Markets – Bodycote is exposed to cyclical markets

- Aerospace
- Power Generation
- Oil & Gas

2001 – 2003 - The Perfect Storm

2007 – 2012 - Demand forecasts generally favourable
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: Lehmanns Equity Research
End Market Demand

Light Vehicle Assembly

North America

Western Europe

Eastern Europe

Asia Pacific

Source: Lehmanns Equity Research
# Investment of Capital

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007 (H1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>Ratio$^1$</td>
<td>£m</td>
</tr>
<tr>
<td>Operational</td>
<td>25</td>
<td>.6</td>
<td>40</td>
</tr>
<tr>
<td>Greenfield Development</td>
<td>6</td>
<td>.2</td>
<td>4</td>
</tr>
<tr>
<td>Major Growth Programmes</td>
<td>13</td>
<td>.3</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>44</td>
<td>1.1</td>
<td>55</td>
</tr>
<tr>
<td>Acquisition Spend</td>
<td>32</td>
<td></td>
<td>86</td>
</tr>
<tr>
<td><strong>Expected Full Year</strong></td>
<td></td>
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</tbody>
</table>

$^1$ Ratio of capex to depreciation
# Dividend

<table>
<thead>
<tr>
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<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline Earnings Per Share</td>
<td>9.1p</td>
<td>11.7p</td>
<td>14.6p</td>
<td>17.3 p</td>
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<tr>
<td>Dividend Per Share</td>
<td>5.7p</td>
<td>6.1p</td>
<td>6.4p</td>
<td>7.0p</td>
</tr>
<tr>
<td>Dividend cover</td>
<td>1.6</td>
<td>1.9</td>
<td>2.3</td>
<td>2.5</td>
</tr>
</tbody>
</table>

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

• 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