

2009 INTERIM RESULTS

Introduction

- Stephen Harris – CEO

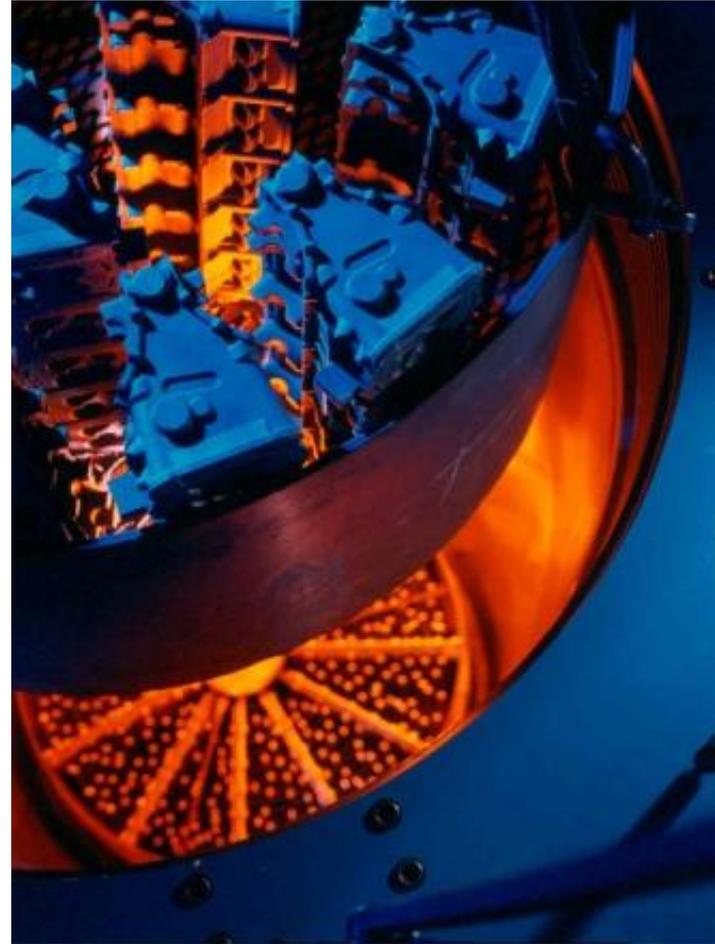


- Low Pressure Carburising -
Improved fatigue performance and cleanliness

- Revenue down 19.4% to £227.9m (2008: £282.8m) and 31.0% at constant exchange rates
- Headline operating loss of £1.7m (2008: profit £41.0m)
- Positive operating cash flow of £14.5m (2008: £29.0m)
- Restructuring programme extended and progressing as planned
- Unchanged interim dividend of 2.95p (2008: 2.95p) per share

Financial results

- David Landless – Group FD



- Hot Isostatic Pressing -

Casting densification and complex near net shapes

Interim Statutory Results (Continuing Operations)

	H1-2009 £m	H1-2008 £m
Revenue	227.9	282.8
Exceptional Items	(49.1)	(0.6)
Operating (Loss) / Profit	(50.8)	40.3
(Loss) / Profit Before Tax	(53.1)	38.2
Basic (Loss) / Earnings Per Share	(23.9) p	8.9 p

Interim Headline Results



Continuing Operations	H1-2009 £m	H1-2008 £m
Revenue	227.9	282.8
EBITDA ¹	24.5	66.0
Operating (Loss) / Profit ²	(1.7)	41.0
(Loss) / Profit Before Tax ³	(4.0)	38.8
Basic (Loss) / Earnings Per Share ⁴	(0.2) p	9.1 p

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

2 Pre exceptional items and share of associates' interest and tax.

3 Pre exceptional items and share of associates' tax.

4 Pre exceptional items.

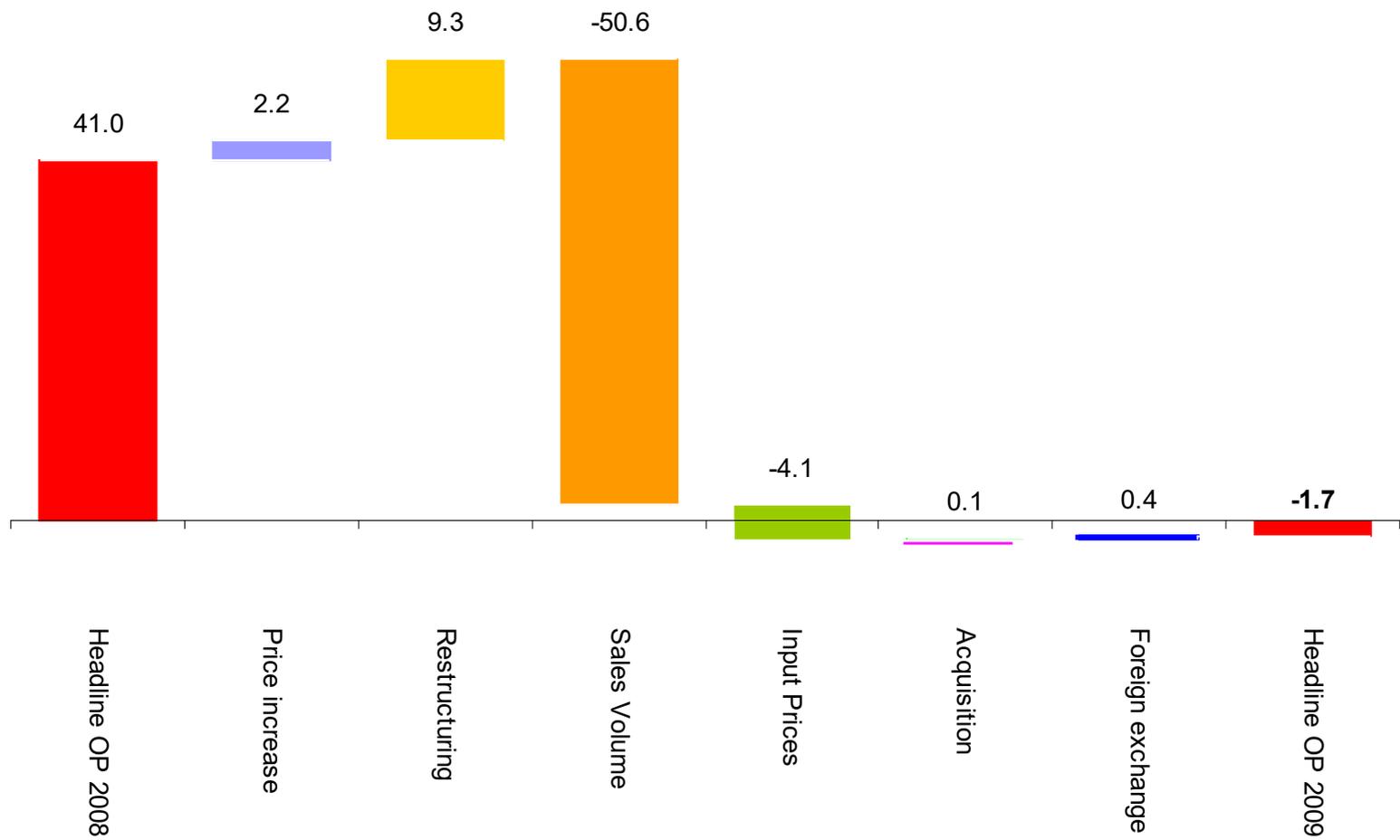
Profit Reconciliation



<u>Continuing Operations</u>	H1- 2009 £m	H1- 2008 £m
Headline (Loss) / Profit Before Tax ¹	(4.0)	38.8
Amortisation of acquired intangible fixed assets	(0.7)	(0.6)
Impairment charge	(28.6)	-
Major facility closure costs	(19.8)	-
(Loss) / Profit Before Tax	(53.1)	38.2

Profit Bridge

(Continuing Operations £m)



Operational Gearing – Current (with falling revenue)



%	UK/US	US	EUROPE	
	<u>Aero/Energy focus</u>	<u>Auto/General focus</u>	<u>Auto/General focus</u>	<u>HIP</u>
1 week	90	90	90	90
1 - 3 months	50	40	80	80
6 - 12 months	40	40	50	70
With site closures etc	30	30	30	N/A

	Asset Write Downs	Cash Costs	Total
<u>Exceptional charges</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
2008	42.7	34.9	77.6
H1 - 2009	8.4	11.4	19.8
Total	51.1	46.3	97.4

	£m
<u>Expenditure</u>	<u>£m</u>
2008	2.1
H1 - 2009	10.2
H2 - 2009	19.9
Later	14.1
Total	46.3

	Americas/Asia	Europe	Total
<u>Savings by Geography</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
H1 - 2009	3.2	6.1	9.3
H2 - 2009	5.0	14.0	19.0
2010	10.3	30.7	41.0

Revenue and Operating Profit - By Region



H1- 2008 £m		H1- 2009 £m	Western Europe £m	North America £m	Emerging Markets £m
	<u>Sales</u>				
256.6	Heat Treatment	204.3	127.4	58.2	18.7
<u>26.2</u>	Hot Isostatic Pressing	<u>23.6</u>	<u>11.9</u>	<u>11.7</u>	-
282.8	Thermal Processing	227.9	139.3	69.9	18.7
	<u>Headline Operating (Loss) / Profit¹</u>				
37.7	Heat Treatment	(2.7)	(4.5)	4.6	(2.8)
<u>8.1</u>	Hot Isostatic Pressing	<u>3.7</u>	<u>1.6</u>	<u>2.1</u>	-
45.8	Thermal Processing	1.0	(2.9)	6.7	(2.8)
<u>(4.8)</u>	Head Office	<u>(2.7)</u>			
<u>41.0</u>	Continuing Operations	<u>(1.7)</u>			

Summary Cash Flow



	H1-2009 £m	H1-2008 £m
Headline EBITDA ¹ - continuing operations	24.5	66.0
Headline EBITDA ¹ - discontinued operations	-	16.9
Headline EBITDA ¹	24.5	82.9
Cash exceptional items	(11.4)	-
EBITDA ²	13.1	82.9
Working capital movement - Exceptional	1.2	-
Working capital movement - Other	19.9	(17.3)
Net capital expenditure	(19.7)	(36.6)
Operating Cash Flow	14.5	29.0
Interest	(2.9)	(6.7)
Tax	(27.0)	(8.9)
Free Cash Flow	(15.4)	13.4

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.

	June 2009 £m	December 2008 £m
Cash	(63.6)	(258.4)
Debt	152.3	323.1
Net Debt	88.7	64.7

Impact

Reference rates Vs GBP

EUR	1.18	1.03
USD	1.65	1.44

- Gross Debt reduced by £170.8m in H1
- £225m RCF matures in August 2010 but plan to refinance in H2
- Significant margin increase and fees expected for any refinancing
- €125m RCF matures July 2013

	<u>H1-2009</u>	<u>H1-2008</u>
Net debt/EBITDA ¹	1.8x	1.6x
Gearing	21%	46%
Debtor Days	58	66

¹ Earnings before interest, tax, depreciation, amortisation, impairment and share-based payments. EBITDA Rolling 12 months.

- Stephen Harris – CEO



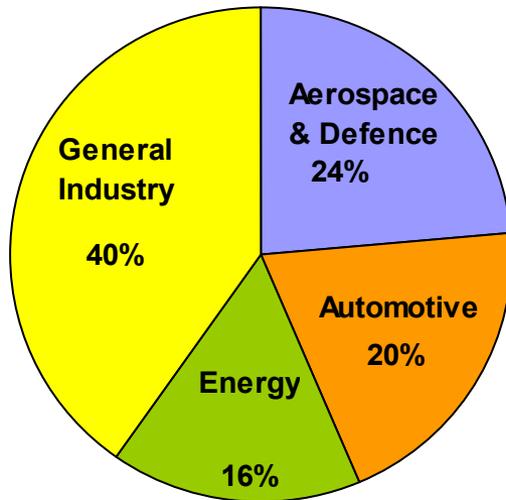
- Thermal Spray -

High performance coatings for corrosion and wear resistance

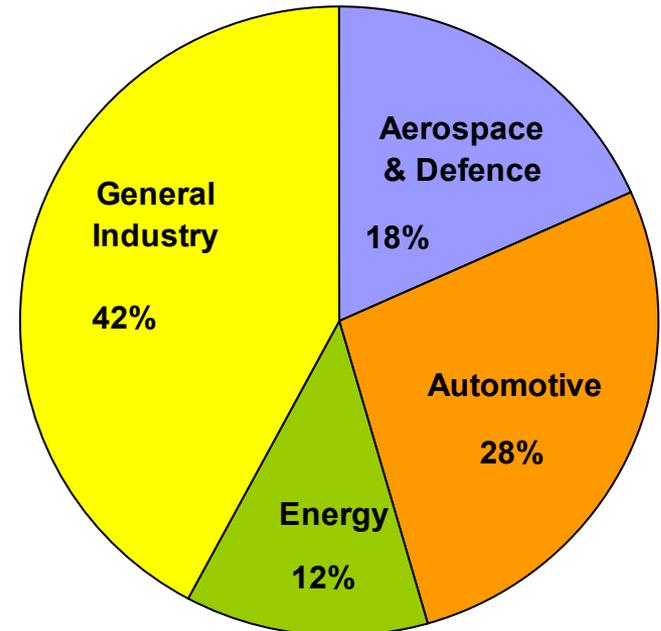
- What's happening in our markets
- What's happening in Bodycote
- Some insights into the period ahead

H1 Bodycote sales

2009 H1 £228m

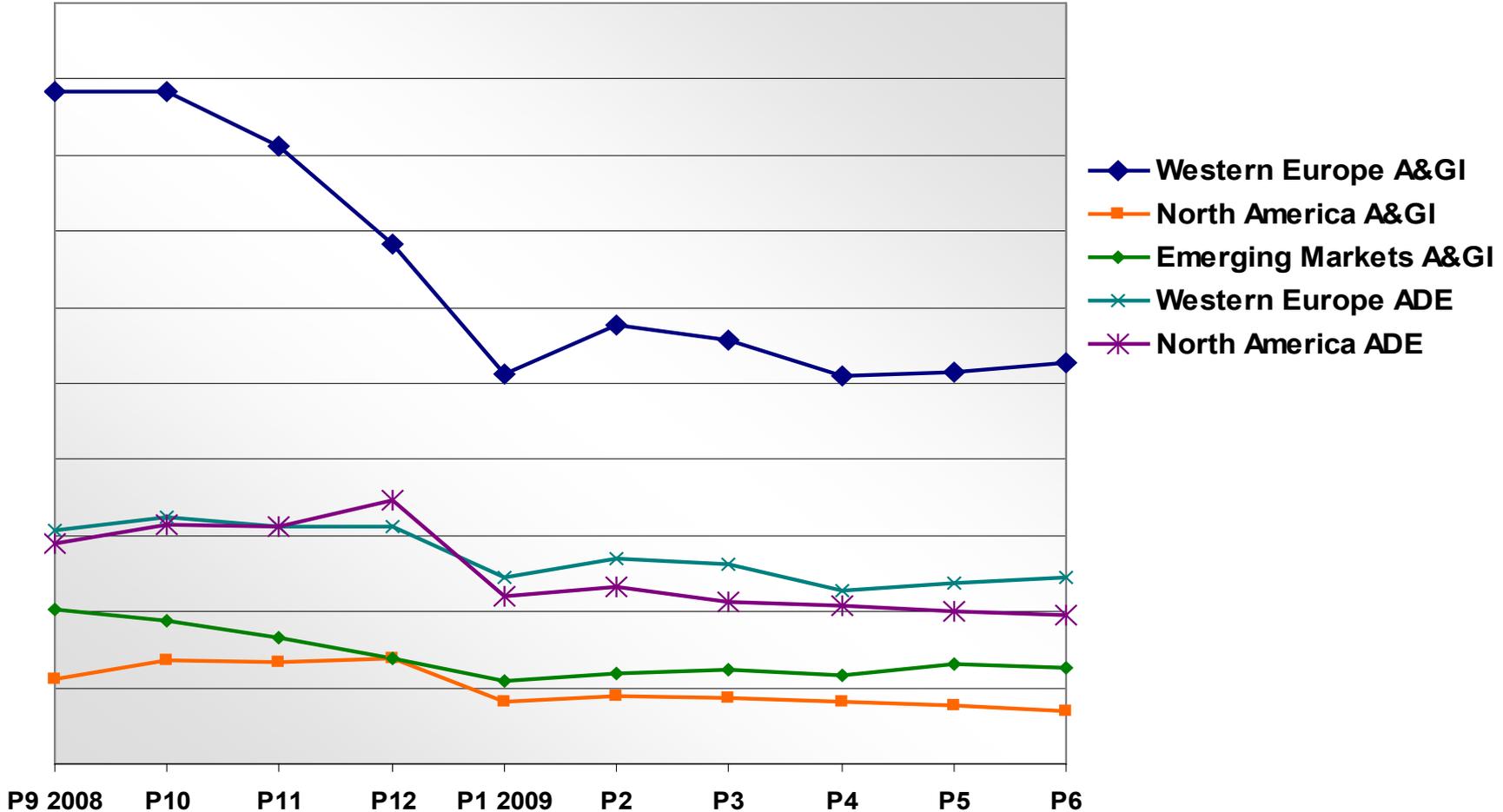


2008 H1 £283m

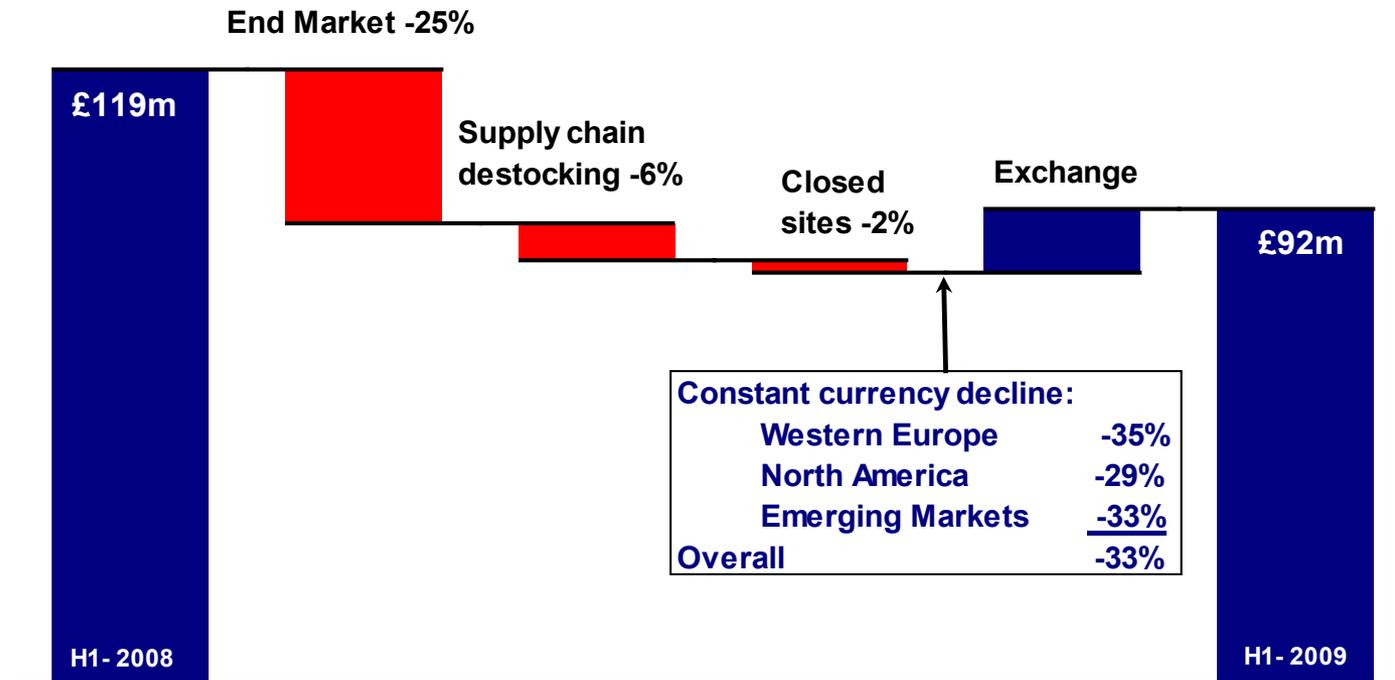


- Overall sales down 19% - Automotive is the most affected by far
- At constant exchange overall reduction is 31%

Average Daily Sales at Constant Exchange Rates



- Quarter 2 weaker than Quarter 1
- Run rate has stabilised
- Run rate will increase as destocking ends – and later as economy improves

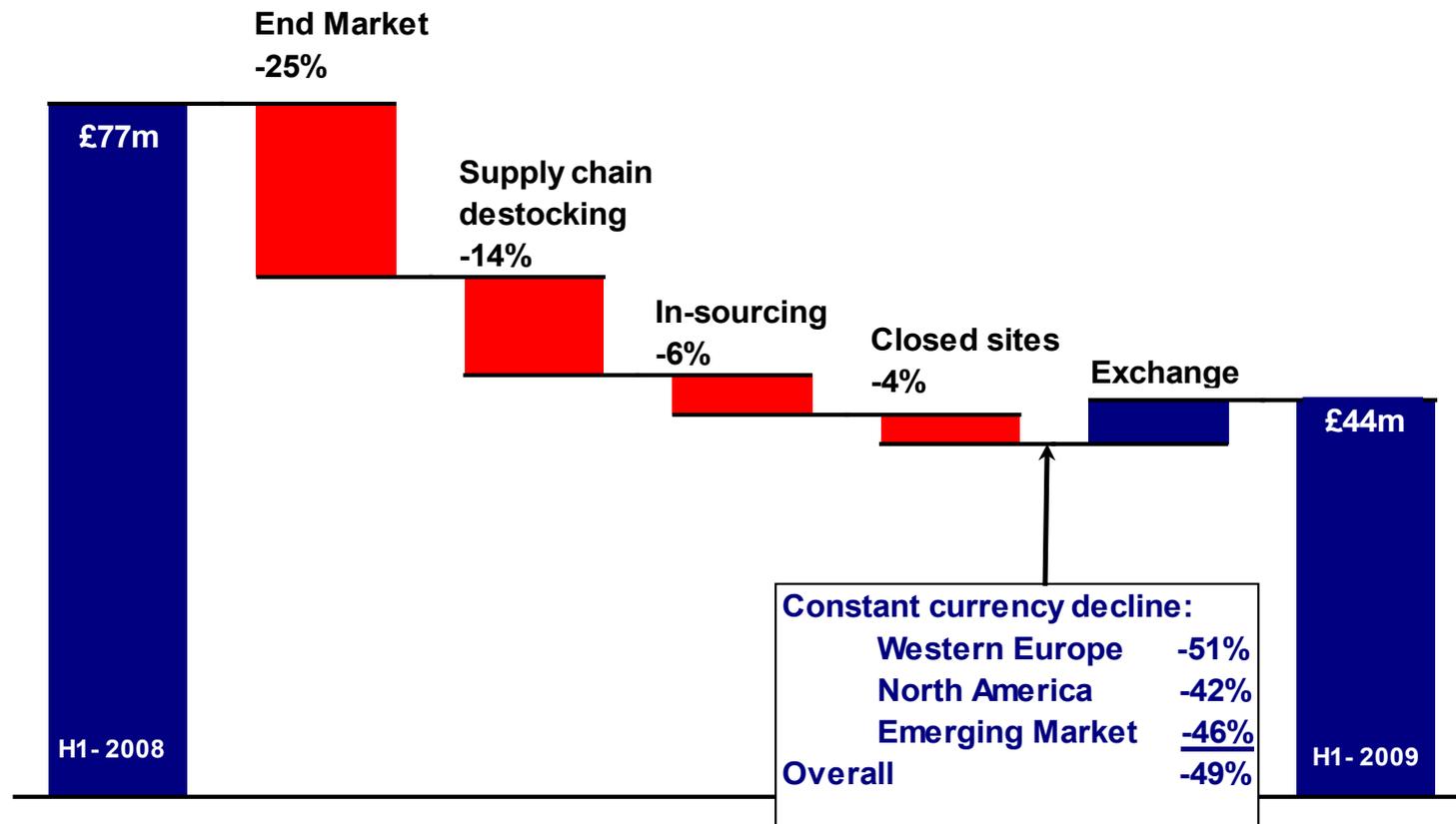


First Half

- Followed trends in capital goods
- NA slightly more buoyant
- Severe destocking in some sectors

Ahead?

- No early pick-up in End Markets
- Near term – destocking reverses

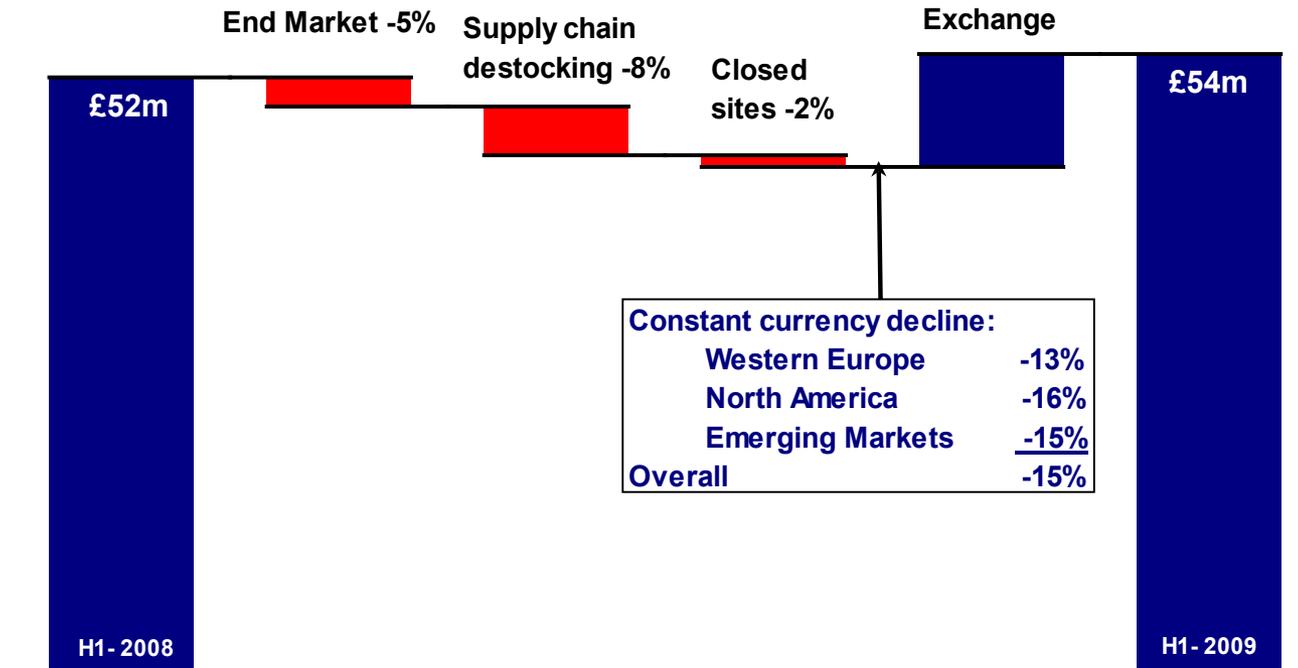


First Half

- Bodycote addressed market biased in Europe towards premium cars & diesel in particular – volumes impacted
- Supply chain destocking
- Spare capacity at primes and first tier suppliers caused in-sourcing

Ahead?

- No early pick-up in car volumes
- Trucks now starting slow recovery
- Near term – destocking reverses
- Longer term – In-sourcing reverses

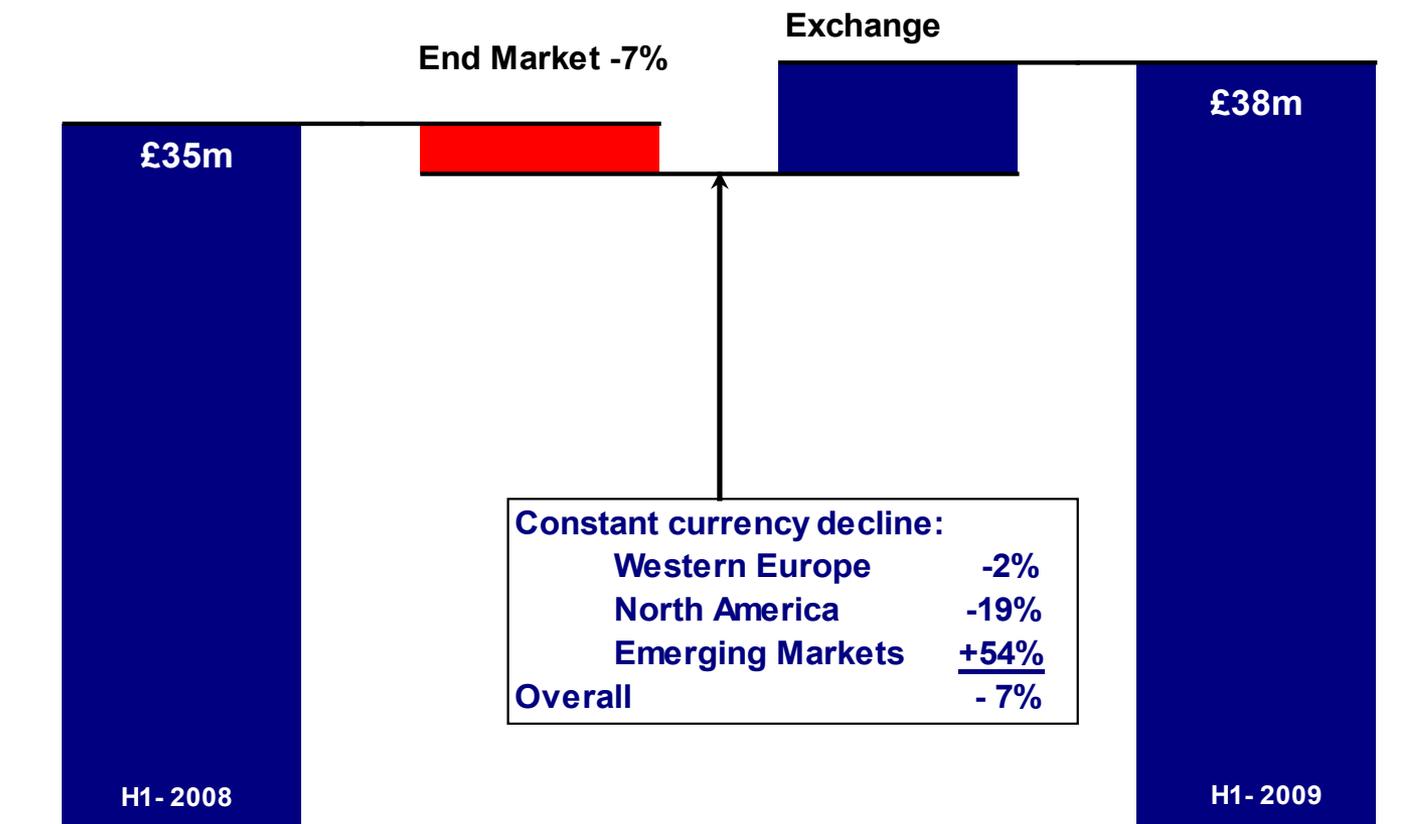


First Half

- Build rate of most platforms sustained
- Lower aircraft usage reduces aftermarket volumes
- Destocking in supply chain anticipating lower OE demand ahead

Ahead?

- OE volumes likely to reduce
- Destocking will end
- Delayed boost from Dreamliner



First Half

- Mixed picture:
 - Power gen – up 5%
 - Oil production – flat
 - Oil exploration – sharp decline

Ahead?

- Long term growth
- Pick up in exploration depends on oil & gas prices

Process Lines and Site Closure

• Sites closed	<u>Through H1 – 2009</u>	<u>H2 – 2009 & Later</u>
	17	16

- Process lines decommissioned:

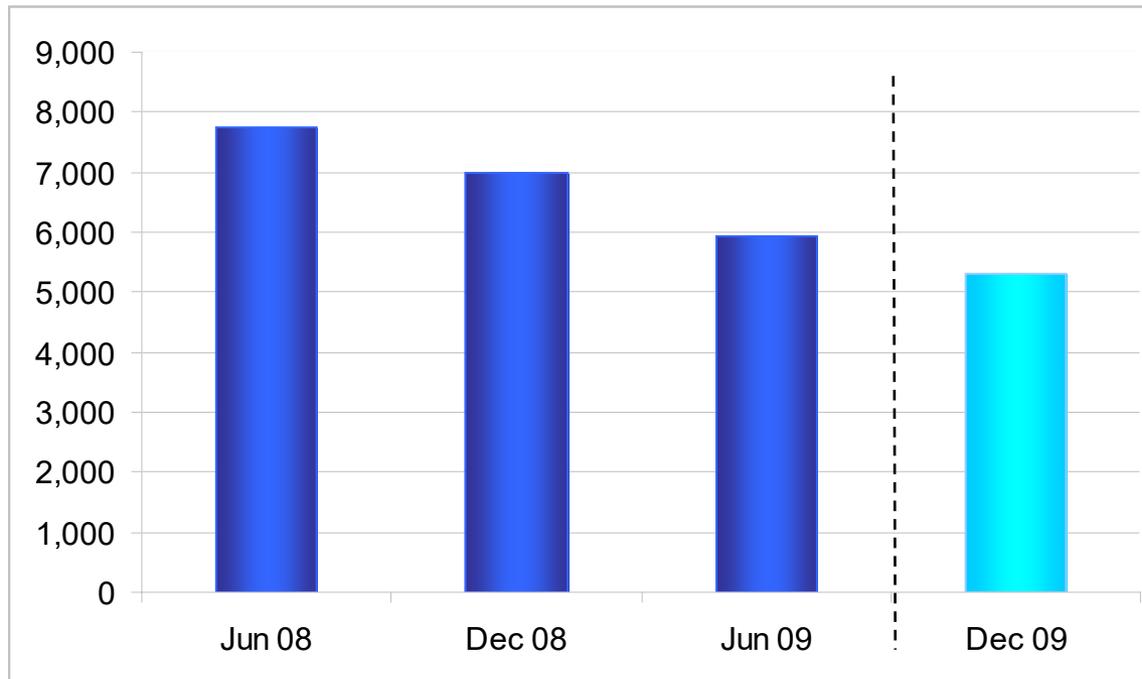
	<u>Through H1 – 2009</u>	<u>H2 – 2009 & Later</u>
Mothball	96	26
Taking out of service	93	29

End 2009

- Total sites left: 171
- Total Process lines operational: 1,709

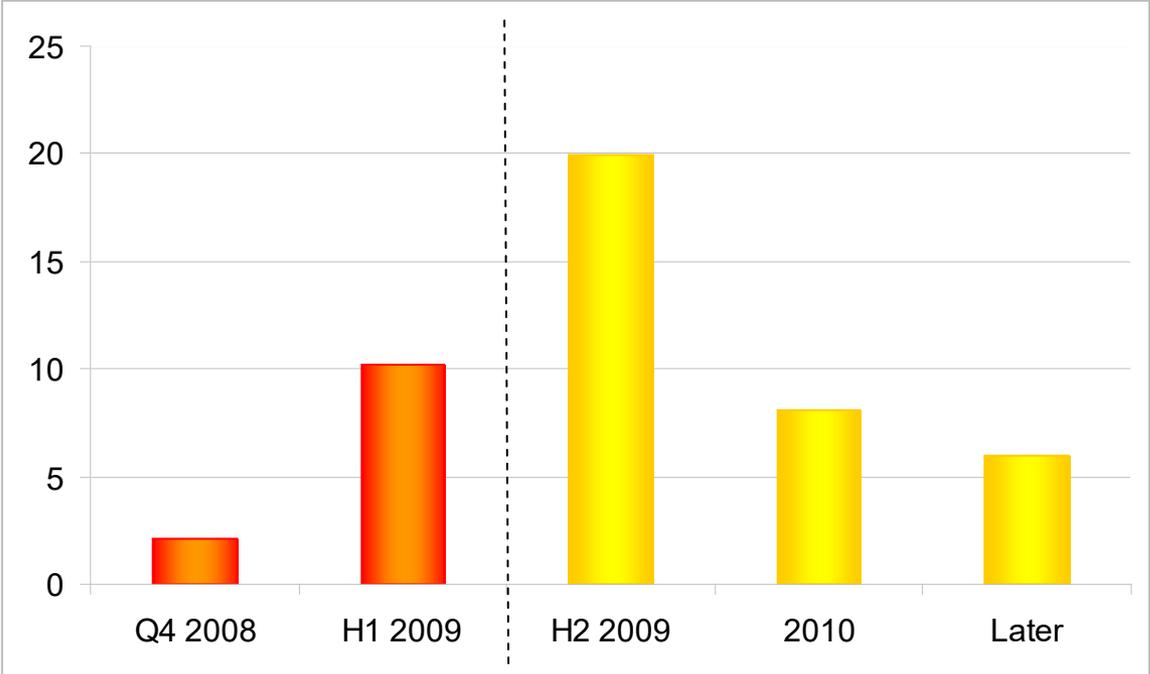
Matching costs to volume

Headcount

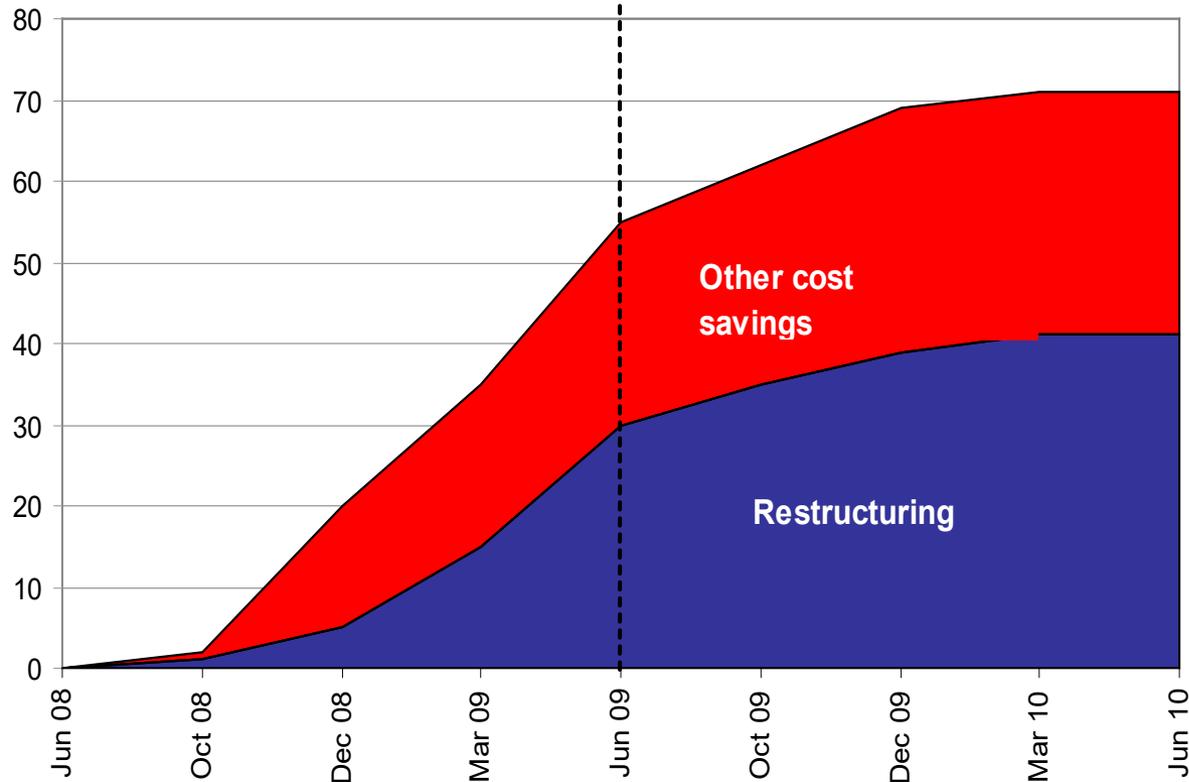


- June headcount is 23% down year on year
- Actions in hand achieve further 7% reduction

Restructuring Cash Spend (£m)



Restructuring Annualised Savings (£m)



- June - £30m restructuring savings run rate – plus £25m other personnel savings

Good things happening...



- Delayed management
- Selected new hires
- Increased focus on key markets and customers
- Market share

- Demand visibility limited
- Summer shutdowns expected to be longer than usual
- Aerospace and oil & gas demand continues to soften
- Restructuring extended, savings being delivered
- Final dividend to be assessed in the light of outlook in early 2010
- Poised to benefit from the upturn when it comes

2009 INTERIM RESULTS

- Average shares in issue, H1 - 2009 185.9m H1 - 2008 318.6m
- FX rates H1 2009 average vs H1 2008 average

	<u>H1 - 2009</u>	<u>H1 - 2008</u>
USD	1.48	1.98
EUR	1.11	1.29

- The 2009 anticipated tax rate on normal trading profit continues to be circa 25%.

Impact Of Exchange Rates



Continuing Operations	Sales £m	Headline Operating Loss ¹ £m
H1-2009 As Reported	227.9	(1.7)
H1-2009 Using H1-2008 Rates	195.2	(2.1)
Impact	32.7	0.4

Analysis Of Organic/Acquisition Growth



<u>Revenue</u>	HT £m	HIP £m	Head Office £m	Total £m
H1 2008	256.6	26.2	-	282.8
Organic ¹	(83.0)	(6.4)	-	(89.4)
Sales of acq.Subsidiaries	1.8	-	-	1.8
Currency	28.9	3.8	-	32.7
H1 2009	204.3	23.6	-	227.9

<u>Headline Operating(Loss) / Profit</u> ²				
H1 2008	37.7	8.1	(4.8)	41.0
Organic ¹	(40.4)	(5.0)	2.2	(43.2)
Acquisition	0.1	-	-	0.1
Currency	(0.1)	0.6	(0.1)	0.4
H1 2009	(2.7)	3.7	(2.7)	(1.7)

% margin				
H1 2009	(1.3)%	15.7%	-	(0.7)%
H1 2008	14.7%	30.9%	-	14.5%

1 Includes sales/operating profit from closed sites.

2 Pre exceptional items and share of associates' interest and tax.

YoY Change in Revenue



	TOTAL	Organic	Western Europe	Organic	North America	Organic	Emerging Markets	Organic
	%	%	%	%	%	%	%	%
<u>Revenue</u>								
Heat Treatment	(20.4)	(32.3)	(25.8)	(34.8)	2.3	(23.4)	(33.5)	(35.8)
Hot Isostatic Pressing	(9.9)	(24.4)	(16.8)	(22.4)	(1.7)	(26.9)	-	-
Thermal Processing	(19.4)	(31.6)	(25.1)	(33.9)	1.6	(23.8)	(33.5)	(35.8)

Headline Operating Margins



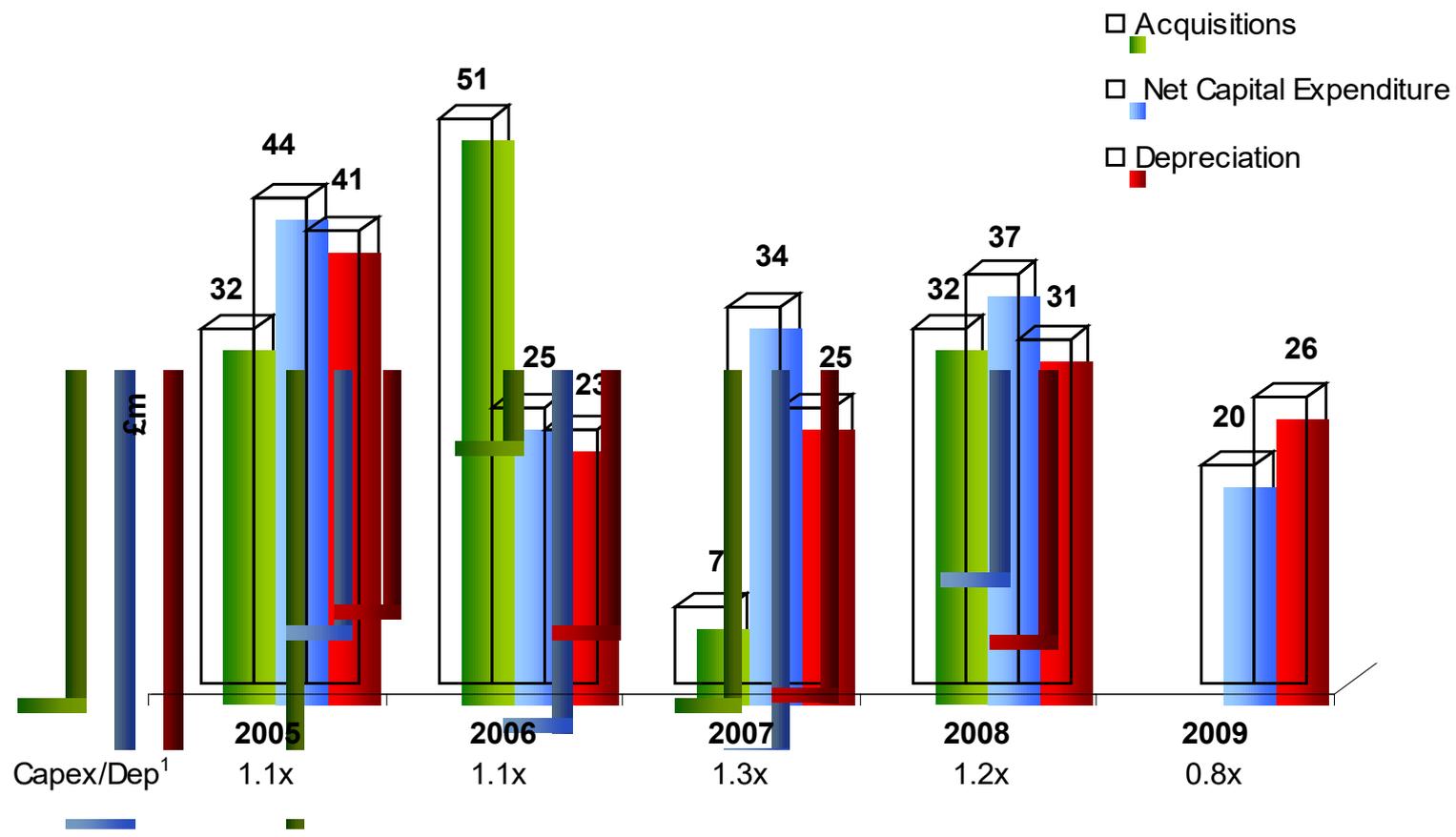
	TOTAL %		Western Europe %		North America %		Emerging Markets %	
	H1-2009	H1-2008	H1-2009	H1-2008	H1-2009	H1-2008	H1-2009	H1-2008
<u>Headline Operating margins</u> ¹								
Heat Treatment	(1.3)	14.7	(3.5)	17.0	7.9	11.6	(15.0)	7.1
Hot Isostatic Pressing	15.7	30.9	13.4	27.3	18.0	35.3	-	-
Thermal Processing	0.4	16.2	(2.1)	17.8	9.6	15.7	(15.0)	7.1

Revenue By Market – By Region in %



Sector*	Western Europe		North America		Emerging Markets		Total	
	H1- 09	H1- 08	H1- 09	H1- 08	H1- 09	H1- 08	H1- 09	H1- 08
	%	%	%	%	%	%	%	%
• Aerospace/Defence	16	13	44	40	3	2	24	18
• Automotive/Trucks	20	28	10	14	43	50	20	28
• Capital Goods/General Industry	45	47	27	29	50	46	40	42
• Energy	19	12	19	17	4	2	16	12
	100	100	100	100	100	100	100	100

Acquisitions, Capital Expenditure & Depreciation H1



1. Net capital expenditure divided by depreciation.

	H1-2009	H1-2008
	<u>£m</u>	<u>£m</u>
<u>Continuing Operations</u>		
Net interest payable	1.2	1.4
Pension finance charge	0.6	0.4
Bank charges etc.	0.5	0.3
	<u>2.3</u>	<u>2.1</u>
<u>Discontinued Operations</u>	-	4.0
Total	<u>2.3</u>	<u>6.1</u>

	H1-2009	Tax	H1-2008	Tax
	<u>£m</u>	%	<u>£m</u>	%
<u>Continuing Operations</u>				
Headline (Loss) / Profit before tax ¹	(4.0)	73.3%	38.8	22.9%
Exceptional items	(49.1)	10.1%	(0.6)	-
(Loss) / Profit before taxation	(53.1)	14.9%	38.2	23.2%
<u>Discontinued Operations</u>				
Headline profit before tax ¹	-	-	7.5	28.4%
Exceptional items	-	-	(1.0)	-
Profit before taxation	-	-	6.5	32.8%
TOTAL	(53.1)	14.9%	44.7	24.6%

Pension Deficits



	H1-2009	H1-2008	Dec-08
	£m	£m	£m
UK Funded	3.0	21.0	0.7
Europe Funded	1.9	1.8	2.2
Europe Unfunded	9.5	9.8	11.0
	11.4	11.6	13.2
Americas Funded	0.8	0.0	1.0
Total	15.2	32.6	14.9

