2015 half year Group results

22nd July 2015

Agenda

- 2015 half year Group results
- Operational update
- Summary

Key highlights

- Group revenue at constant currency up 3.1% compared with H1 2014
- EBITA margins up to 13.0% (H1 2014: 12.6%)
- No one-off and restructuring charges
- Underlying EPS up 18.9% compared with H1 2014
- Continued progressive interim dividend increase to 4.0p

2015 half year Group results

Good revenue growth and margin improvement; underlying EPS up 18.9%

	H1 2015*	H1 2014*	% change from H1 2014	
			As reported	At constant currency
	£m	£m	%	%
Revenue	469.2	448.4	4.6%	3.1%
EBITA before restructuring**	61.1	56.4	8.3%	5.3%
EBITA margin % before restructuring**	13.0%	12.6%		
EBITA after restructuring***	61.1	54.3	12.5%	9.7%
EBITA margin % after restructuring***	13.0%	12.1%		
PBT before amortisation	52.8	43.8	20.5%	18.7%
Underlying earnings per share	12.6p	10.6p	18.9%	
Interim dividend per share	4.0p	3.9p	2.6%	

* Results before specific adjusting items
** Restructuring includes the costs of restructuring activity, profit on disposal of properties and acquisition-related costs
*** EBITA after restructuring is also referred to as underlying operating profit (operating profit before amortisation of intangible assets)

Restructuring costs, financing costs and tax rate

	Total H1 2015 £m	Before specific adjusting items H1 2014 £m	Specific adjusting items H1 2014 £m	Total H1 2014 £m
Revenue	**469.2**	**448.4**	**0.0**	**448.4**
EBITA before restructuring*	**61.1**	**56.4**	**0.0**	**56.4**
Net restructuring*	**0.0**	**(2.1)**	**0.0**	**(2.1)**
Amortisation	**(3.6)**	**(4.3)**	**0.0**	**(4.3)**
Net financing costs	**(8.5)**	**(10.5)**	**0.0**	**(10.5)**
Loss on disposal of business	**0.0**	**0.0**	**(2.0)**	**(2.0)**
Share of profit from associates	**0.2**	**0.0**	**0.0**	**0.0**
Profit before tax	**49.2**	**39.5**	**(2.0)**	**37.5**
Tax	**(14.5)**	**(11.5)**	**0.0**	**(11.5)**
Profit after tax	**34.7**	**28.0**	**(2.0)**	**26.0**

* Restructuring includes the costs of restructuring activity, profit/(loss) on disposal of properties and acquisition-related costs

- Net financing costs include IAS 19 charge of £3.4m (H1 2014: £3.0m)
- Tax charge of £14.5m based on an assumed effective tax rate for the year of 29.5% (2014 full year: 29.6%)

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Improving cash flow from operations; significant capital investment

	H1 2015 £m	H1 2014 £m
Cash from trading*	74.9	70.4
Change in working capital	(10.1)	(21.4)
Change in provisions	(6.7)	(6.5)
Cash flow from operations	58.1	42.5
Net capital expenditure	(31.8)	(13.6)
Net interest paid	(4.9)	(7.7)
Tax paid on ordinary activities	(17.4)	(10.7)
Restructuring costs and other one-off items	(2.6)	(3.7)
Free cash flow before acquisitions and dividends	1.4	6.8
Dividends paid	(20.0)	(19.1)
Cash flows from other investing and financing	3.6	(1.7)
Exchange movement	4.9	6.2
Opening net debt	(207.0)	(186.5)
Closing net debt	(217.1)	(194.3)

* Cash from trading is EBITA adjusted for depreciation and profit on sale of plant and machinery

- Operating working capital/sales ratio of 22.1% (H1 2014: 22.9%)
- Capital expenditure includes £12m for purchase of Swansea site; “base” cap ex c.1.4x depreciation
- Net debt:EBITDA at 1.4x (FY 2014: 1.4x)

Revenue growth at constant currency in all regions and margin improving in North America and Europe

£ million	**Revenue**		**EBITA***		**Profit Margins %**	
	H1 2015	**H1 2014**	**H1 2015**	**H1 2014**	**H1 2015**	**H1 2014**
North America	191.6	171.7	29.8	26.2	**15.6%**	**15.3%**
Europe	157.2	159.4	19.3	17.8	**12.3%**	**11.2%**
Asia/Rest of World	120.4	117.3	14.5	14.9	**12.0%**	**12.7%**
Unallocated Costs **			(2.5)	(2.5)	**-**	**-**
EBITA before restructuring **	***469.2***	***448.4***	***61.1***	***56.4***	***13.0%***	***12.6%***
Restructuring ***			0.0	(2.1)		
EBITA after restructuring **			***61.1***	***54.3***	***13.0%***	***12.1%***

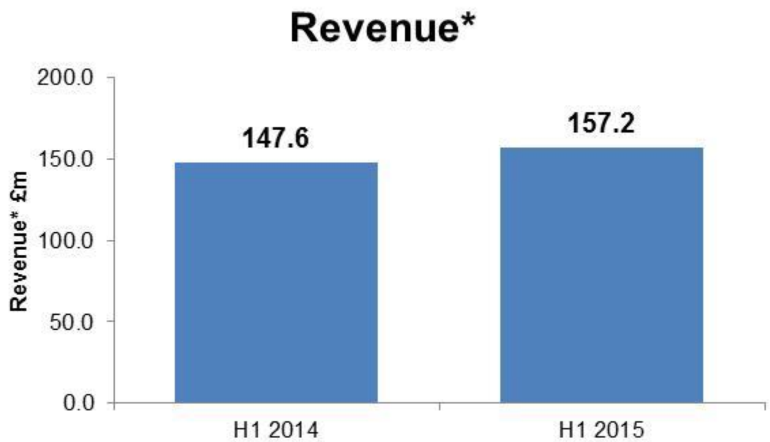
*** Results before specific adjusting items**
**** Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group management costs (e.g. corporate head office rent, utilities, staff, etc.)**
****** Restructuring includes the costs of restructuring activity, profit/(loss) on disposal of properties and acquisition-related costs**

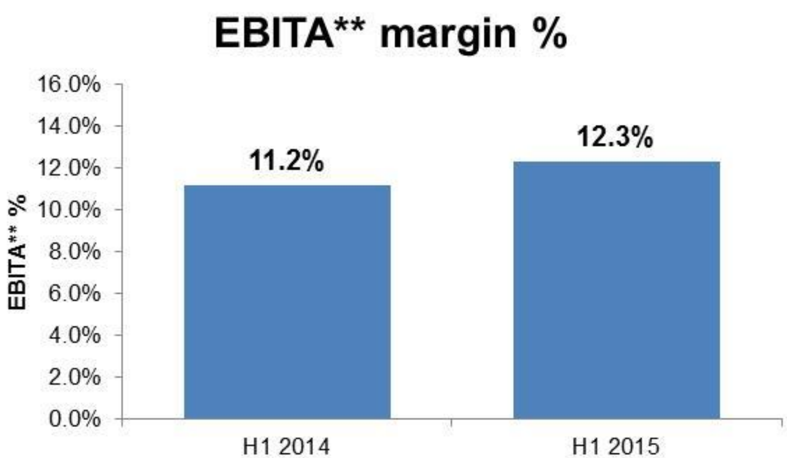
North America – revenue growth and further improvement in margins

- H1 2015 revenue 2.5% higher than H1 2014 at constant currency
- Continued strong performance by Thermal Ceramics and growth in Electrical Carbon and Certech more than offsetting flat revenue in rest of Technical Ceramics and some softening in Seals and Bearings

* Figures stated at H1 2015 constant currency
** Results before specific adjusting items

Europe – revenue growth and margin improvement

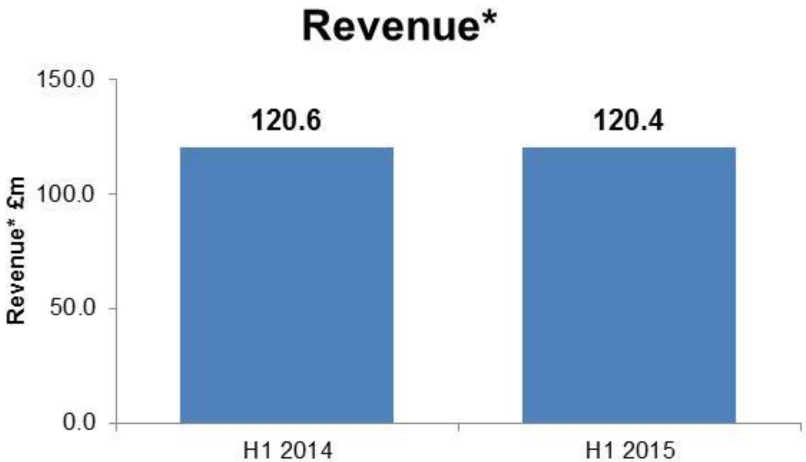


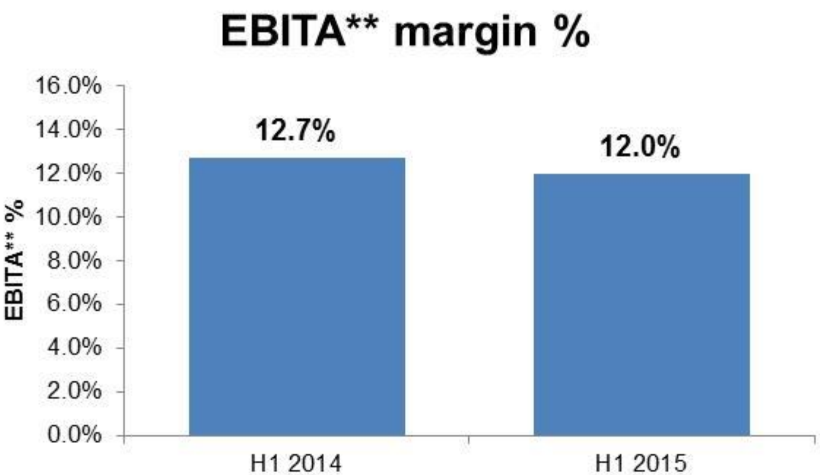


* Figures stated at H1 2015 constant currency
** Results before specific adjusting items
*** Adjusting for impact of acquisitions and disposals

- Organic sales*** at constant currency increased 4.7% driven by growth in Thermal Ceramics and recovery in C&DS more than offsetting weaker Technical Ceramics business
- Porextherm, acquired July 2014, progressing well
- 110bps improvement in margin from volume, mix and operational benefits in Thermal and profitability of C&DS

Asia/RoW – good revenue growth except China





- Revenue marginally up by 0.6% at constant currency, reflecting good growth in South East Asia and India, particularly for Thermal Ceramics and Seals and Bearings, being offset by a 9.3% reduction in China, where major decline in large CPI projects and weak steel market
- Margin impacted by lower volumes in China and reduced margins in South America due to mix

* Figures stated at H1 2015 constant currency
** Results before specific adjusting items

Current exchange rates are currently a headwind for H2 relative to H1

	H1 2015 Reported (average rates) £m	FX impact of using H1 2015 closing rates £m	H1 2015 at H1 2015 closing rates £m
Revenue	469.2	(14.0)	455.2
EBITA before restructuring*	61.1	(2.5)	58.6
EBITA margin %	13.0%		12.9%

* Results before specific adjusting items

** Restructuring includes the costs of restructuring activity, profit on disposal of properties and acquisition-related costs

The above analysis shows the translational effect of restating 2015 H1 reported results from 2015 H1 average rates to June 2015 closing rates

Note: Key exchange rates included in Appendix

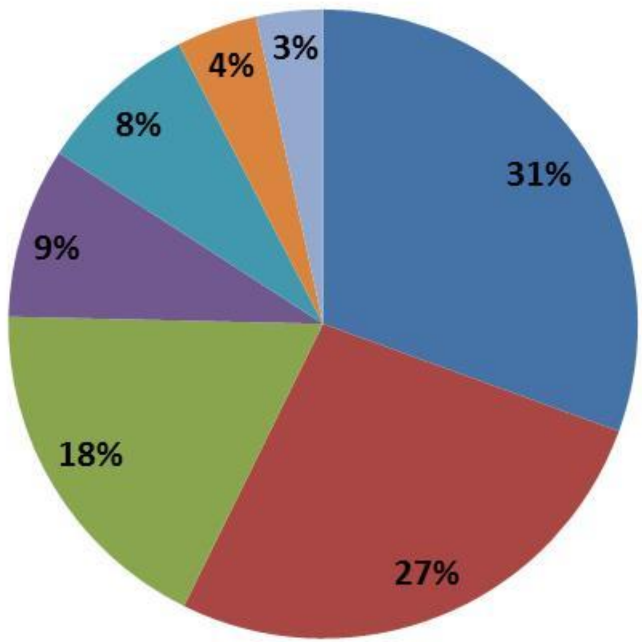
Financial summary

- Revenue growth at constant currency of 3.1%
- EBITA margin at 13.0%
- Underlying EPS up 18.9%
- Improved operating cash flow
- Interim dividend increase to 4.0p

Operational update

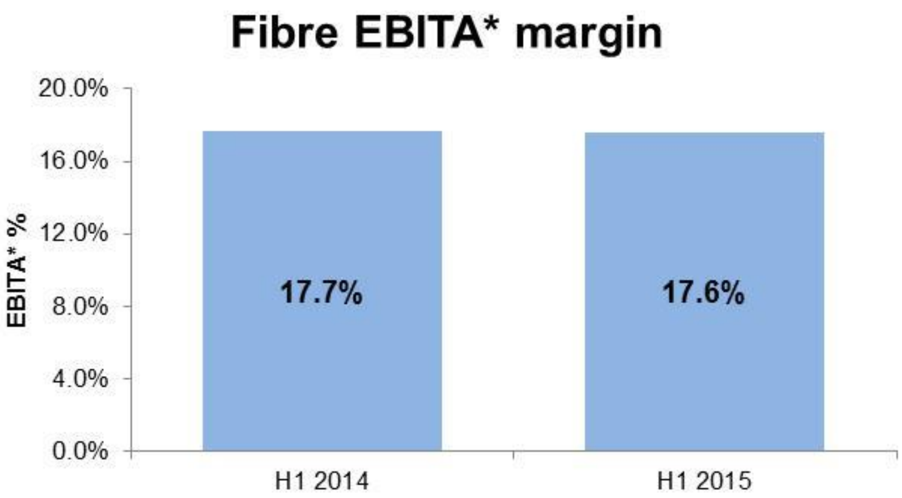
H1 2015 revenue and EBITA margins by product/technology group

H1 Revenue split by product stream



	H1 EBITA margins
Fibre	17.6%
Technical Ceramics	13.1%
Electrical Carbon	14.8%
IFB/castables	5.2%
Seals & bearings	12.7%
MMS	13.0%
C&DS	3.7%

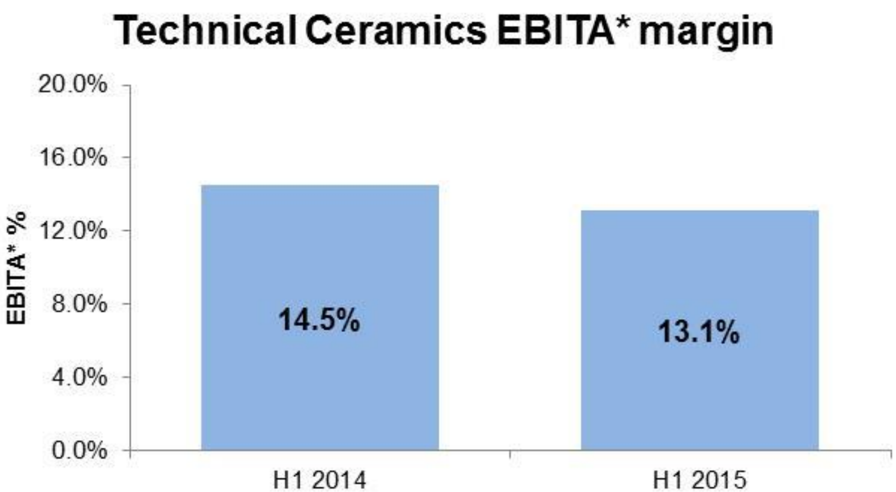
Fibre – good revenue growth and maintained high-teen margins



* Results at reported rates before Unallocated Costs

- Revenue up more than 10% compared with H1 2014 at constant currency
- Margins maintained in the high-teens
- Continued significant investment in R&D to further expand capability of fibre range

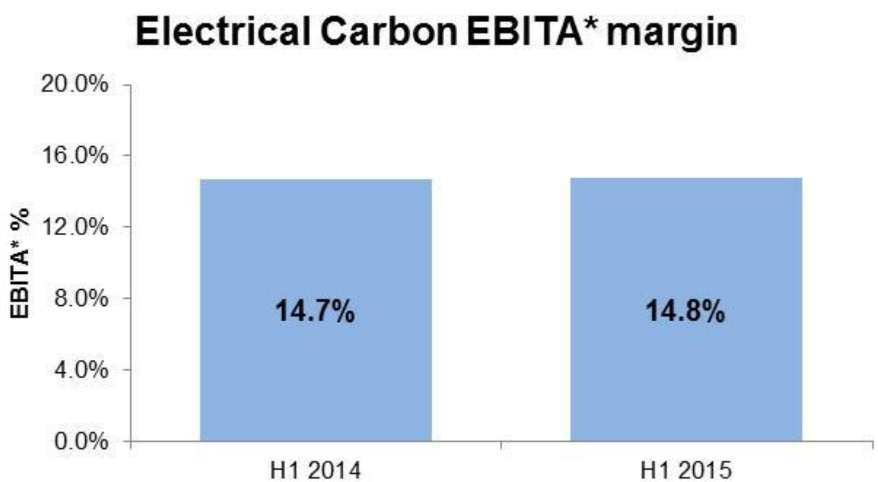
Technical Ceramics impacted by loss of some high margin business



* Results at reported rates before Unallocated Costs

- Revenue flat compared with H1 2014 at constant currency
- Improvement in US ceramic cores but offset by decline in some high margin business (including oil and gas) and start up investment in ceramic cores JV in China and materials Centre of Excellence in UK
- Opportunities in Asia/RoW in differentiated niche medical and aerospace markets

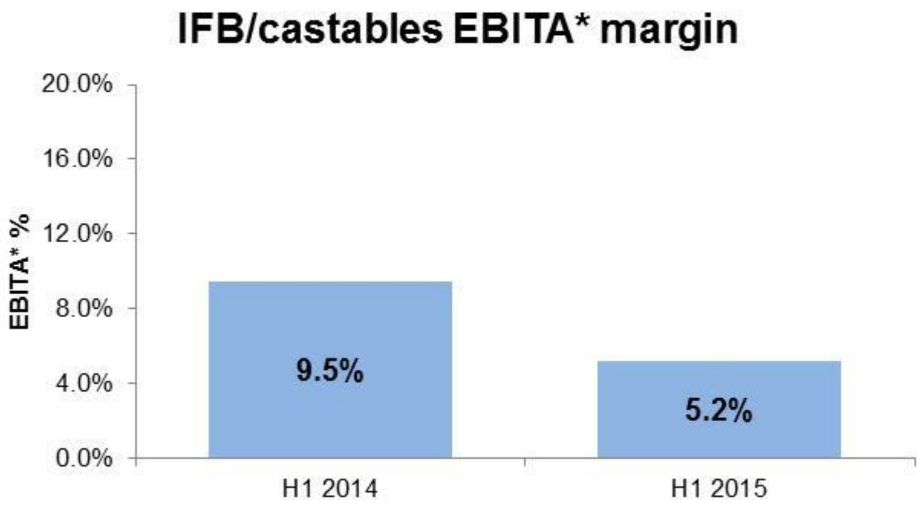
Electrical Carbon maintained its mid-teen margins



* Results at reported rates before Unallocated Costs

- Strong margin improvement has been maintained
- Revenue flat, with North America growth offsetting decline in China
- Materials plants consolidation and grade rationalisation project progressing well, margin benefits expected from H2 2015

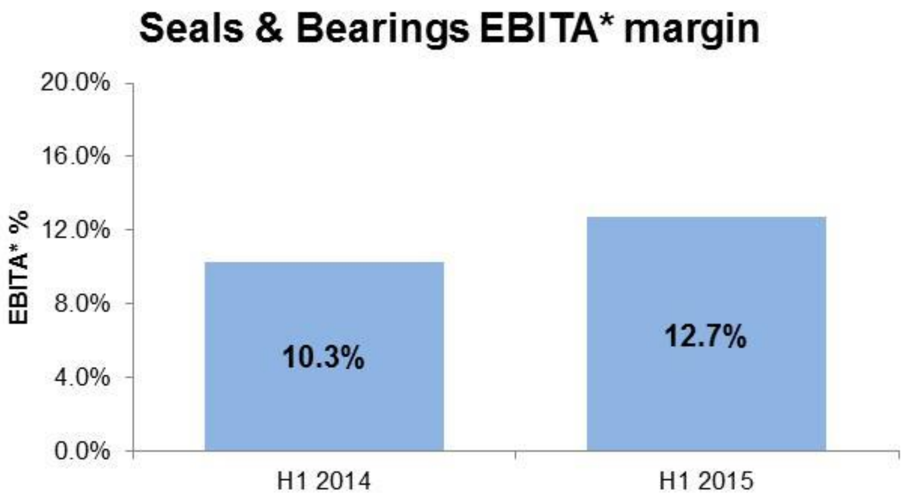
IFB**/castables margin impacted by lower volumes due to decline in project work, mainly in Asia



- IFB is one of the most volume sensitive product lines due to the continuous manufacturing process and the 6.1% reduction in sales, due to the decline in large project work, particularly in China, has had a large impact on margins

* Results at reported rates before Unallocated Costs
** IFB = Insulating Fire Bricks

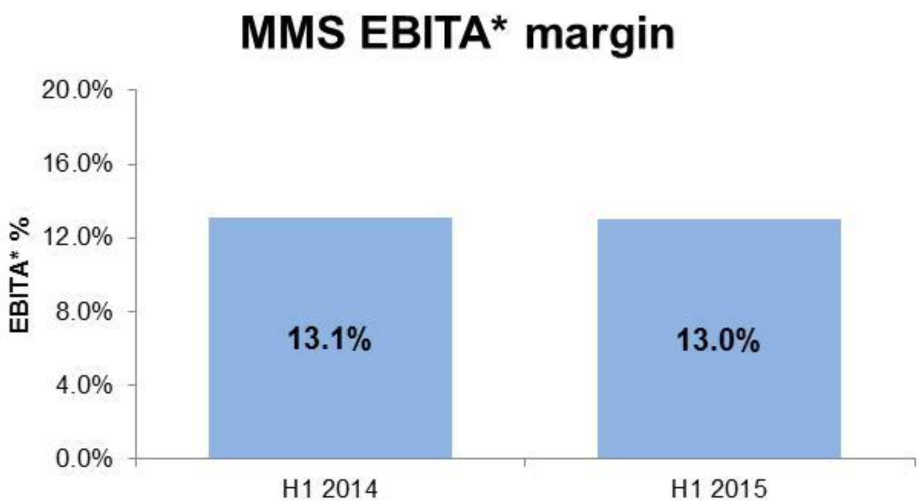
Significant improvement continues in Seals and Bearings



* Results at reported rates before Unallocated Costs

- EBITA margin improvement from positive mix change, increased volumes and operational initiatives
- Initial benefits of material plants consolidation and grade rationalisation beginning to be seen

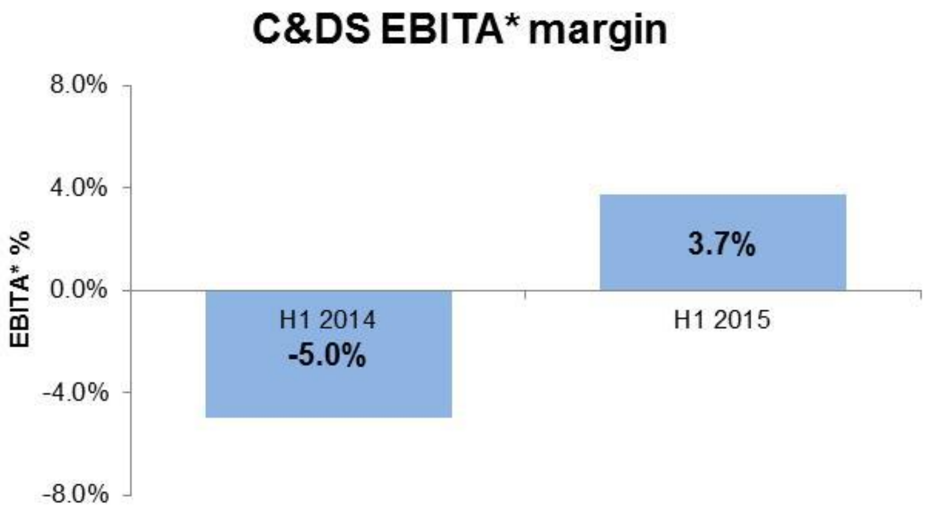
MMS – revenue growth of 6% despite weaker China market



* Results at reported rates before Unallocated Costs

- Revenue growth of 6% in total with most regions contributing to this. Exception is China, where demand is weak and competition increasing
- Margin decline due to c.£0.2 million of one-off operating costs in China

C&DS – continuing to transition away from traditional UK MoD contracts



* Results at reported rates before Unallocated Costs

- Revenue of £16.4 million running at similar level to 2014 and expect close to £40 million for full year
- UK MoD still an important customer but increasingly looking to develop international defence and commercial markets; some initial successes and good pipeline of opportunities being developed

R&D investment increased to 2.7% of revenue

- Increasing investment in R&D – 2.7% of revenue in H1 2015 (2014: 2.3%, 2013: 2.1%)
- Global Materials Centre of Excellence for Structural Ceramics (Stourport, UK) established and additional Centres planned
- R&D investment focused on main technologies where we have a leading/differentiated market position and can see the highest long-term growth prospects e.g. next generation fibre technology and Structural Ceramics
- Renewal of technology road maps for all major product lines to ensure prioritisation and proper resourcing of immediate and medium term opportunities

Significant capital expenditure

- Total capex is >2x depreciation in H1 2015 – including c.£12m of spend buying out the long lease on the Swansea site – adjusting for this “base” capex is c.1.4x depreciation
- Key projects:
  - Expansion of South Korea carbon site
  - Ceramic cores JV in China
  - Ongoing Superwool® fibre line conversion and increased capacity, including greenfield site in Abu Dhabi
  - Upgrades to and harmonisation of ERP systems in USA, Europe and Asia

Summary

Summary

- EBITA margins of 13.0% despite mixed market conditions
- No one-off restructuring charges in the period; improved EBITA and reduced finance charges leads to 18.9% increase in underlying EPS supporting progressive increase in dividend to 4.0p
- Net debt maintained at 1.4x EBITDA and solid balance sheet
- Solid financial and operational platform with high levels of investment to support sustainable, profitable growth
- Confidence in the future for the business

2015 half year Group Results

22nd July 2015

Appendix

Revenue and EBITA as historically presented – margin progression driven by AM&T business

£ million	Revenue		EBITA*		Profit Margins %	
	H1 2015	H1 2014	H1 2015	H1 2014	H1 2015	H1 2014
Technical Ceramics	124.0	118.9	16.3	17.2	**13.1%**	**14.5%**
Thermal Ceramics	187.4	177.4	26.8	24.4	**14.3%**	**13.8%**
Ceramics	**311.4**	**296.3**	**43.1**	**41.6**	**13.8%**	**14.0%**
AM&T	122.2	119.9	17.4	15.6	**14.2%**	**13.0%**
Composites & Defence Systems	16.4	13.9	0.6	(0.7)	**3.7%**	**(5.0)%**
Molten Metal Systems	19.2	18.3	2.5	2.4	**13.0%**	**13.1%**
Engineered Materials	**157.8**	**152.1**	**20.5**	**17.3**	**13.0%**	**11.4%**
Unallocated Costs **			(2.5)	(2.5)	-	-
EBITA before restructuring *	***469.2***	***448.4***	***61.1***	***56.4***	***13.0%***	***12.6%***
Restructuring ***			0.0	(2.1)		
EBITA after restructuring *			***61.1***	***54.3***	***13.0%***	***12.1%***

*** Results before specific adjusting items**

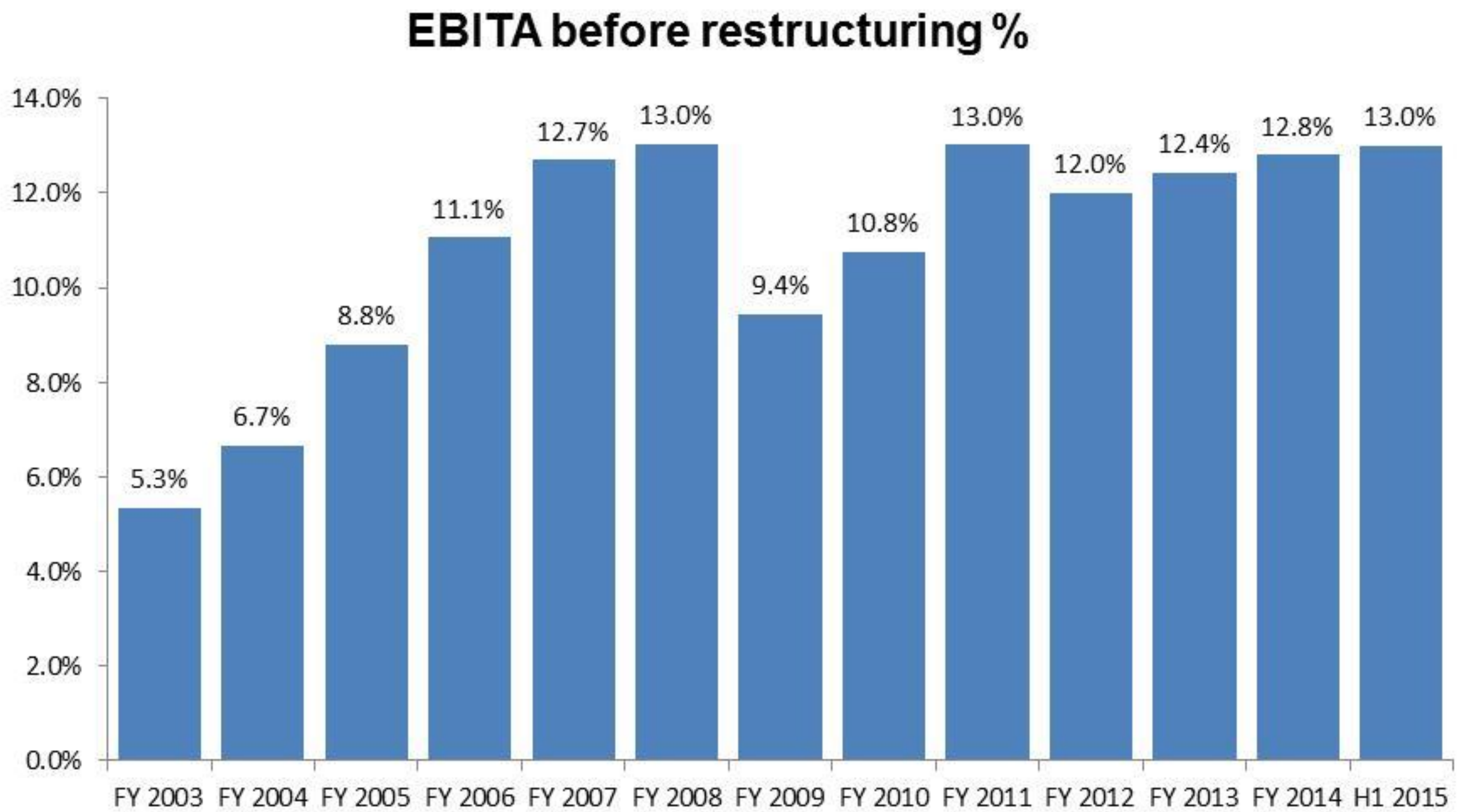
**** Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group management costs (e.g. corporate head office rent, utilities, staff, etc.)**

***** Restructuring includes the costs of restructuring activity, profit on disposal of properties and acquisition-related costs**

Key exchange rates

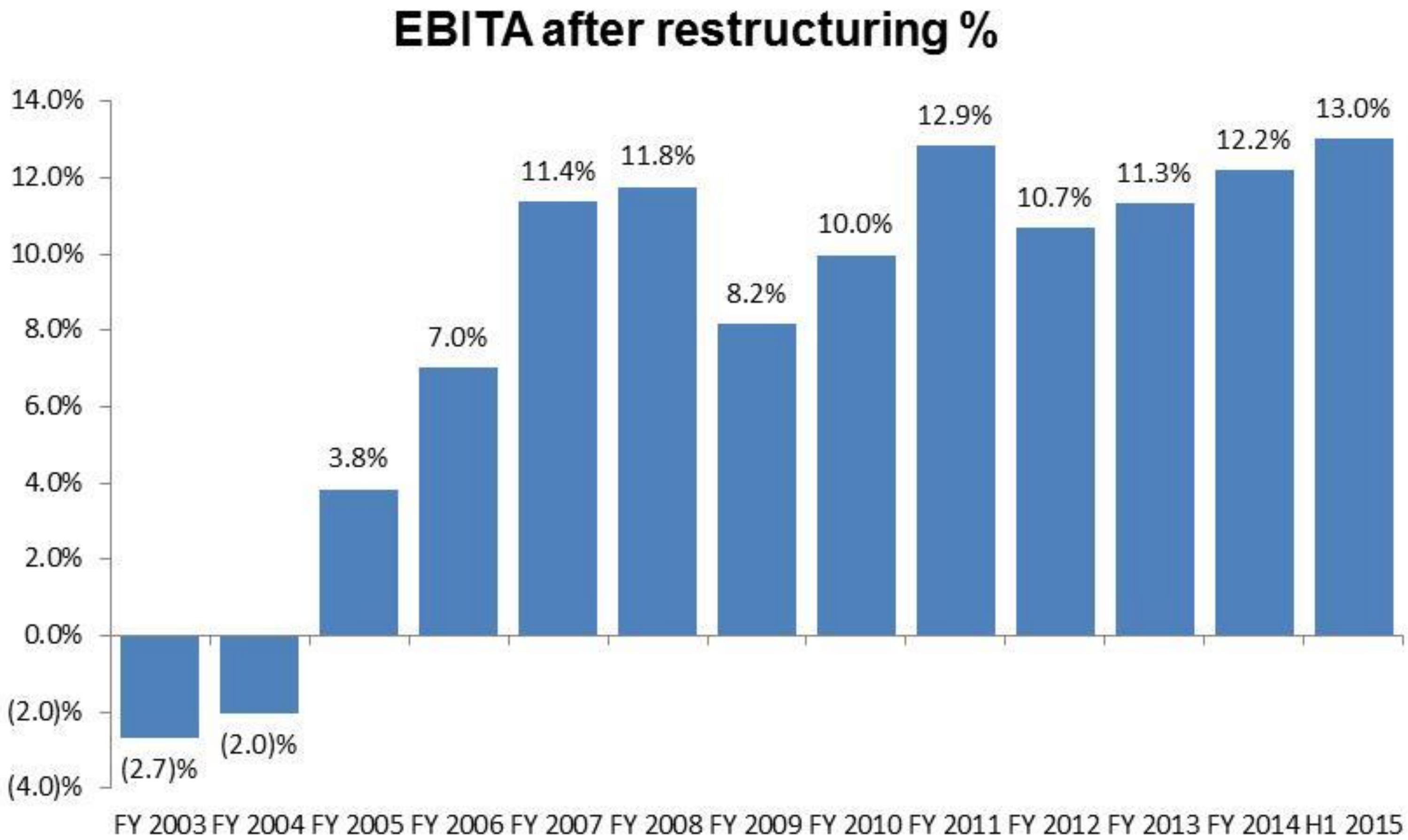
GBP to:	H1 2015 Closing rate	H1 2015 Average rate	FY 2014 Closing rate	FY 2014 Average rate	H1 2014 Closing rate	H1 2014 Average rate
USD	1.57	1.52	1.56	1.65	1.71	1.67
EUR	1.41	1.37	1.29	1.24	1.25	1.22
CNY	9.74	9.47	9.67	10.15	10.61	10.30

EBITA margins before restructuring and one-off items



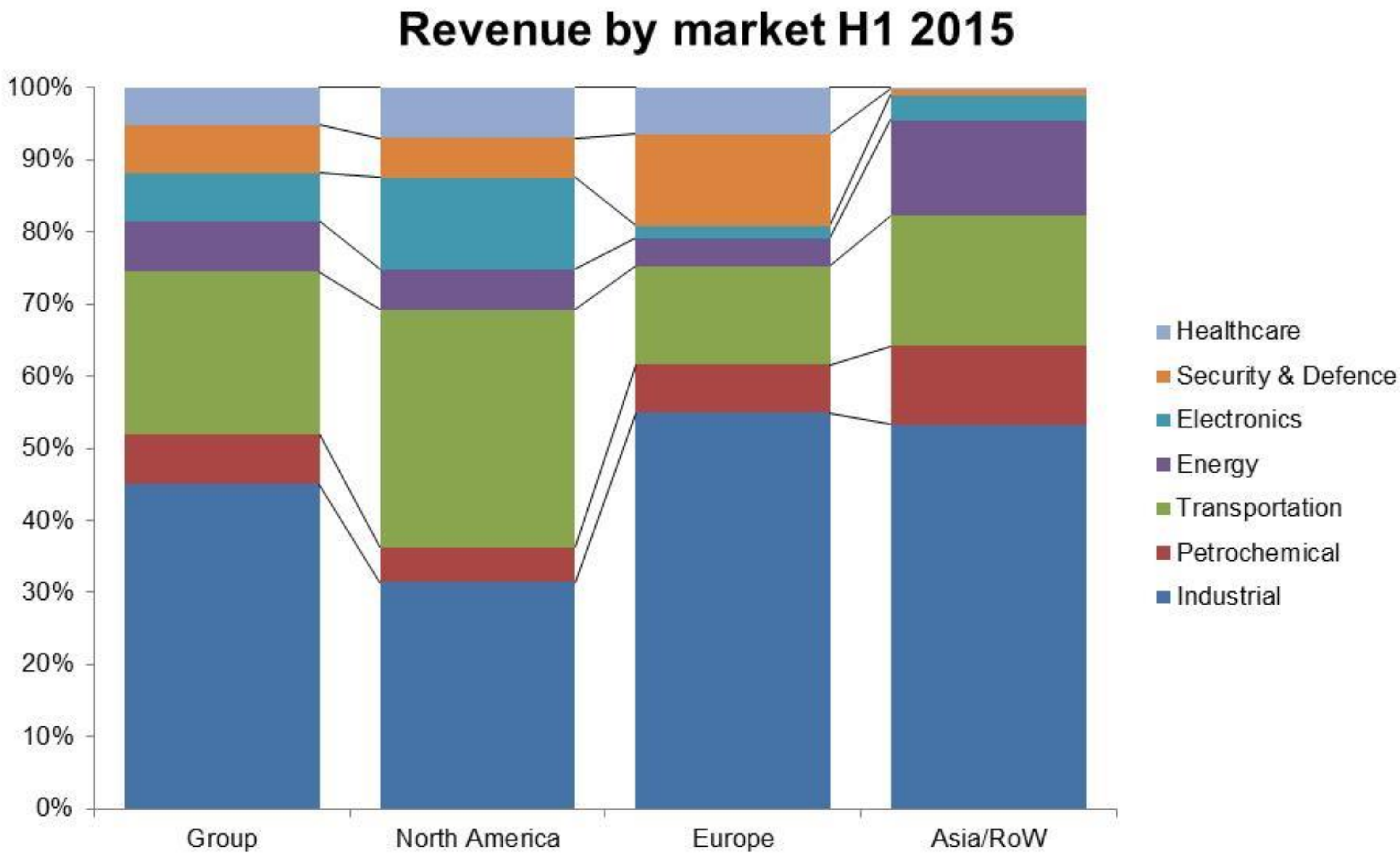
Results before specific adjusting items

EBITA margins after restructuring and one-off items



Results before specific adjusting items

End-market mix across regions – H1 2015 revenue by market



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Operating ROCE

All £ million At reported rates	2015 Half Year	2014 Half Year
LTM Underlying EBITA	119.2	111.3
Change -v- 2014 Half Year	7.1%	
Operating Capital		
Land & Building - NBV	94.1	90.5
Plant & Equipment - NBV	146.3	138.8
Third Party Working Capital	160.7	167.1
	401.1	396.4
Change -v- 2014 Half Year	1.2%	
Return on Operating Capital Employed	**29.7%**	**28.1%**

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Net financing costs

	H1 2015 £m	H1 2014 £m
Bank interest charge	7.0	8.3
Bank interest income	(0.9)	(0.8)
Net interest on IAS19 obligations	3.4	3.0
Amounts derived from financial instruments	(1.0)	-
	8.5	10.5

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Underlying EPS

	H1 2015 £m	H1 2014 £m
Basic earnings from continuing operations	32.4	23.9
Amortisation	3.6	4.3
Specific adjusting items	0.0	2.0
Underlying earnings	36.0	30.2
Weighted average number of shares in the period	285.1m	285.2m
Underlying earnings per share from continuing operations	12.6p	10.6p

2015 half year Group results

22nd July 2015