

07 August 2012

**Electronic communications**

Our shareholder records show that you have not signified that you wish to receive paper copies of Bodycote's annual and interim results and meeting notices. As a result we are writing to tell you that Bodycote's 2012 Interim Report, highlights of which are provided below, is now available on our website - [www.bodycote.com](http://www.bodycote.com). Shareholders should read the whole of the Interim Report and not rely on the summarised information set out in this letter.

Should you wish to revert to receiving physical copies of documents, you can request this by contacting our registrars, Capita, by telephone on 0871-664-0300 (within the UK calls cost 10p per minute plus network extras; lines are open 8.30 am to 5.30 pm, Monday - Friday) or +44(0)208-639-3399 (from overseas) or online at [www.capitashareportal.com](http://www.capitashareportal.com).

Dear Shareholder,

**Interim results highlights:**

<b>Continuing operations</b>	<b>Half year to 30 June 2012</b>	Half year to 30 June 2011
Revenue	<b>£301.3m</b>	£288.2m
Headline operating profit	<b>£47.5m</b>	£43.2m
Operating profit	<b>£45.6m</b>	£42.7m
Headline profit before taxation	<b>£45.7m</b>	£40.8m
Profit before taxation	<b>£43.8m</b>	£40.3m
Headline operating cash flow	<b>£52.3m</b>	£39.8m
Operating cash flow	<b>£49.1m</b>	£36.5m
Net debt	<b>£16.7m</b>	£33.7m
Basic headline earnings per share	<b>18.3p</b>	16.2p
Basic earnings per share	<b>17.2p</b>	16.0p
Interim dividend per share	<b>4.0p</b>	3.60p

**Interim management statement overview**

Bodycote delivered a strong first half performance. Revenues increased by 5% in the first six months of 2012 (7% at constant currencies). Headline operating profit grew by 10% to £47.5m, operating profit grew by 7% to £45.6m, and Group headline margins increased to 15.8% from 15.0%.

These results continue the Group's track record of improving performance, despite currency headwind and clearly weakened demand in the Eurozone economies. The Group's performance has been driven primarily by continued growth in the North American automotive and general industrial businesses and aerospace and energy in all geographies. This performance has been moderated to some extent by softer demand in the European automotive and general industrial segments.

Bodycote completed the acquisition of the heat treatment business of Curtiss-Wright Corporation at the end of the first quarter for a consideration of £32.6m. This brought nine additional facilities into the Group, one of which was closed as planned and the assets redistributed to other Bodycote sites. The remaining sites offer high margin services across the spectrum of market sectors in the USA, but with a notable presence in aerospace and energy. The fit into the existing Bodycote network is excellent, bringing us into the key aerospace manufacturing hub in Wichita, Kansas. The acquired sites also help to fill in gaps in our capability to service automotive and general industrial customers from Indiana to New Jersey. The business has performed somewhat ahead of our expectations in its first three months of ownership.

All parts of the Group continue to focus on operational efficiency and cost control. Excluding employees who joined the Group with the acquisition, average headcount was unchanged from 2011, notwithstanding the continued increase in sales. Headline operating cash flow conversion was 110%, yielding an operating cash flow of £49.1m. Net capital expenditure remains closely controlled, but did increase to £26.6m (from £20.6m in the first half of 2011), a capital expenditure to depreciation ratio of 1.1 (2011: 0.8), in line with our stated intent to invest in capacity to service specific areas of long term demand growth. The investment is primarily in our selected focus technologies, notably in Hot Isostatic Pressing (HIP) and Speciality Stainless Steel Processes (S<sup>3</sup>P), together with expanded capacity to service the aerospace market. We expect to achieve accelerating growth from these activities as capacity constraints are eased.

Our facilities in Empalme (Mexico) and London (Ohio) are being expanded and a new site is being built in Toulouse (France) as part of the increase in aerospace-orientated capacity. In emerging markets we continue to prioritise China and a new facility is under construction in Jinan. All of these significant investments are backed by long term contracts, including those announced earlier this year with Precision Castparts Corp, Rolls-Royce and ZF Lenksysteme.

The key elements of the Group's strategy are: a focus on services that are highly valued by our customers; targeted customer engagement; increasing our emerging market footprint; growth in selected proprietary technologies; and the drive for operational excellence. The successful execution of our strategy is being reflected in the Group's performance and promises further improvements in returns in the medium and longer term.

### Earnings per share

Basic headline earnings per share from operations for the half year were 18.3p (2011: 16.2p). Basic earnings per share from operations for the half year were 17.2p (2011: 16.0p). Diluted earnings per share were 17.2p (2011: 15.9p).

### Dividend

The Board has declared an interim dividend of 4.0p (2011: 3.6p) which represents an increase of 11.1% over the prior year. The interim dividend will be paid on 7 November 2012 to all shareholders on the register at the close of business on 5 October 2012.

### Summary and outlook

The Group delivered a strong first half performance despite currency headwind and weakened demand in the Eurozone economies.

Looking forward into the second half, growth in aerospace and energy together with new technologies, is expected to counteract the effect of slowing economies.

The Board remains confident that the ongoing execution of the Group's strategy will continue to deliver superior through-cycle shareholder returns.

A copy of the full interim report, extracts from which are given above and which I recommend you to read in full, together with the presentation made to analysts on 26 July, are available to read or download from the Group's website.

Yours faithfully,

**Alan Thomson**

*Chairman*

<b>Financial Calendar 2012-2013</b>	
Interim dividend for 2012	<b>7 November 2012</b>
Results for 2012	<b>February 2013</b>
Annual General Meeting	<b>April 2013</b>
Final dividend for 2012	<b>May 2013</b>
Interim results for 2013	<b>July 2013</b>
Interim dividend for 2013	<b>November 2013</b>