



Investor Considerations

24th October 2007

**Bodycote**

Cyclicality

Markets – Bodycote is exposed to cyclical markets

- Aerospace
- Power Generation
- Oil & Gas

2001 – 2003 - The Perfect Storm

2007 – 2012 - Demand forecasts generally favourable

Cyclicalality

Poor Response in 2001/2002 – Why?

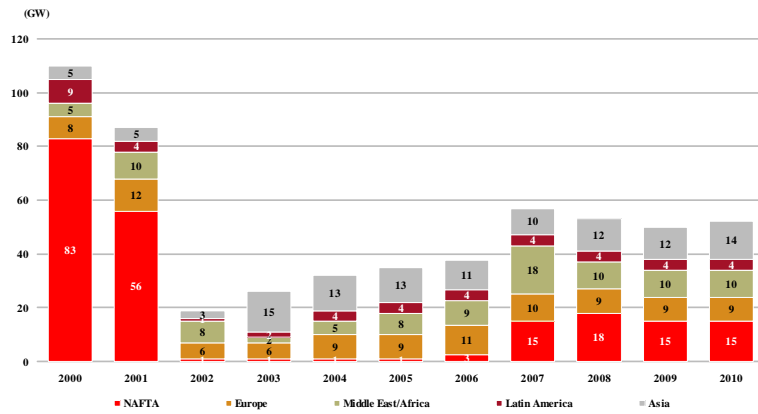
- Group grew rapidly from UK base to Europe and US
- Systems lagged behind
- Group was a set of fiefdoms
- CEO was unwell – out of business for 6 months

Why is it different now?

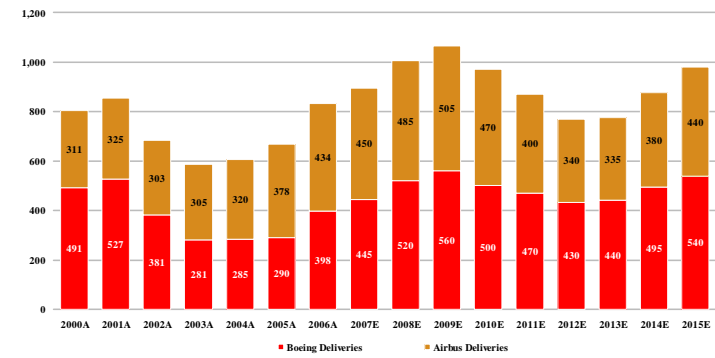
- Greater proportion of Testing
- Larger presence in emerging markets
- Group procedures now in place throughout
- Systems in place to monitor KPIs – especially people costs
- Senior managers especially in Europe understand need to manage labour costs
- Flexible cost base - use of temporary/contract employees – target more than 10%

End Market Demand

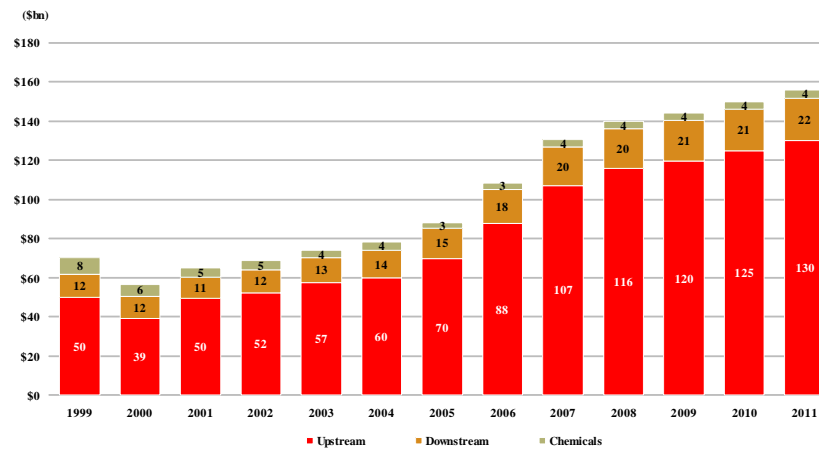
Gas Turbine Orders



Boeing & Airbus Deliveries



Oil & Gas Industry Capex (\$bn)

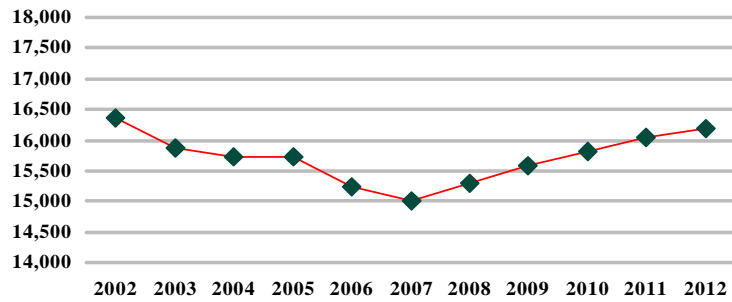


Source: Lehman's Equity Research

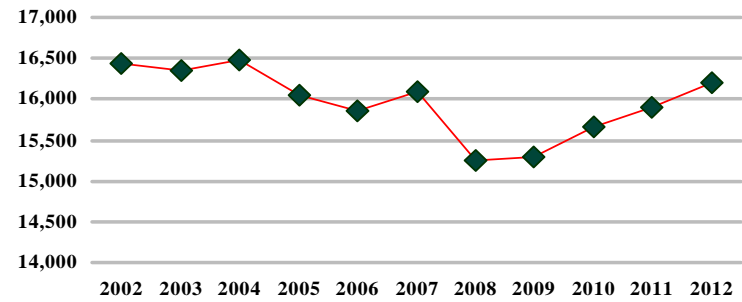
End Market Demand

Light Vehicle Assembly

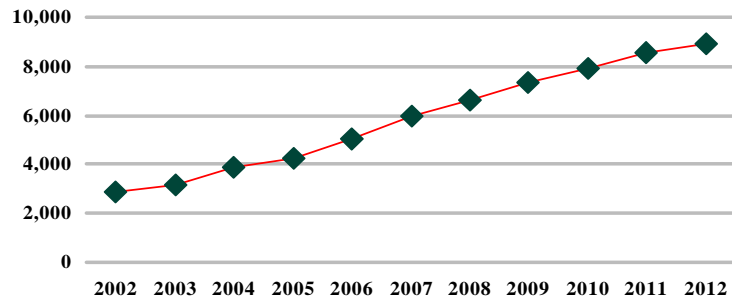
North America



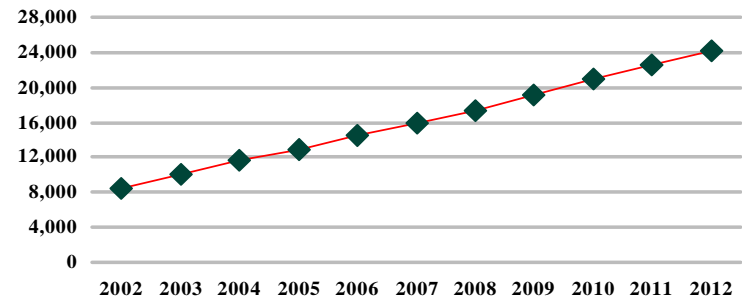
Western Europe



Eastern Europe



Asia Pacific



Investment of Capital



CAPEX	2005		2006		2007 (H1)	
	£m	Ratio ¹	£m	Ratio ¹	£m	Ratio ¹
Operational	25	.6	40	.9	19	.7
Greenfield Development	6	.2	4	.1	10	.4
Major Growth Programmes	13	.3	11	.2	5	.2
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Total	44	1.1	55	1.2	34	1.3
Acquisition Spend	32		86		7	
Expected Full Year					50-60	

¹ Ratio of capex to depreciation

Dividend

	2003	2004	2005	2006
Headline Earnings Per Share	9.1p	11.7p	14.6p	17.3 p
Dividend Per Share	5.7p	6.1p	6.4p	7.0p
Dividend cover	1.6	1.9	2.3	2.5

- **BROAD TARGET RANGE 2x - 3x**

- There is potential for cyclicality but:
 - We will manage it better
 - It is not about automotive
 - Cyclical end markets have strong forecast demand
- Capital Investment
 - Network maintenance is typically .7 to .9x depreciation
 - Significant new geographic market and outsourcing opportunities
- Dividend
 - Mindful of need to reward shareholders
 - But nobody wants to see the dividend cut
- Growth Potential Continues to be Excellent



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