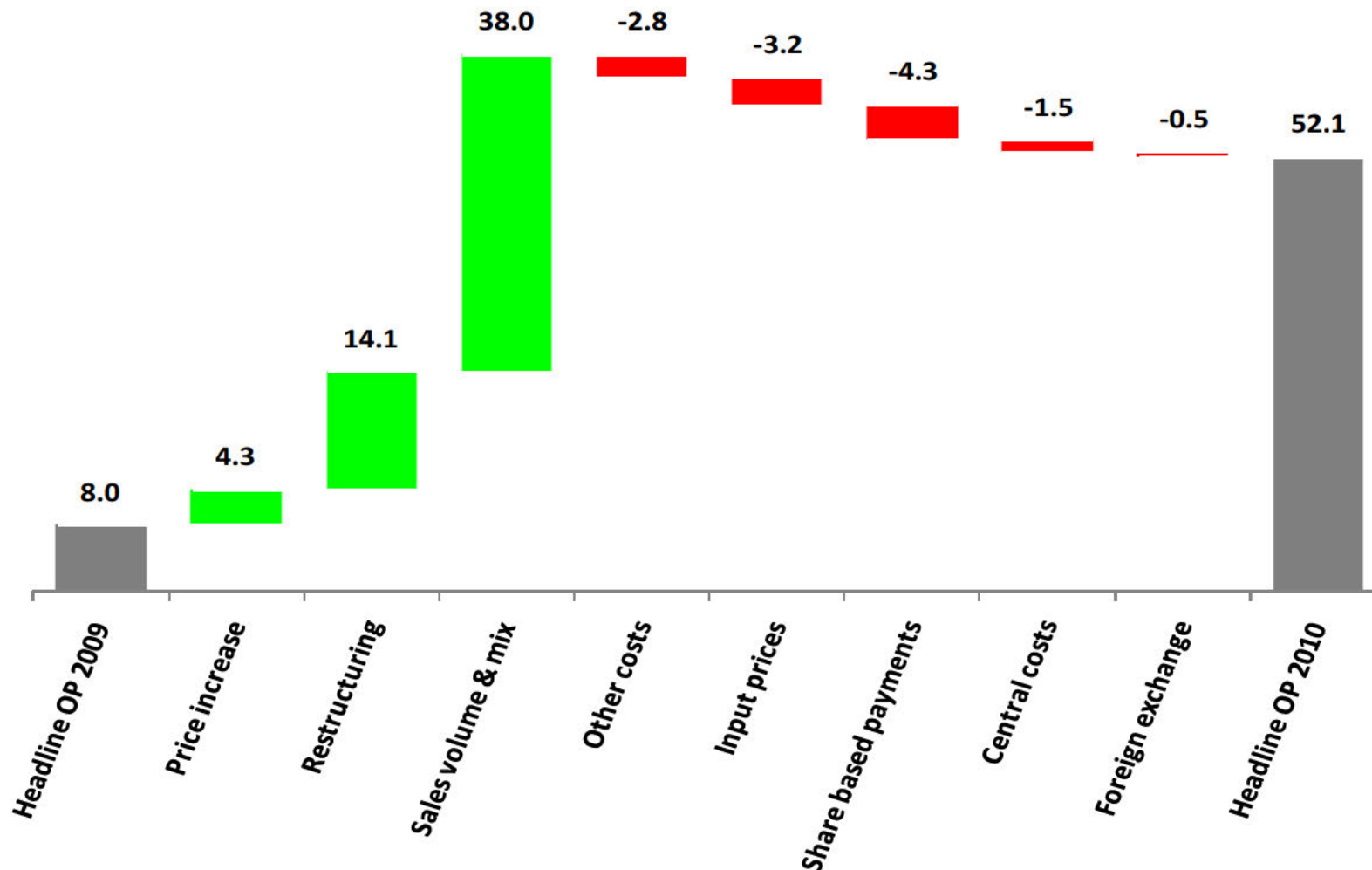
2010 Results Summary

	2010 £m	margin	2009 £m	margin
Revenue	499.8		435.4	
Headline EBITDA¹	104.4	20.9%	57.4	13.2%
Headline operating profit²	52.1	10.4%	8.0	1.8%
Headline profit before taxation²	46.1		3.7	
Headline operating cash flow³	77.3		34.7	
Net debt	51.3		85.5	
Headline earnings per share (pence)²	18.3		0.4	
ROCE %	10.1		1.5	
Dividend per share (pence)	8.7		8.3	

1. Earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items
2. Pre exceptional items
3. Cash generated by operations less net capital expenditure, pre exceptional items

Profit Bridge

£m



Cash spend:	2008	2.1
	2009	19.2
	2010	9.2
	Outstanding	<u>20.2</u>
	Total:	£50.7m

Asset writedowns:	£54.3m
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Reduction in annualised cost base:	£45.0m
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Restructuring programme essentially complete

Cash Flow

£m	2010	2009	
Headline Operating Profit	52.1	8.0	
Add back non cash items:			
Depreciation and Amortisation	48.1	49.5	
Share Based Payments	4.2	(0.1)	
Headline EBITDA¹	104.4	57.4	
Net Capital Expenditure	(35.8)	(32.2)	Capex to depreciation: 2010: 0.8x 2009: 0.6x
Working Capital	8.7	9.5	
Headline Operating Cash Flow	77.3	34.7	Favourable Working Capital Cash Flow
Restructuring	(9.2)	(19.2)	
Operating Cash Flow	68.1	15.5	148% cashflow conversion
Interest	(5.5)	(4.4)	
Taxation: Underlying	(5.4)	(2.0)	
Testing sale	-	(22.4)	
Buy-out of Swedish pension liability	-	(1.5)	
Free Cash Flow	57.2	(14.8)	

¹ Headline EBITDA is earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items. It differs from EBITDA which is after charging cash exceptionals.

£m	2010	2009
Opening balance	(85.5)	(64.0)
Movement in net debt due to:		
Free cash flow	57.2	(14.8)
Dividends paid	(21.0)	(20.1)
Currency movement	1.7	18.0
Maturing currency swaps	(2.9)	(12.3)
Other	(0.8)	7.7
Closing balance	(51.3)	(85.5)

- Reduction in net debt of £34.2m
- Committed facility headroom of £160.9m
- 2009 interim, 2009 final and 2010 interim dividend paid in 2010

Finance Charge & Debt Facilities

£m	2010	2009
Net interest payable	1.9	2.0
Financing costs	2.3	0.4
Other charges	0.9	0.6
Pension finance charge	0.9	1.3
Finance charge	6.0	4.3

- Financing costs increased due to fees to refinance £110m and \$20m bank facilities
- Higher undrawn committed facility fees
- Effective interest rate of 2.1% (2009: 2.1%)
- £110m & \$20m facilities expire 31 March 2013, €125m facility expires 31 July 2013

Stephen Harris

Chief Executive



CPP – SheraCote®

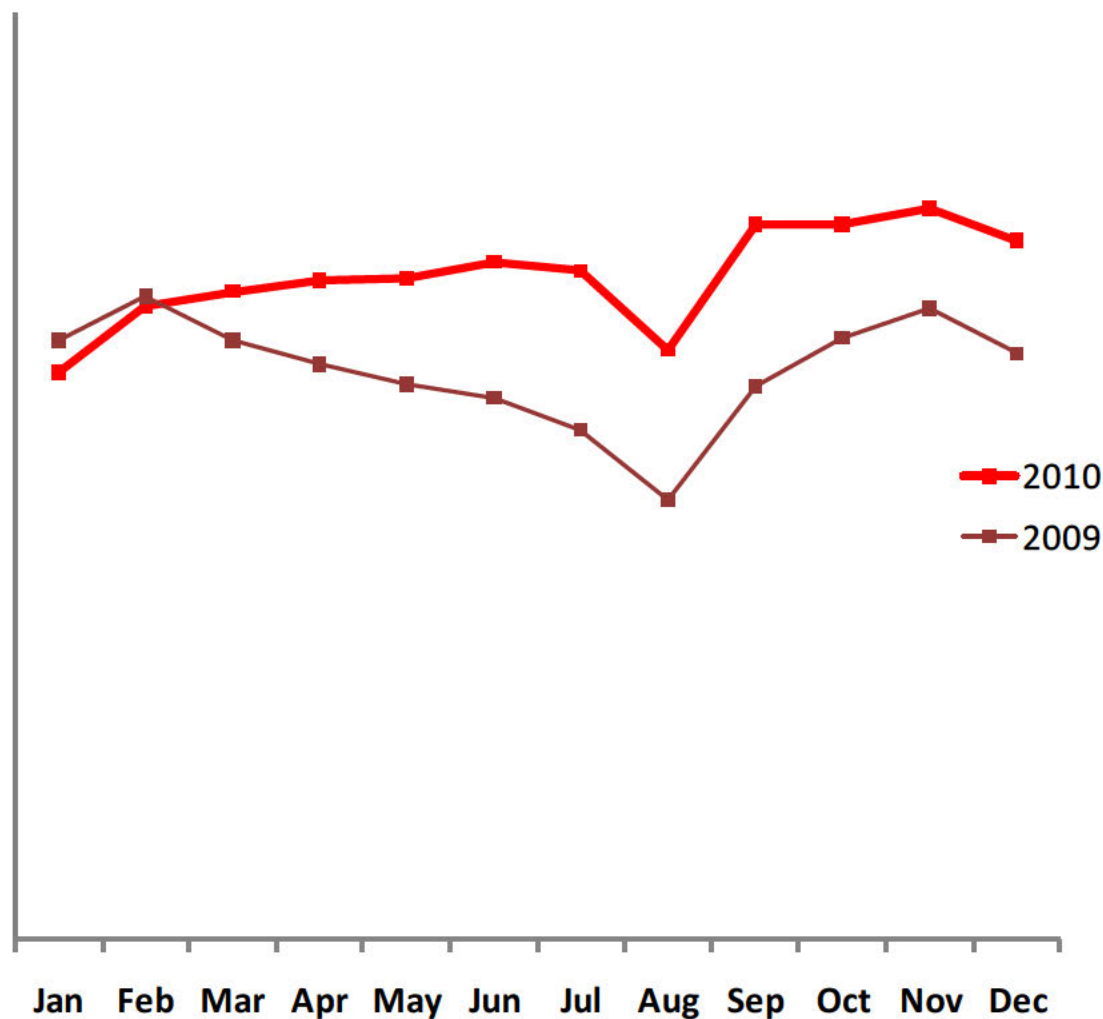
Outstanding corrosion protection

- Demand and cost trends
- Strategy and outlook

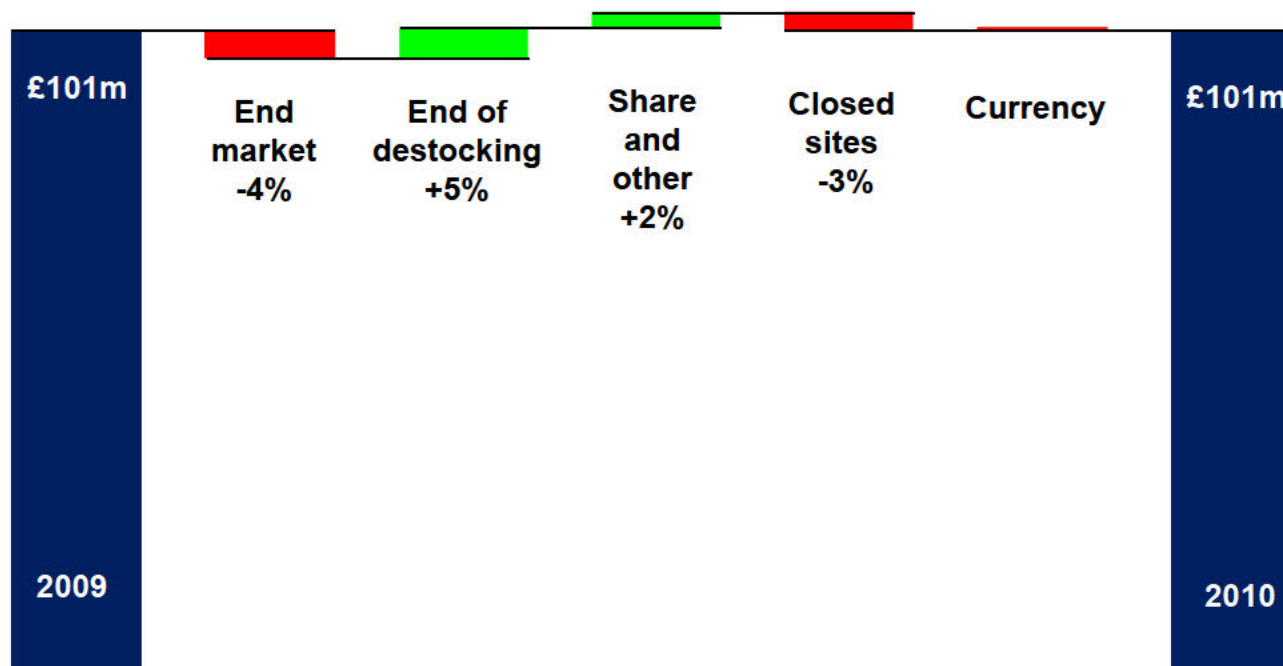
- **Demand and cost trends**
- Strategy and outlook

Daily Sales Trend – Group

Constant Exchange Rates

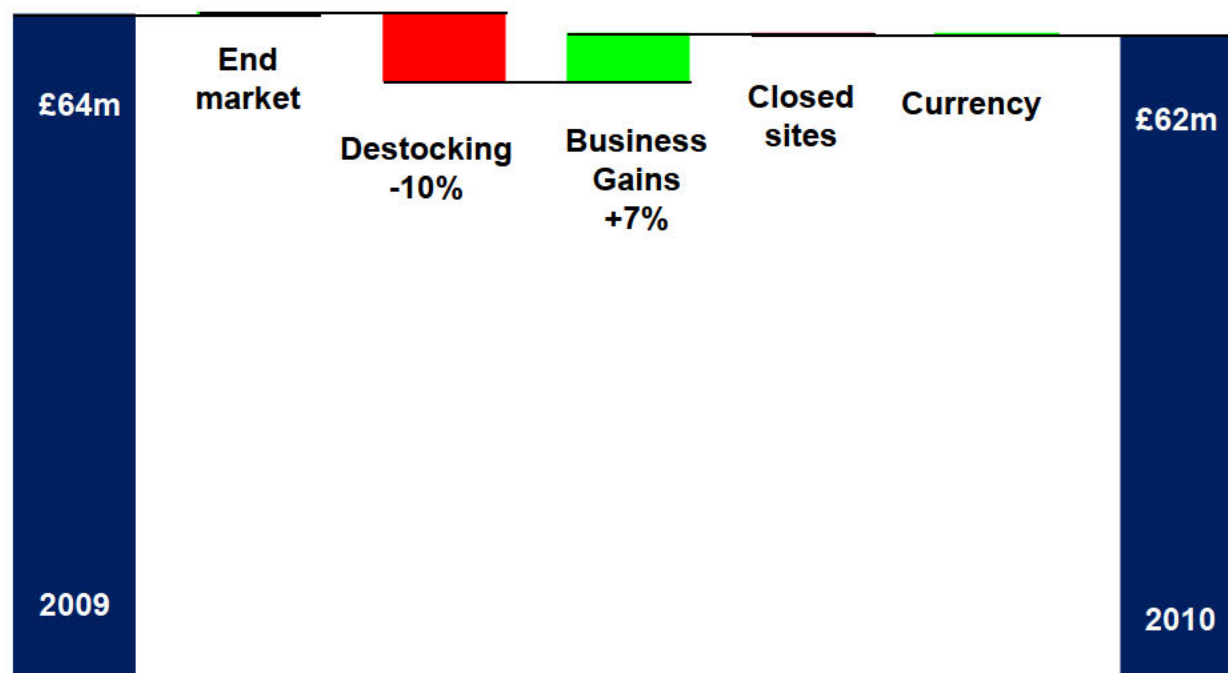


Demand - Aerospace & Defence Sector



- Commercial aircraft deliveries reduced slightly; aftermarket weak in early part of year

Demand - Energy Sector

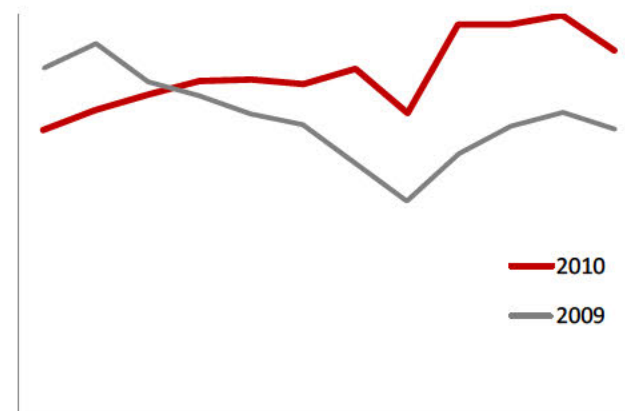


- Market mixed – Oil & Gas up, Power Generation down
- Destocking in Industrial Gas Turbine market continued
- Business gains in HIP Product Fabrication and Surface Technology

£m	2010	2009	Change	Constant Currency
Revenue	202.1	189.5	7%	6%
Headline OP	35.1	24.7	42%	42%

- Mix of business enhanced
- Margin increased from 13% to 17%

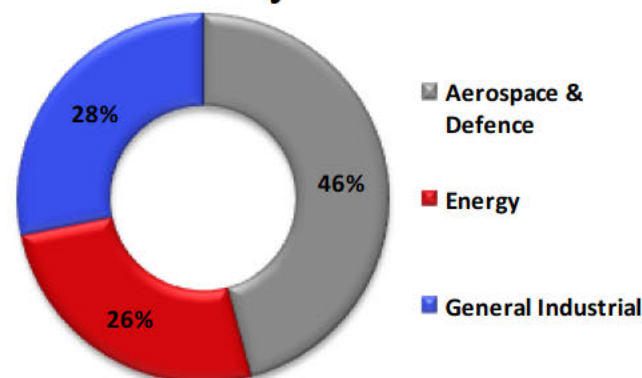
Daily sales – constant exchange



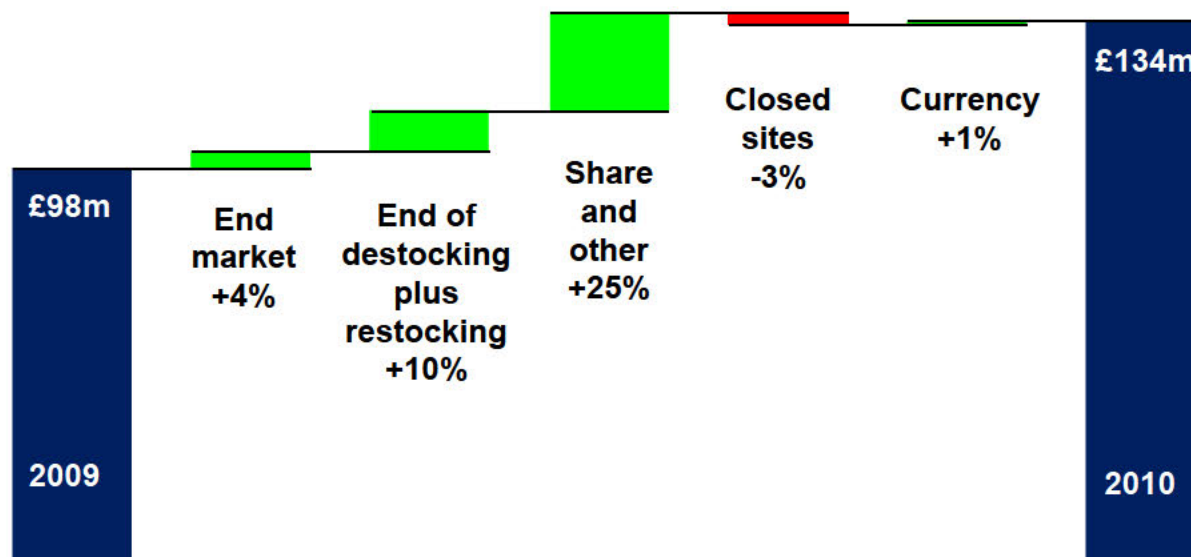
Geographic Analysis

	2010 (£m)	Growth	Margin
Western Europe	92.2	2%	17%
North America	108.9	10%	18%
Emerging Markets	1.0	13%	
ADE Total	202.1	6%	17%

Revenue by market

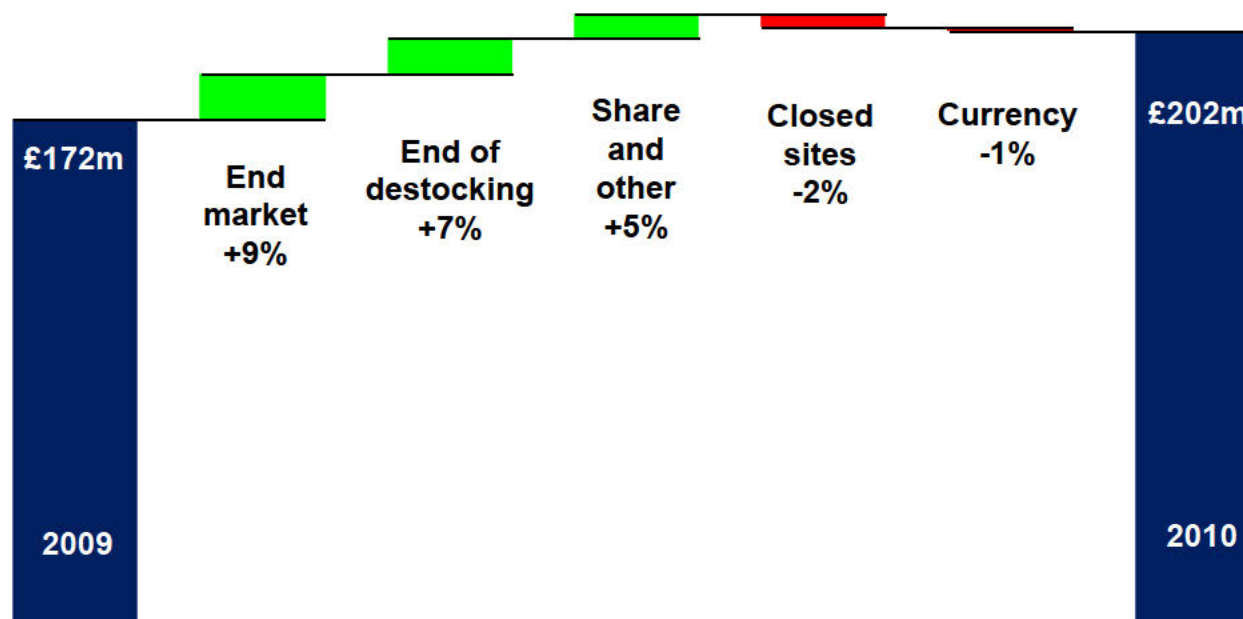


Demand - Automotive & Truck Sector



- Production rebounded, as the destocking in early 2009 was reversed
- Bodycote sales advanced by a further 27% - driven by share gains and mix

Demand - General Industrial Sector

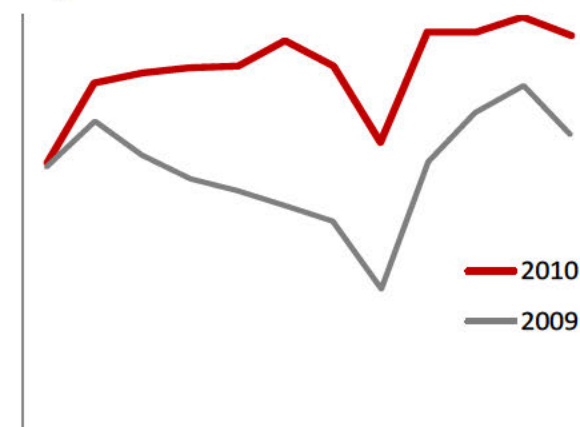


- Recovery in general industrial markets well under way
- Growth varies by individual industry sector – between 5% and 25%

£m	2010	2009	Change	Constant Currency
Revenue	297.7	245.9	21%	21%
Headline OP	27.2	(12.3)	-	-

- Mix of business enhanced
- Restructuring benefit
- Margin recovers from -5% to +9%

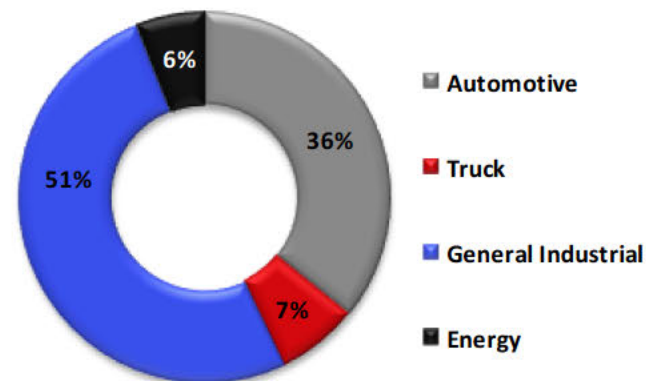
Daily sales – constant exchange



Geographic Analysis

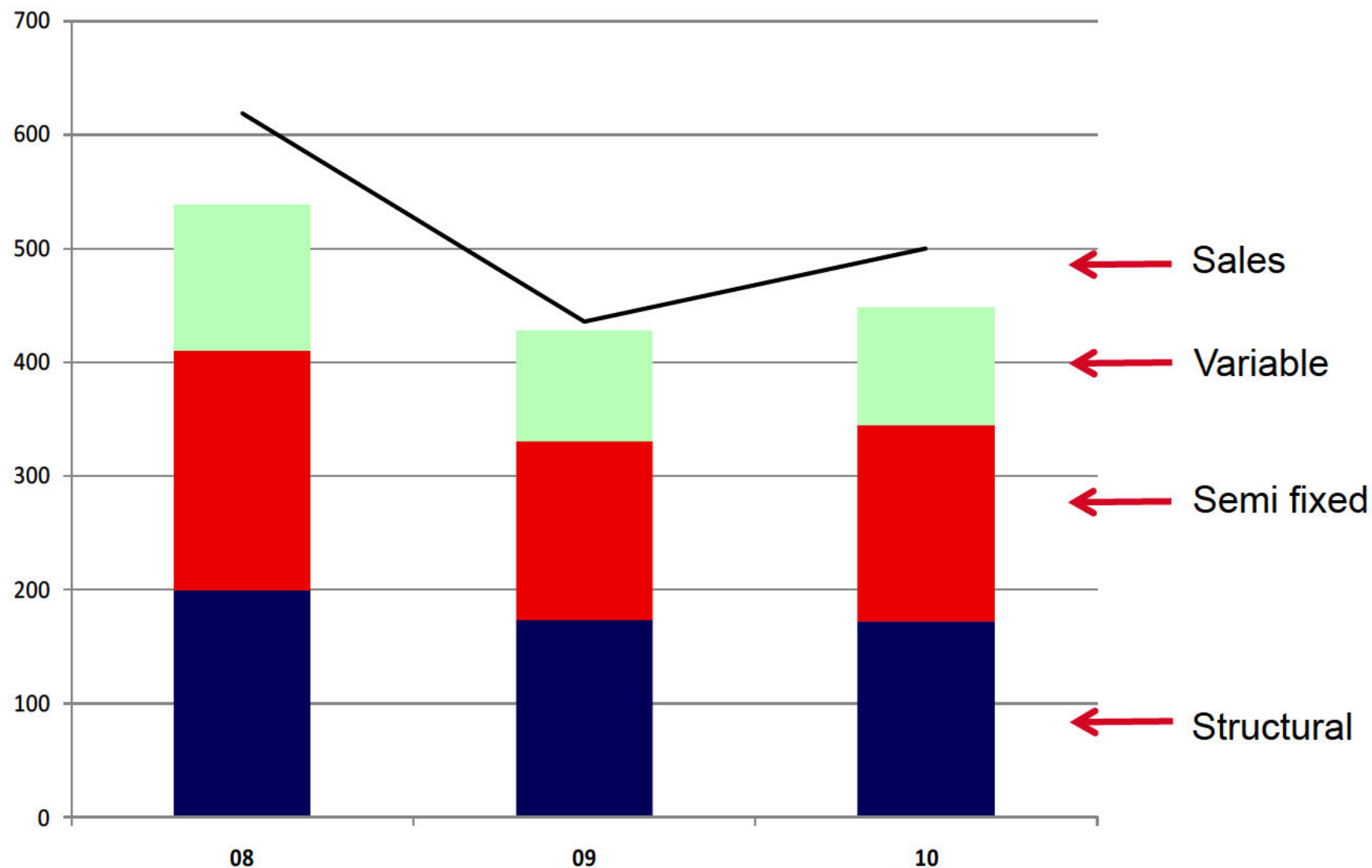
	2010 (£m)	Growth	Margin
Western Europe	204.6	19%	10%
North America	43.0	36%	13%
Emerging Markets	50.1	20%	1%
AGI Total	297.7	21%	9%

Revenue by market



Three Year Perspective – Costs

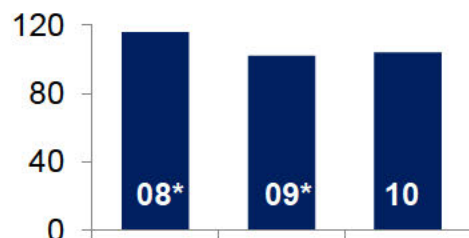
£m at Constant Exchange Rates



Three Year Perspective – Markets Start to Recover **Bodycote**

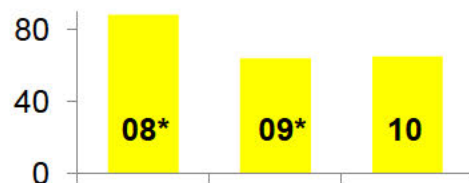
Bodycote sales (£m) expressed at 2010 exchange rates (*)

Aerospace



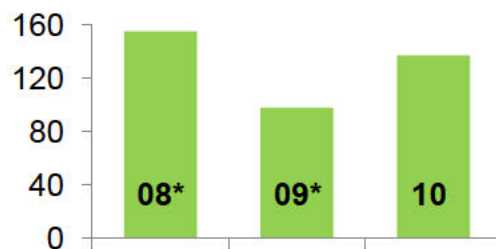
- Aircraft deliveries slightly lower than 2008
- Aircraft flying hours now increasing

Energy



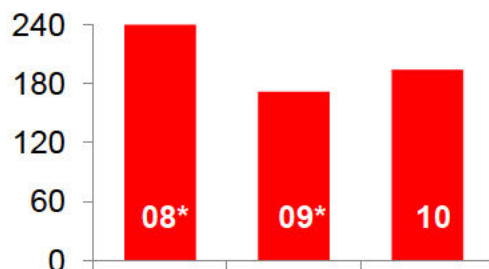
- US new well activity 20% below 2008
- Industrial Gas Turbine activity 35% below 2008

Automotive



- EU car sales 10% below prior peak
- US car sales 25% below prior peak

General Industrial

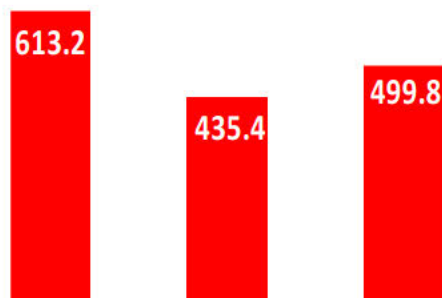


- EU cap goods 14% below 2008
- US machinery 10% below 2008

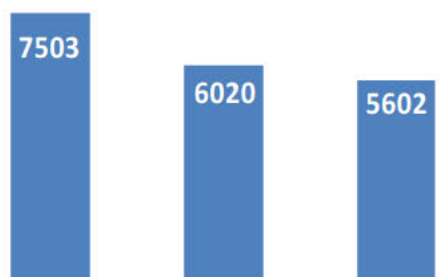
Three Year Perspective

* expressed at 2010 exchange rates

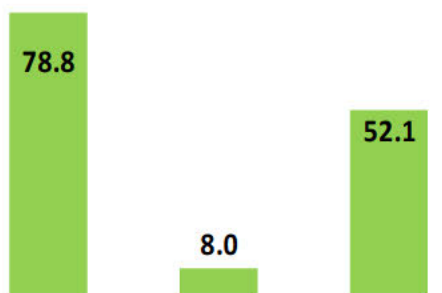
Sales (£m) 08* 09* 10



Average
Headcount

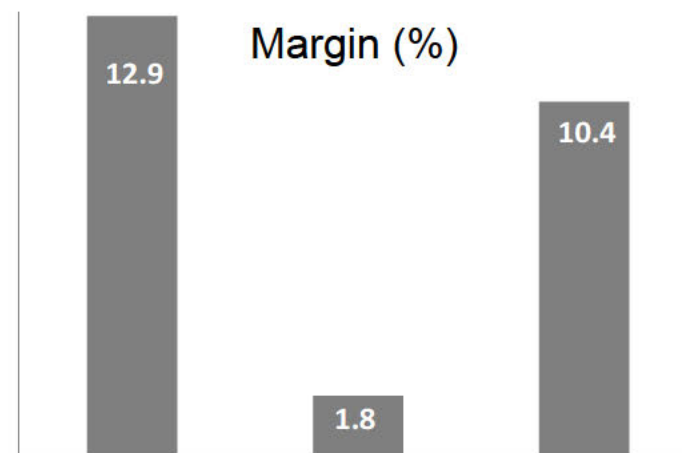


Headline
Operating
Profit (£m)

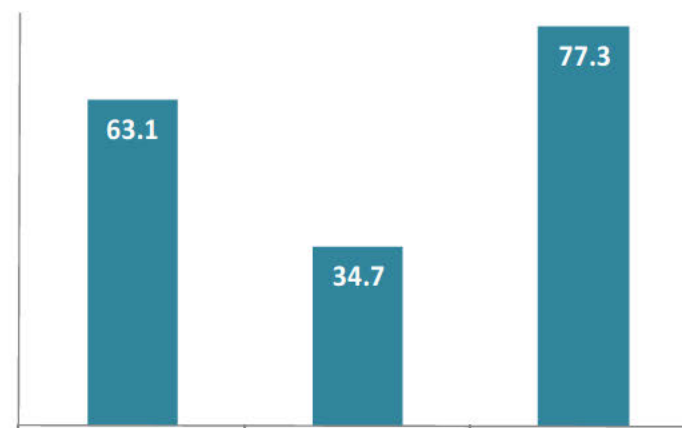


08 09 10

Margin (%)



Headline Operating Cash Flow (£m)



- Demand and cost trends
- **Strategy and outlook**

Market growth

Near term

- Progressive recovery

Long term

- Some key sectors higher - industrial gas turbine & commercial aerospace

Smaller, lighter, stronger components

- More sophisticated heat treatments
- Examples - 8 speed auto gearbox
 - Hybrid vehicle components
 - Very high temperature aero engine components

Outsourcing

Migration driven

- At new location
- And outsourced at old location

Energy driven

- Bodycote inherently more energy efficient

Chosen proprietary technologies

- HIP Product Fabrication
 - Specialty Stainless Steel
 - Corrosion Prevention Processes
- Currently 5% of Group total with 2010 growth of 51%

Acquisitions

Strategic Progress

Sustain the low cost base in the upturn

- Headcount reduced year on year
- Margins improved to 10.4%



Selective investment

- Capex 0.8 times depreciation



Enhance business processes

- Plant operation
- Pricing



Enhance 'bench strength'

- Management teams strengthened



Migrate with our customers to the emerging markets

- New capacity in Brazil, Turkey & China
- Greenfield sites added in Poland, Czech and Brazil



Drive growth of chosen proprietary technologies

- Significant new S3P capacity
- Impressive HIP PF growth
- First Sheracote ® line commissioned



“The Board is confident that 2011 will be another year of growth for Bodycote, albeit at a less rapid rate than experienced in 2010. The year has started in line with these expectations. Looking further out, the Board sees encouraging opportunities for improved through-cycle returns.”



2010 Statutory Income Statement



£m	2010	2009
Revenue	499.8	435.4
Headline operating profit / (loss)¹	52.1	8.0
Amortisation of acquired intangible fixed assets	(0.9)	(1.3)
Impairment charge	-	(31.5)
Major facility closure costs	-	(25.4)
Operating profit / (loss)	51.2	(50.2)
Net finance costs	(6.0)	(4.3)
Profit / (loss) before taxation	45.2	(54.5)
Earnings / (loss) per share	Pence	Pence
Basic	18.0	(27.0)

- Average shares in issue 2010: 185.5m (2009: 185.6m)
- Exchange rates:

Currency	Description	2010	2009
Euro	Average (P&L)	1.17	1.12
	Closing (B/S)	1.16	1.13
US Dollar	Average (P&L)	1.55	1.56
	Closing (B/S)	1.54	1.61

- Net debt and interest related financial ratios:

Financial Ratios	2010	2009
Net Debt : Headline EBITDA ¹	0.5x	1.5x
Headline EBITDA ¹ Interest Cover	54.9x	28.7x
Gearing (Net Debt to Total Equity)	11%	20%

1. Earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items

Pensions – Net Deficit



£m	2010	2009
UK Funded	0.6	3.7
Other Western Europe Funded	0.7	0.3
Other Western Europe Unfunded	9.5	10.0
Western Europe Total	10.8	14.0
North America Funded	0.5	0.6
Emerging Markets Unfunded	0.3	0.4
Total retirement benefit obligations	11.6	15.0

Segmental Revenue & Headline Operating Profit

2008 to 2010 Continuing Operations



£m	2008 *			2009			2010		
	H1	H2	FY	H1	H2	FY	H1	H2	FY
ADE Total									
Revenue	126.0	120.6	246.6	104.2	85.3	189.5	98.4	103.7	202.1
Operating Profit	25.4	24.5	49.9	11.7	13.0	24.7	15.0	20.1	35.1
AGI Total									
Revenue	197.3	169.3	366.6	123.7	122.2	245.9	147.9	149.8	297.7
Operating Profit	26.0	8.6	34.6	(10.7)	(1.6)	(12.3)	13.2	14.0	27.2
Group Total									
Revenue	323.3	289.9	613.2	227.9	207.5	435.4	246.3	253.4	499.8
Operating Profit	46.7	32.1	78.8	(1.7)	9.7	8.0	22.5	29.6	52.1

* 2008 restated at 2010 rates

