

2010 Interim Results

28 July 2010



Stephen Harris

Chief Executive



Honeycomb brazing

Specialised process for applying honeycomb to aircraft and IGT engine components to provide abradable seals.

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

Highlights



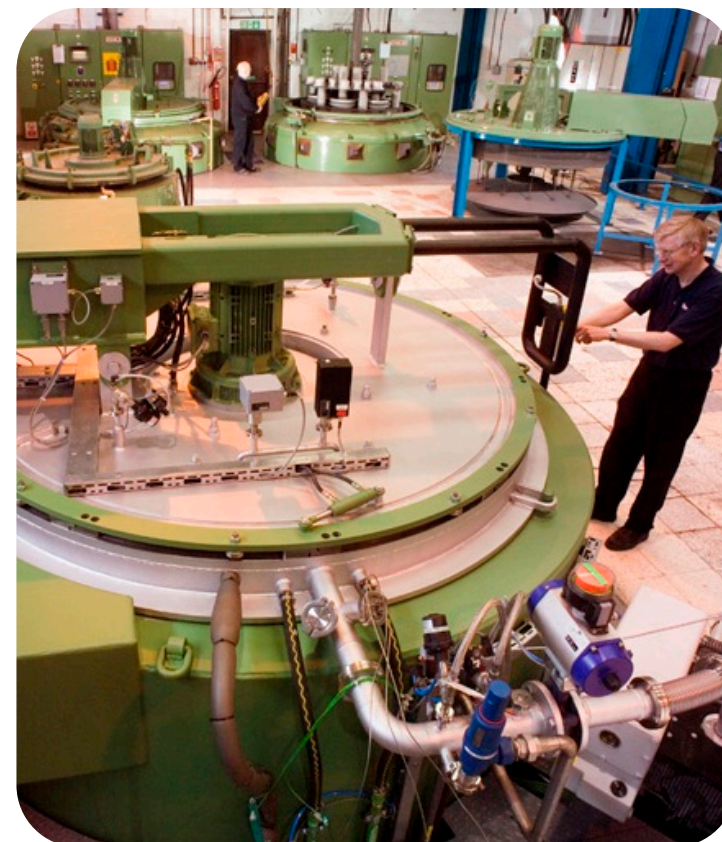
- Demand: Recovery started but uneven across sectors
- Revenue: 8.1% higher than H1-2009
- Headline margin: 9.1% (compared to -0.7% H1-2009)
- Restructuring: Cost savings £12.7m higher than H1-2009
- Cash: Profit to cash conversion at 100%
- Capital expenditure: Tightly controlled and below depreciation
- Interim dividend: Unchanged at 2.95p, to be paid in November

Financial Review



David Landless

Group Finance Director



Gas nitriding

Controlled treatment for high surface hardness, improved fatigue properties and strength, with minimal component distortion.

Interim Results Summary



£m	H1-2010	H1-2009
Revenue	246.3	227.9
Headline EBITDA ¹	48.2	24.5
Headline EBITDA margin %	19.6%	10.8%
Headline operating profit / (loss) ²	22.5	(1.7)
Headline operating profit margin %	9.1%	(0.7%)
Headline profit / (loss) before taxation ²	19.6	(4.0)
Operating cash flow ³	22.5	14.5
Basic headline earnings / (loss) per share (pence) ²	7.8	(0.2)
Dividend per share (pence)	2.95	2.95

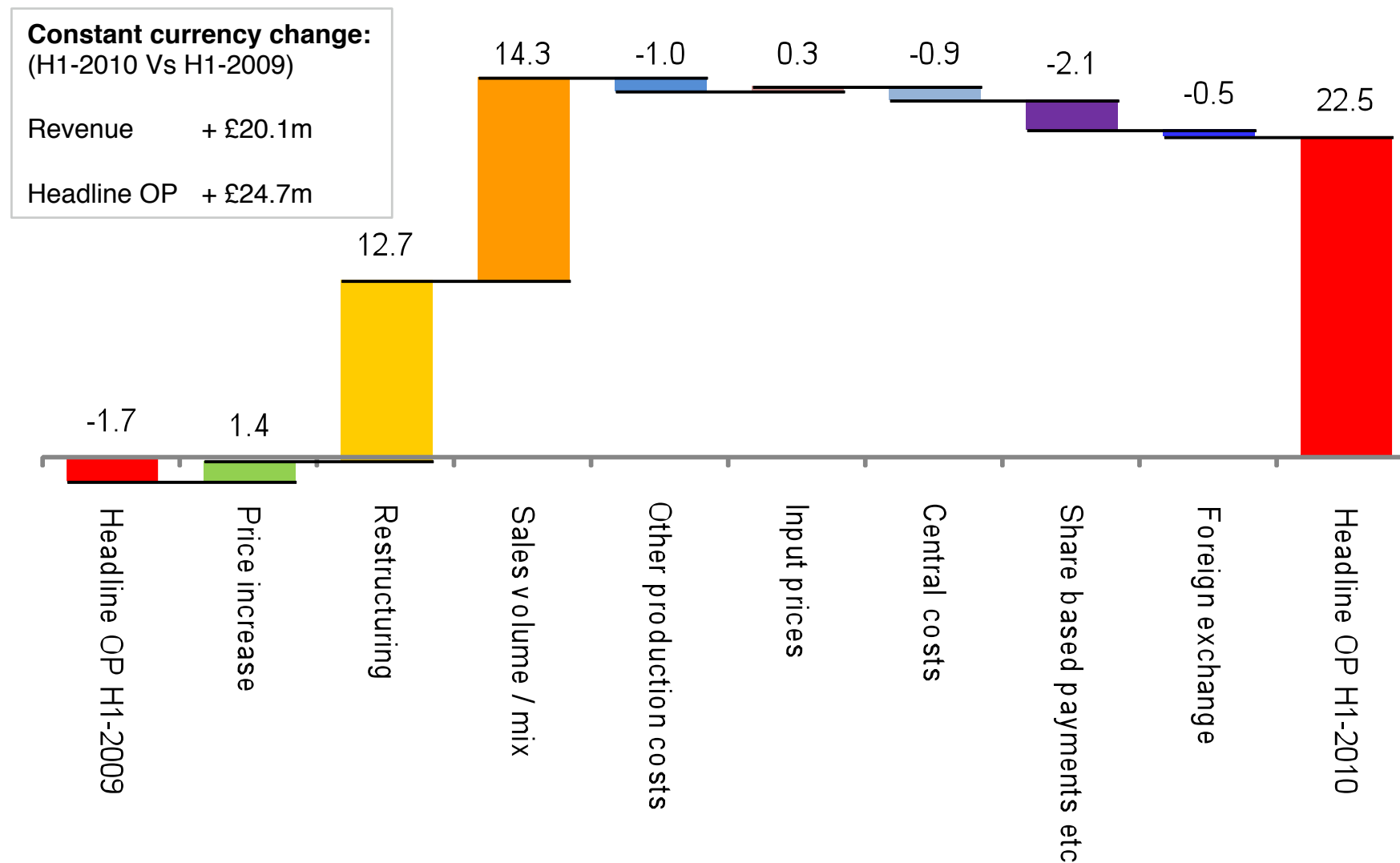
1 Earnings before exceptionals, interest, tax, depreciation, amortisation, impairment and share based payments

2. Pre exceptional items

3. Cash generated by operations less net capital expenditure

Profit Bridge

£m



Restructuring



£m	Cash
Period	Spend
Spent to Dec 09	21.3
H1-2010	6.2
H2-2010	9.7
After 2010	11.3
Total	48.5

- £6.2m cash spent in H1-2010. No additional P&L charge
- Restructuring complete in most parts of the Group. France, Brazil and Italy to be finished by end of Q1-2011
- Expenditure beyond Q1-2011 relates to environmental remediation
- Expected full year cumulative savings £44.5m

£m	Cumulative savings compared to pre-restructuring base (2008)			
Period	Total	Western Europe	North America	Emerging Markets
H1-2009	9.3	6.1	3.0	0.2
Incremental H1-2010	12.7	9.2	2.6	0.9
H1-2010	22.0	15.3	5.6	1.1

Operating Cash Flow



£m	H1-2010 Total	H1-2009 Total
Headline EBITDA¹	48.2	24.5
Cash exceptional items	-	(11.4)
EBITDA²	48.2	13.1
Working capital movement	(4.1)	19.2
Provision movement	(5.9)	1.9
Net capital expenditure	(15.7)	(19.7)
Operating cash flow	22.5	14.5
Interest	(2.9)	(2.9)
Taxation	(2.6)	(27.0)
Free Cash Flow	17.0	(15.4)

- Ongoing effective tax rate expected to be c.27% (H1-2010: 26.7%)

1 Earnings before exceptionals, interest, tax, depreciation, amortisation, impairment and share based payments

2 Earnings before interest, tax, depreciation, amortisation, impairment and share based payments

Net Debt



£m	Net Debt
Opening balance (as at 31 Dec 09)	(85.5)
Movement in net debt due to:	
Free cash flow	17.0
Dividends paid	(15.6)
Currency movement	0.1
Maturing currency swaps	(3.0)
Other	(0.5)
Closing balance	(87.5)

- Low net debt, conservative gearing
- Committed facility headroom of £116m
- 2009 final and interim dividends paid in H1-2010

Finance Charge



£m	H1-2010	H1-2009
Interest and financing costs	(2.1)	(1.4)
Other bank charges	(0.3)	(0.3)
Pension finance charge	(0.5)	(0.6)
Finance charge	(2.9)	(2.3)

- Effective interest rate including fees of 4.3%
- Bodycote continues to benefit from an advantageous margin on the 2013, €125m facility, agreed pre-credit crisis
- Financing costs increased due to fees relating to refinanced £110m and \$20m bank facilities

Stephen Harris

Chief Executive

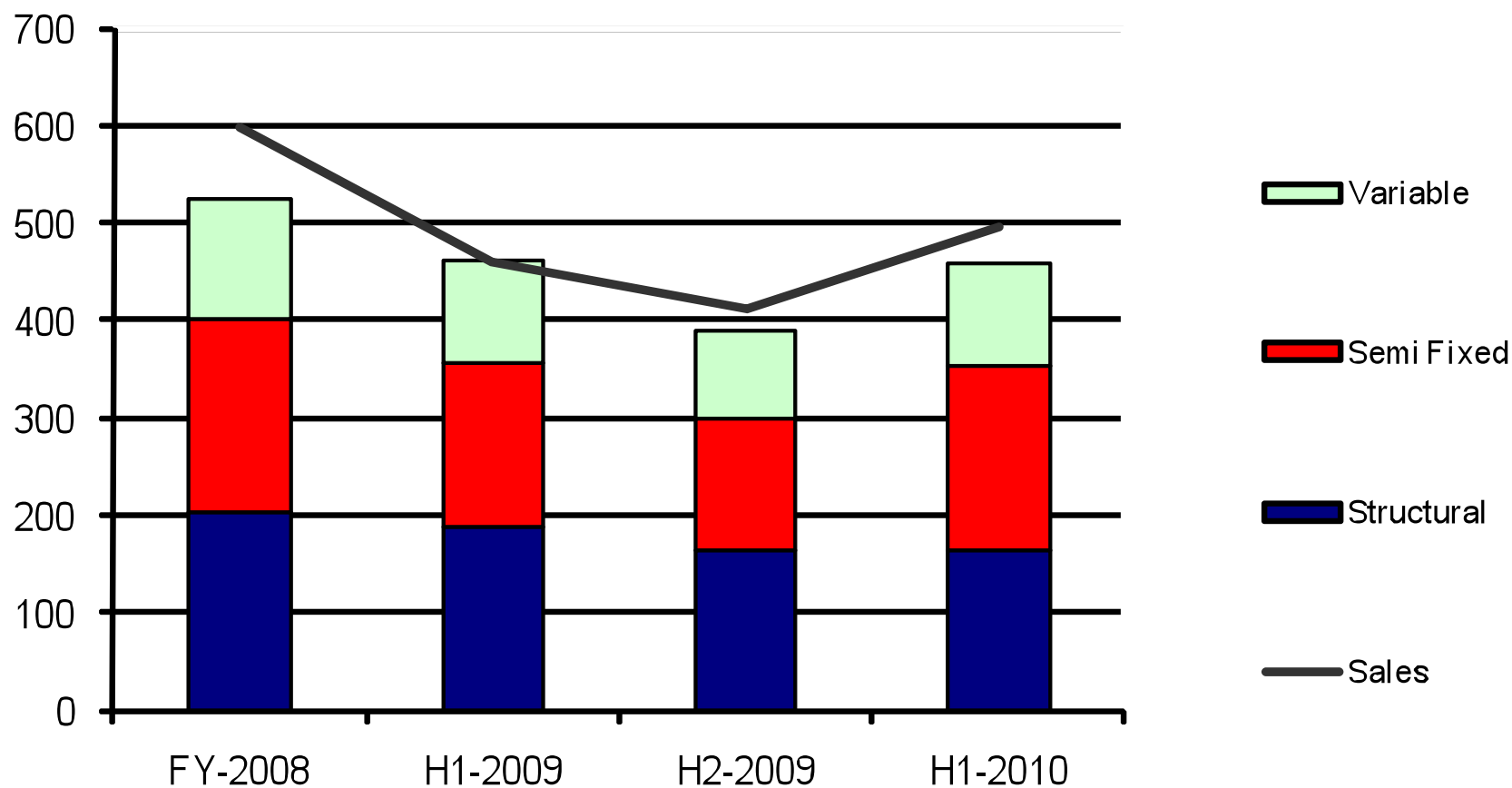


HIP of Tungsten Carbide

Hot Isostatic Pressing eliminates closed porosity and gives a high surface finish to tungsten carbide.

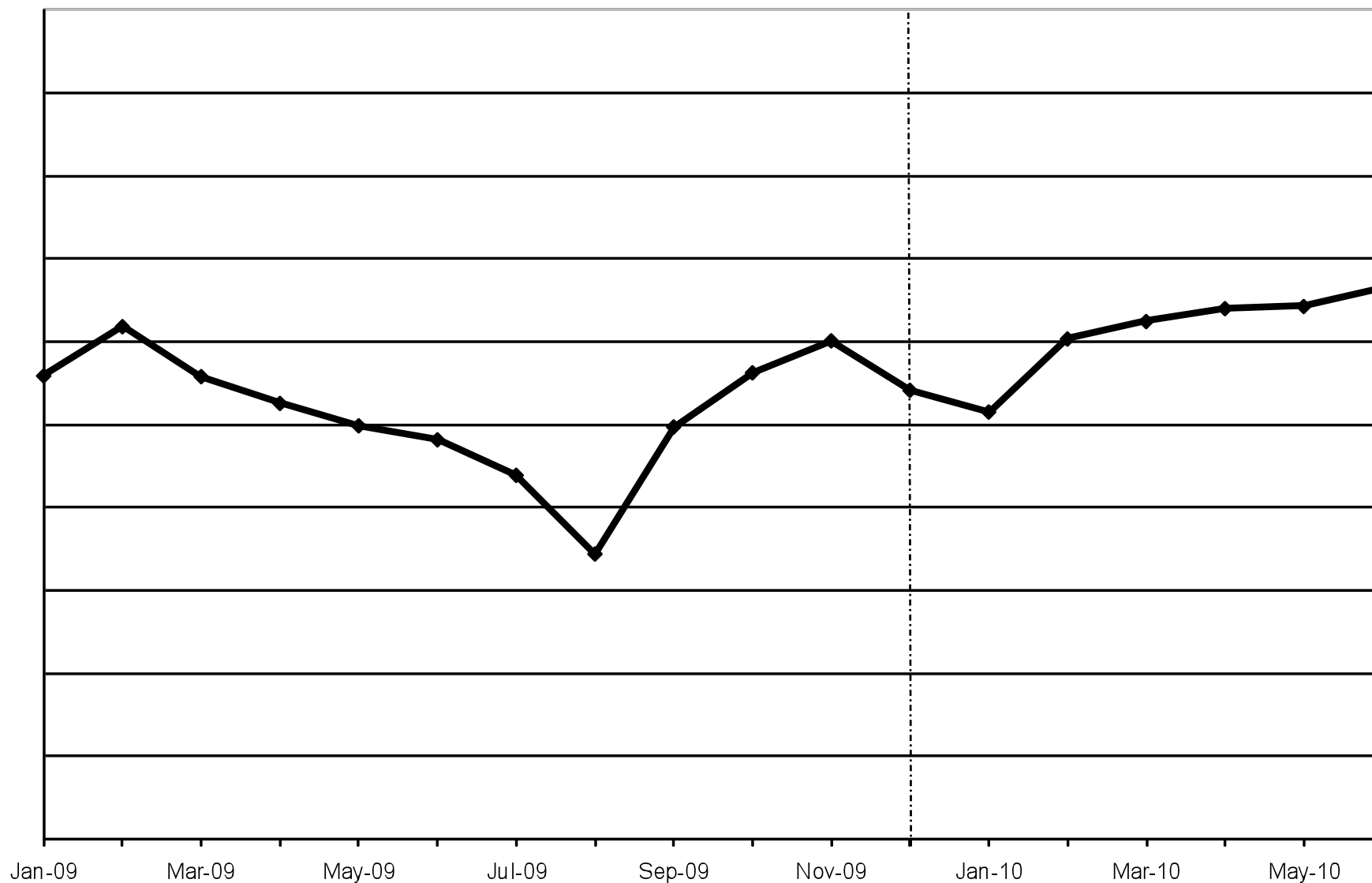
Costs By Type

Annualised £m at Constant Exchange Rates



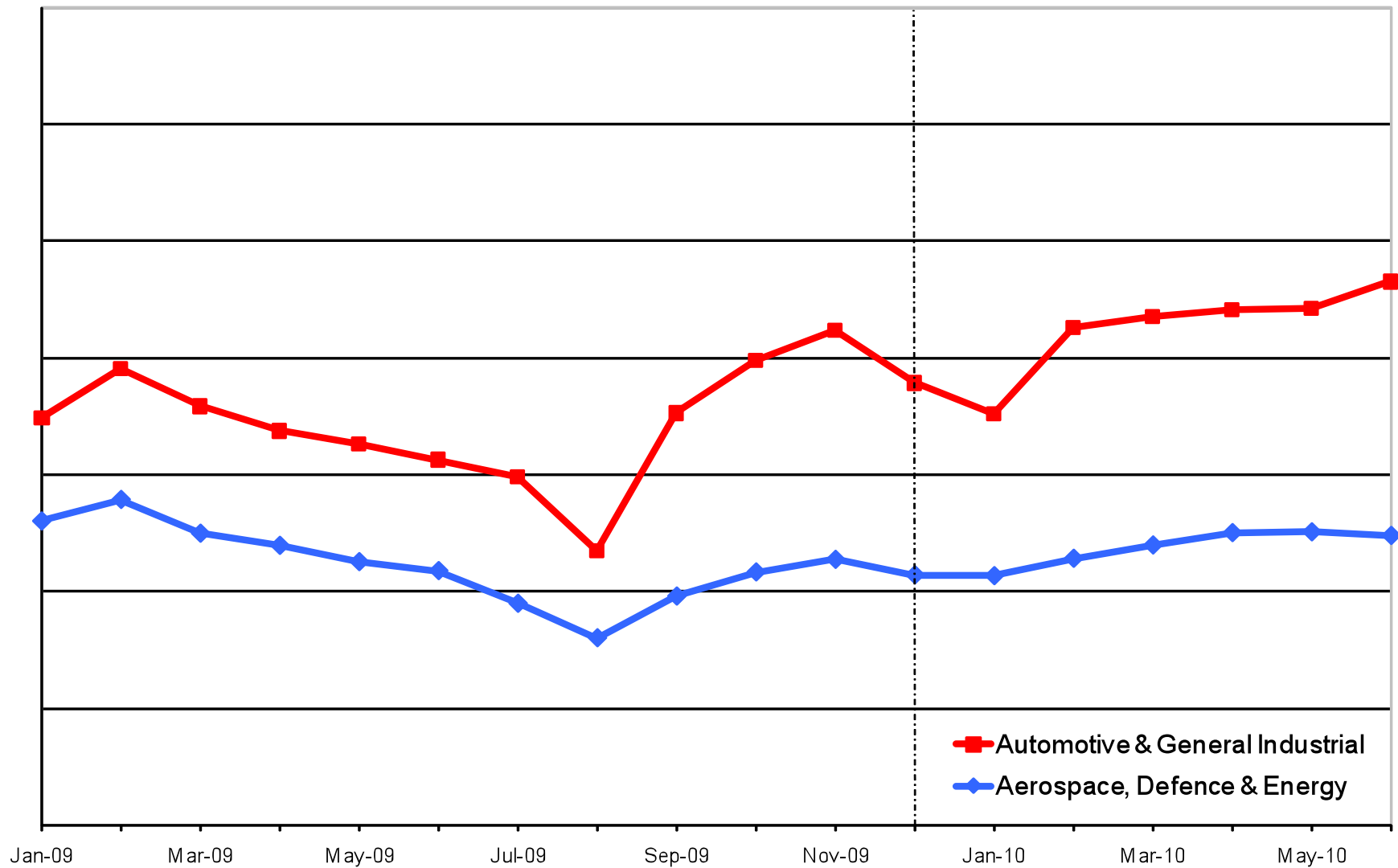
Daily Sales Trend – Group

Constant Exchange Rates

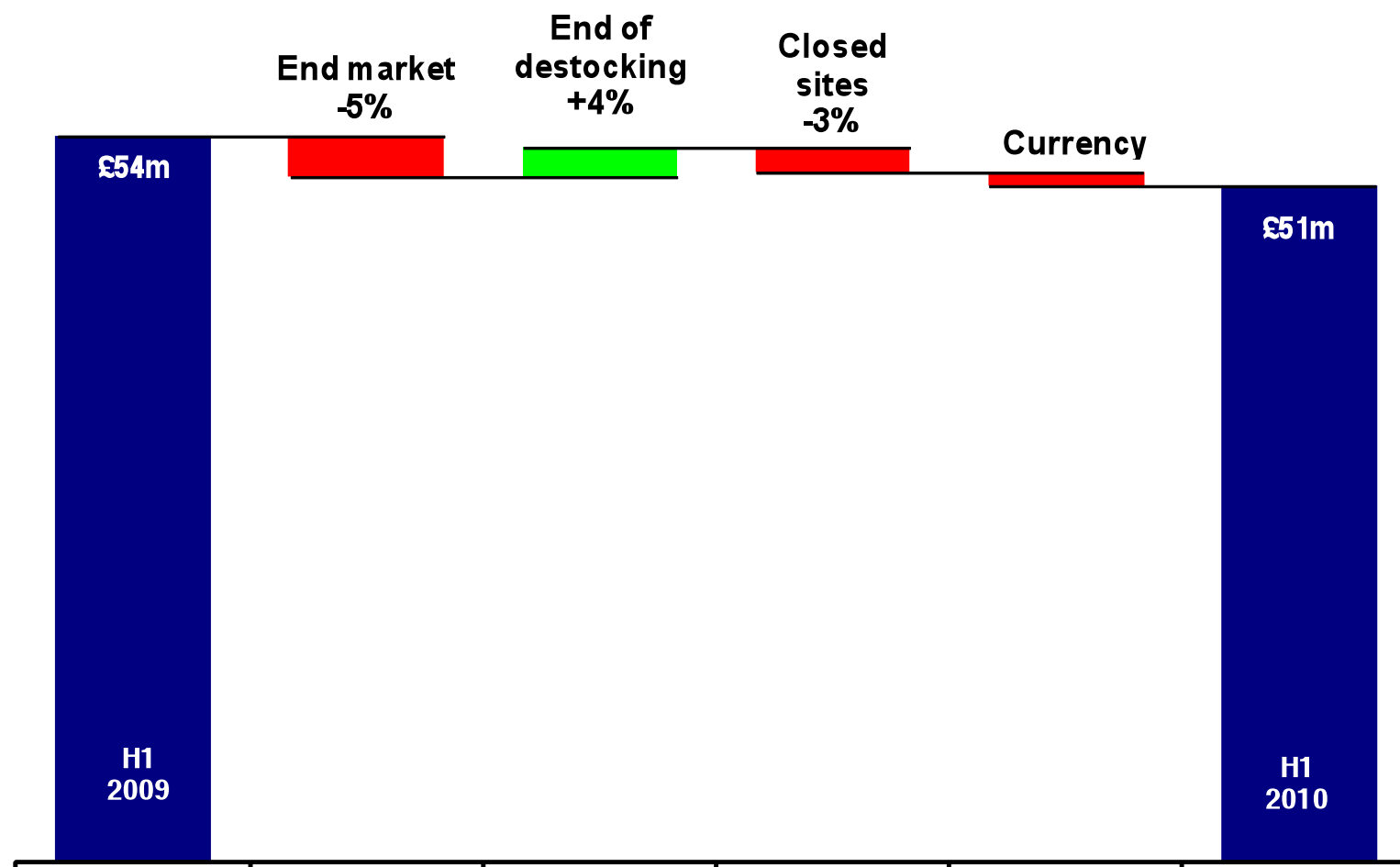


Daily Sales Trend – By Business

Constant Exchange Rates

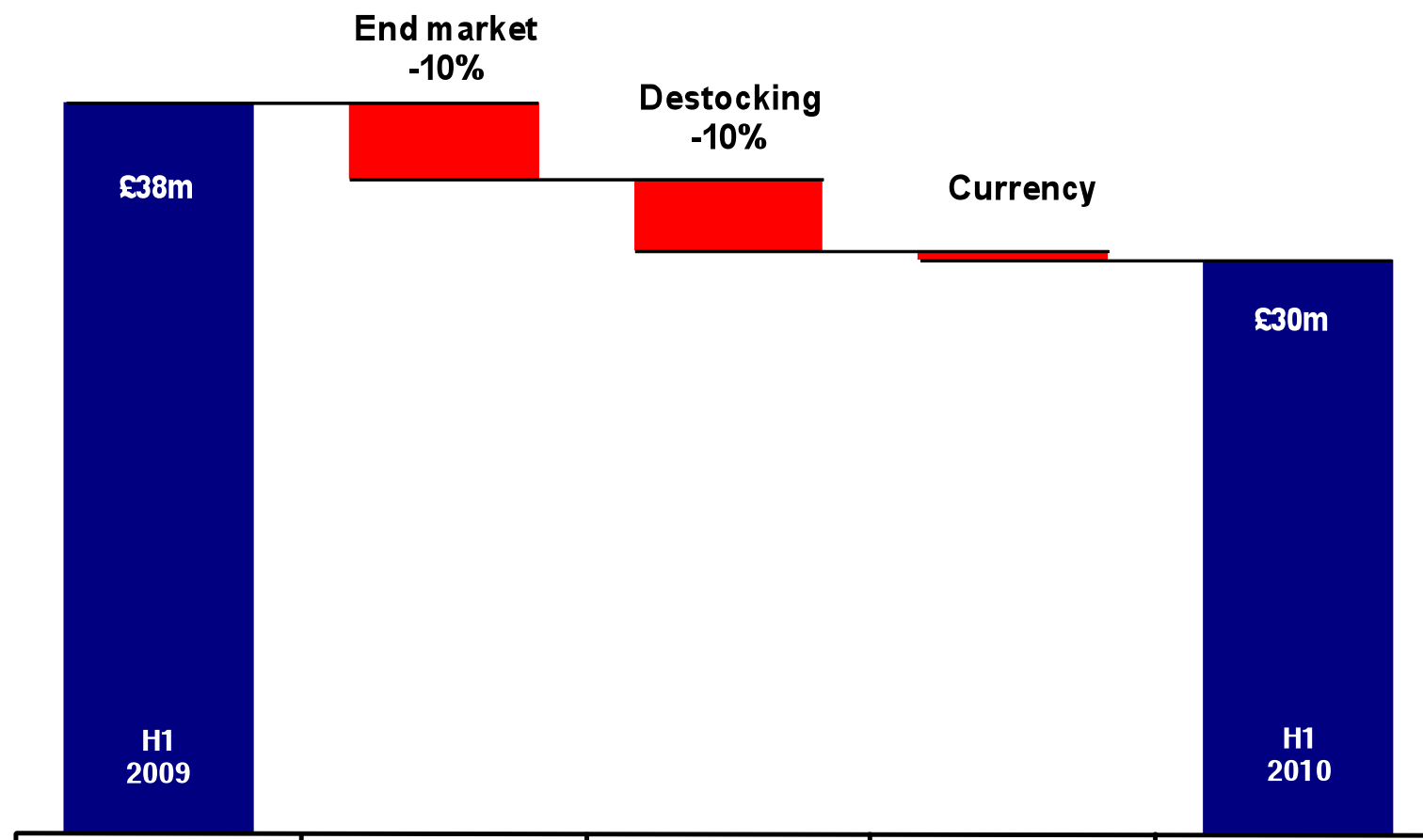


Demand - Aerospace & Defence Sector



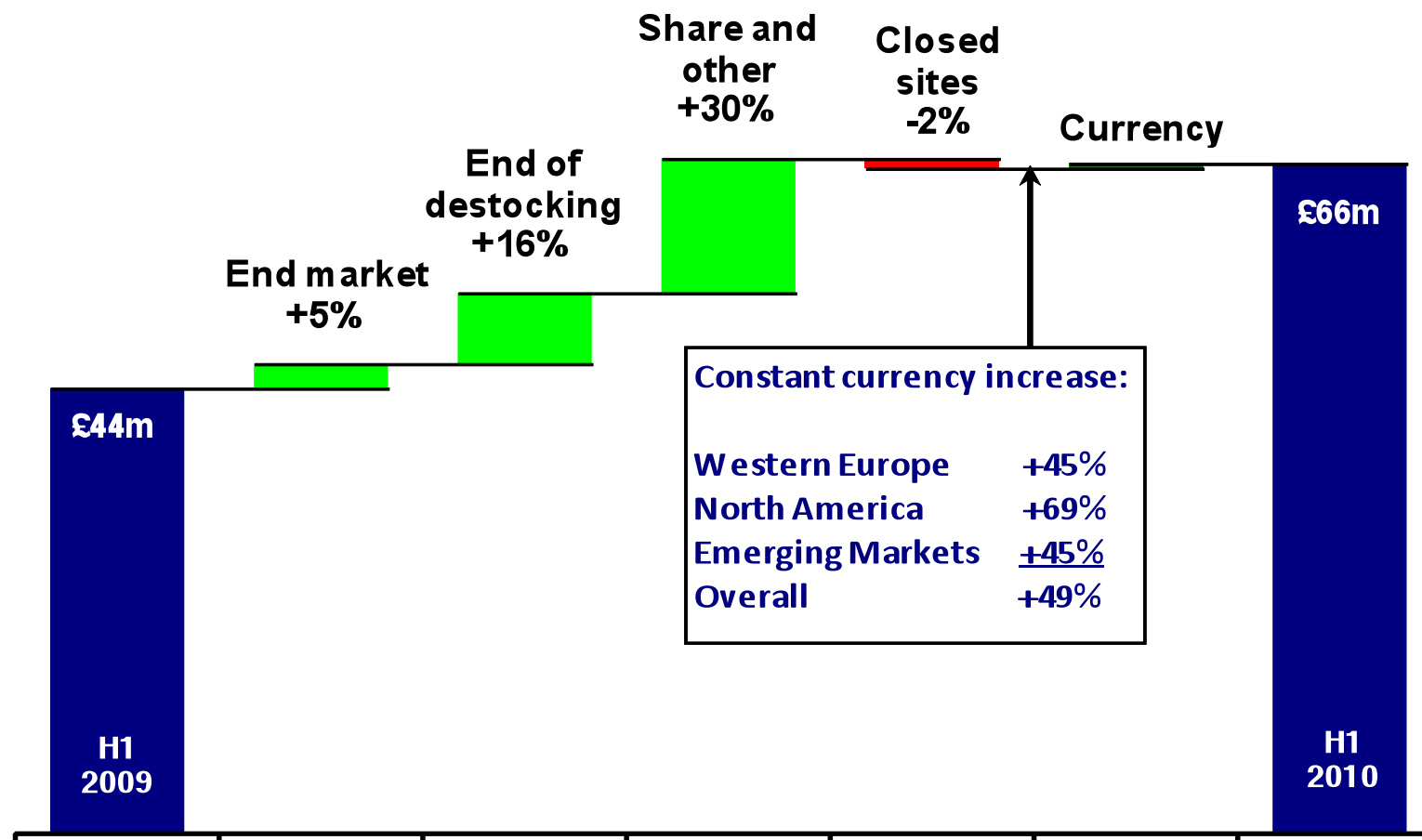
- Some modest destocking continues, at a lower rate than witnessed last year

Demand – Energy Sector



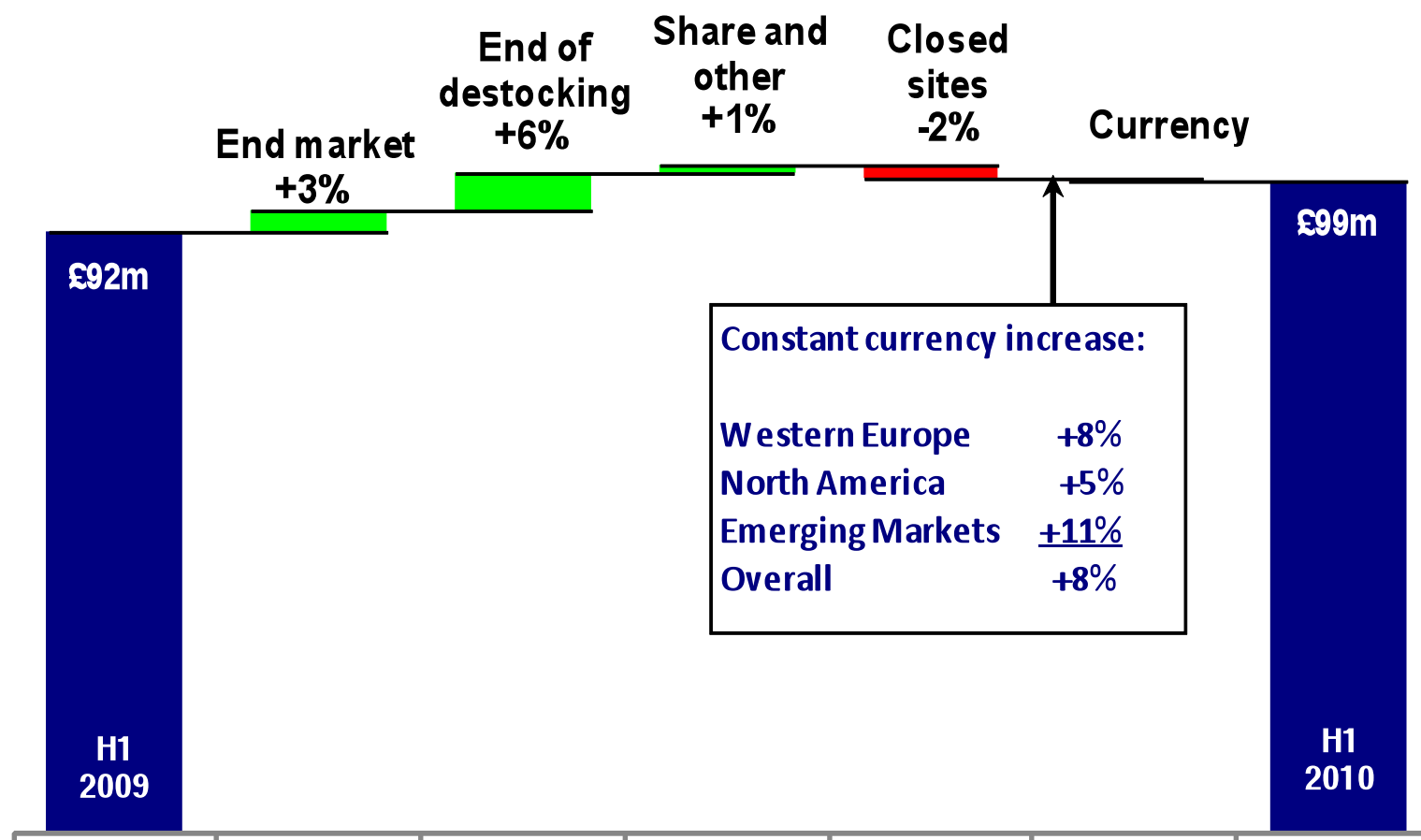
- Improvement in oil and gas demand
- Power generation very weak due to lower industrial gas turbine demand and destocking in Europe

Demand - Automotive & Truck Sector



- 'Share' includes change in market share with respect to **direct** and **indirect** (substitute) competition as well as **outsourcing** and reversal of insourcing
- 'Other' includes price and mix

Demand - General Industrial Sector



- 'Share' includes change in market share with respect to **direct** and **indirect** (substitute) competition as well as **outsourcing** and reversal of insourcing
- 'Other' includes price and mix

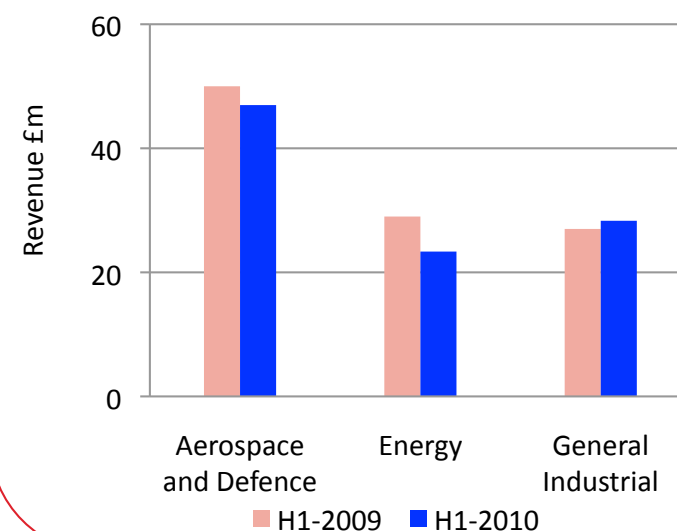
Aerospace, Defence & Energy



£m	H1-2010	H1-2009	Change	Constant Currency
Revenue	98.4	104.2	-6%	-4%
Operating Profit ¹	15.0	11.7	28%	31%

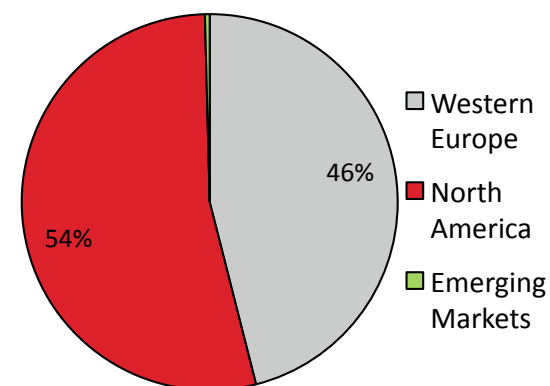
- Steady demand from aerospace OEMs
- Aerospace aftermarket weak, as flying hours remain low
- Continued weakness in power generation, particularly in Europe

Market Sector



Geographic Analysis

	H1-2010 Revenue	Revenue growth (constant FX)	Operating Profit Margin
Western Europe	45.3	-7%	15%
North America	52.7	0%	16%
Emerging Markets	0.4	33%	Loss making
ADE Total	98.4	-4%	15%



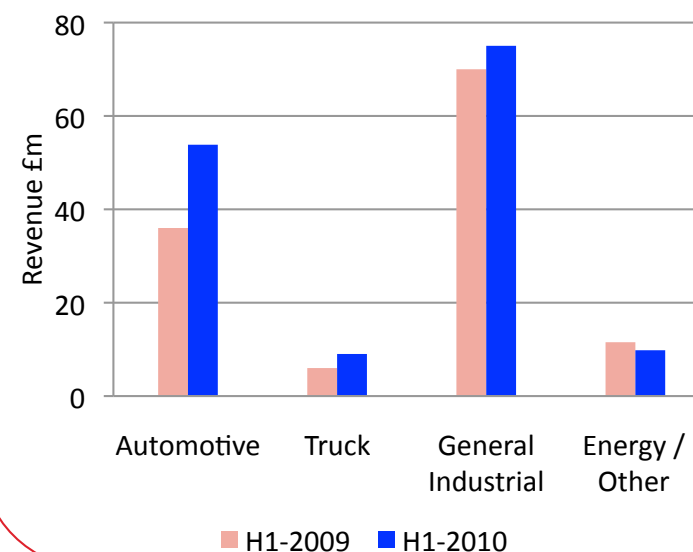
Automotive & General Industrial



£m	H1-2010	H1-2009	Change	Constant Currency
Revenue	147.9	123.7	20%	19%
Operating Profit ¹	13.2	-10.7	223%	224%

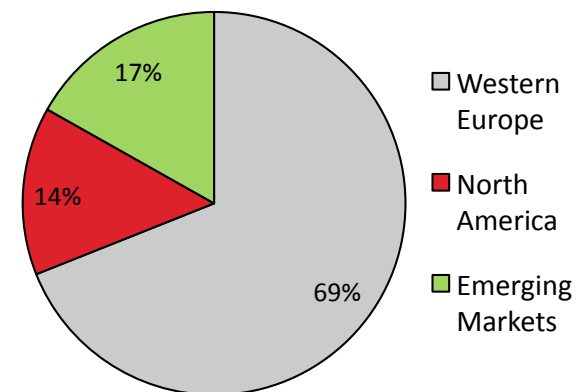
- Widespread and strong recovery in automotive sales
- General industrial performance improved at a slower rate

Market Sector



Geographic Analysis

	H1-2010 Revenue	Revenue growth (constant FX)	Operating Profit Margin
Western Europe	102.0	15%	9%
North America	21.0	33%	15%
Emerging Markets	24.9	25%	2%
AGI Total	147.9	19%	9%



Strategic Progress



Retain benefit of lower cost base following restructuring	<ul style="list-style-type: none">• Gearing of 132%, equivalent to 63% without restructuring	✓
Selective capex regime	<ul style="list-style-type: none">• Capex to depreciation ratio 0.7x	✓
Enhance business processes	<ul style="list-style-type: none">• Increased value of sales mix	✓
Enhance 'bench strength'	<ul style="list-style-type: none">• Management team strengthened further	✓
Migrate with our customers	<ul style="list-style-type: none">• Additional capacity and new technologies deployed in emerging markets	✓
Drive growth of chosen proprietary technologies	<ul style="list-style-type: none">• Special focus technology business units gaining considerable traction	✓

In the recent Trading Update, issued on 9 July 2010, the Board stated that the Group has continued to see a steady and broad based improvement in demand since the time of the Interim Management Statement on 28 April 2010, as evidenced in these interim results, and noted that future demand levels remain uncertain and possibly uneven. Sales in the second half are expected to be impacted by the usual seasonal pattern of customer requirements and are therefore likely to be lower than in the first half.

The Board's expectations for the full year have not changed since the Trading Update, assuming that current levels of demand are sustained and allowing for normal seasonal differences.

Against this background, the Board is confident that execution of the Group's strategy will deliver superior shareholder returns over the medium term.



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H1-2010 Statutory Income Statement



£m	H1-2010	H1-2009
Revenue	246.3	227.9
Headline operating profit / (loss)¹	22.5	(1.7)
Amortisation of acquired intangible fixed assets	(0.5)	(0.7)
Impairment charge	-	(28.6)
Major facility closure costs	-	(19.8)
Operating profit / (loss)	22.0	(50.8)
Net finance costs	(2.9)	(2.3)
Profit / (loss) before taxation	19.1	(53.1)

Earnings / (loss) per share	Pence	Pence
Basic	7.6	(23.9)

1 Pre exceptional items

Financial Information



- Average shares in issue H1-2010: 185.1m (H1-2009: 185.9m)
- Exchange rates:

Currency	Description	H1-2010	H1-2009
Euro	Average (P&L)	1.15	1.11
	Closing (B/S)	1.24	1.18
US Dollar	Average (P&L)	1.53	1.48
	Closing (B/S)	1.51	1.65

- Net debt and interest related financial ratios:

Financial Ratios	30-Jun-10
Net Debt : EBITDA ¹	1.1x
EBITDA ¹ Interest Cover	44.2x
Gearing (Net Debt to Total Equity)	21%

1. Earnings before exceptionals, interest, tax, depreciation, amortisation, impairment and share based payments, calculated on a LTM basis

Pensions



£m	H1-2010	Dec-09	H1-2009
UK Funded	7.2	3.7	3.0
Other Western Europe Funded	0.3	0.3	1.9
Other Western Europe Unfunded	9.2	10.0	9.5
Western Europe Total	16.7	14.0	14.4
North America Funded	0.4	0.6	0.9
Emerging Markets Unfunded	0.5	0.4	(0.1)
Total retirement benefit obligations	17.6	15.0	15.2

Segmental Revenue

2006 to 2009 Continuing Operations



Aerospace, Defence & Energy (ADE) £m	2006			2007			2008			2009		
	H1	H2	FY	H1	H2	FY	H1	H2	FY	H1	H2	FY
Western Europe	35.9	34.9	70.8	42.7	43.1	85.8	55.9	54.8	110.7	49.5	41.8	91.3
North America	50.6	46.7	97.3	46.5	45.6	92.1	52.1	56.9	109.0	54.4	43.0	97.4
Emerging Markets	-	-	-	-	0.2	0.2	0.1	0.3	0.4	0.3	0.5	0.8
ADE Total	86.5	81.6	168.1	89.2	88.9	178.1	108.1	112.0	220.1	104.2	85.3	189.5

Automotive & General Industrial (AGI) £m	2006			2007			2008			2009		
	H1	H2	FY	H1	H2	FY	H1	H2	FY	H1	H2	FY
Western Europe	97.9	92.7	190.6	106.3	105.6	211.9	130.2	113.4	243.6	89.9	86.3	176.2
North America	22.3	18.3	40.6	16.5	15.4	31.9	16.5	17.1	33.6	15.8	14.9	30.7
Emerging Markets	5.2	9.4	14.6	20.1	23.2	43.3	28.0	26.5	54.5	18.0	21.0	39.0
AGI Total	125.4	120.4	245.8	142.9	144.2	287.1	174.7	157.0	331.7	123.7	122.2	245.9

Group Total	211.9	202.0	413.9	232.1	233.1	465.2	282.8	269.0	551.8	227.9	207.5	435.4
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Segmental Headline Operating Profit

2006 to 2009 Continuing Operations



Aerospace, Defence & Energy (ADE) £m	2006			2007			2008			2009		
	H1	H2	FY	H1	H2	FY	H1	H2	FY	H1	H2	FY
Western Europe	8.4	8.1	16.5	11.1	11.3	22.4	12.9	13.2	26.1	5.4	6.3	11.7
North America	9.3	9.0	18.3	8.4	9.3	17.7	9.8	10.1	19.9	6.5	6.8	13.3
Emerging Markets	-	(0.1)	(0.1)	(0.2)	(0.7)	(0.9)	(0.3)	(0.2)	(0.5)	(0.2)	(0.1)	(0.3)
ADE Total	17.7	17.0	34.7	19.3	19.9	39.2	22.4	23.1	45.5	11.7	13.0	24.7

Automotive & General Industrial (AGI) £m	2006			2007			2008			2009		
	H1	H2	FY	H1	H2	FY	H1	H2	FY	H1	H2	FY
Western Europe	13.4	11.2	24.6	18.0	15.3	33.3	20.3	7.2	27.5	(8.4)	(1.7)	(10.1)
North America	1.5	0.4	1.9	1.3	0.2	1.5	0.5	0.2	0.7	(0.3)	0.9	0.6
Emerging Markets	1.0	0.9	1.9	1.8	1.2	3.0	2.6	(1.0)	1.6	(2.0)	(1.8)	(3.8)
AGI Total	15.9	12.5	28.4	21.1	16.7	37.8	23.4	6.4	29.8	(10.7)	(2.6)	(13.3)

Head Office	(2.6)	(2.1)	(4.7)	(3.7)	(3.0)	(6.7)	(4.8)	0.7	(4.1)	(2.7)	(0.7)	(3.4)
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Group Total	31.0	27.4	58.4	36.7	33.6	70.3	41.0	30.2	71.2	(1.7)	9.7	8.0
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