

## **2005 INTERIM RESULTS**

# Highlights

- **Sales<sup>1</sup>** + **8 %**
- **Headline Operating Profit<sup>2</sup>** + **22 %**
- **Headline Profit Before Tax<sup>3</sup>** + **31%**
- **Headline EPS<sup>3</sup>** + **12 %**
- **ROCE Improved** + **51 %**
- **Dividend 2.35p/share** + **4 %**
- **Acquisitions: 10 completed**
- **Outsourcing sales grows to 20%**

1 Continuing operations

2 Pre impairment of goodwill, amortisation of acquired intangibles, restructuring costs and interest and tax on associates

3 Pre impairment of goodwill, amortisation of acquired intangibles, restructuring costs

# Interim Results



	H1 2005 £m	H1 2004 £m	Change %
<b>Total Revenue</b>	<b>230.7</b>	<b>231.4</b>	<b>-</b>
<b>Revenue<sup>1</sup></b>	<b>229.3</b>	<b>211.5</b>	<b>+ 8</b>
<b>EBITDA</b>	<b>53.5</b>	<b>48.6</b>	<b>+ 10</b>
<b>Headline Operating Profit<sup>2</sup></b>	<b>33.1</b>	<b>27.1</b>	<b>+ 22</b>
<b>Headline Profit before Tax<sup>3</sup></b>	<b>29.2</b>	<b>22.3</b>	<b>+ 31</b>
<b>Profit before Tax<sup>1</sup></b>	<b>27.3</b>	<b>24.7</b>	<b>+ 11</b>
<b>Tax</b>	<b>(7.3)</b>	<b>(5.6)</b>	
<b>Profit after tax</b>	<b>20.0</b>	<b>19.1</b>	<b>+ 5</b>
<b>Free cashflow</b>	<b>14.2</b>	<b>24.4</b>	
<b>Headline EPS</b>	<b>6.7p</b>	<b>6.0p</b>	<b>+ 12</b>
<b>Dividend/Share</b>	<b>2.35p</b>	<b>2.25p</b>	<b>+ 4</b>

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# Reconciliation of UK GAAP to IFRS



£m	2005 OP	2004 OP	△%	2005 PBT	2004 PBT	△%	2005 EPS	2004 EPS	△%
<b>UK GAAP</b>	<b>28.6</b>	<b>22.4</b>	<b>28</b>	<b>25.1</b>	<b>12.6</b>	<b>99</b>	<b>5.4</b>	<b>3.2</b>	<b>69</b>
Amortisation of goodwill	4.4	4.2		4.4	4.2		1.4	1.4	
Restructuring costs (exceptional)	-	-		-	5.4		-	1.4	
<b>UK GAAP headline<sup>1</sup></b>	<b>33.0</b>	<b>26.6</b>	<b>24</b>	<b>29.5</b>	<b>22.2</b>	<b>33</b>	<b>6.8</b>	<b>6.0</b>	<b>13</b>
IFRS adjustments (pensions etc)	0.1	0.5		(0.3)	0.1		(0.1)	-	
<b>IFRS headline<sup>1</sup></b>	<b>33.1</b>	<b>27.1</b>	<b>22</b>	<b>29.2</b>	<b>22.3</b>	<b>31</b>	<b>6.7</b>	<b>6.0</b>	<b>12</b>
Amortisation of acquired intangibles	(0.1)	-		(0.1)	-		-	-	
Restructuring Costs	-	(5.4)		-	(5.4)		-	(1.3)	
Interest/tax in associates (PVD)	(0.5)	-		-	-		-	-	
Goodwill impairment	(1.8)	-		(1.8)	-		(0.5)	-	
<b>IFRS all operations</b>	<b>30.7</b>	<b>21.7</b>	<b>41</b>	<b>27.3</b>	<b>16.9</b>	<b>62</b>	<b>6.2</b>	<b>4.7</b>	<b>32</b>
Discontinued businesses:									
Electroplating/PVD	-	7.8		-	7.8		-	1.8	
<b>IFRS continuing operations</b>	<b>30.7</b>	<b>29.5</b>	<b>4</b>	<b>27.3</b>	<b>24.7</b>	<b>11</b>	<b>6.2</b>	<b>6.6</b>	<b>(6)</b>

<sup>1</sup> Pre impairment of goodwill, amortisation of acquired intangibles and restructuring costs and interest and tax on associates

# Profit Bridge

	£m
Operating Profit <sup>1</sup> H1 2004	27.1
Selling Prices	2.0
Sales Volume	4.2
Salary/Wage Inflation	(2.8)
Energy Costs	(1.0)
Pension Costs	(0.4)
CoatAlloy® start up	(0.2)
Acquisitions	1.1
Electroplating Reduced Losses	2.9
Operating Profit 2005 at constant exchange rates	<u>32.9</u>
Currency Translation	0.2
Operating Profit <sup>1</sup> H1 2005	<u>33.1</u>

<sup>1</sup> Pre impairment of goodwill, amortisation of acquired intangibles, restructuring costs and interest and tax on associates

# Sales and Operating Profit - By Region



H1 2004 £m		H1 2005 £m	Europe inc. UK £m	North America £m	Rest of World £m
	<u>Revenue</u>				
154.8	Heat Treatment	165.2	111.6	53.6	-
30.5	Testing	37.0	18.8	15.4	2.8
16.0	Hot Isostatic Pressing	16.8	7.3	9.5	-
10.2	Surface Engineering	10.3	9.4	0.9	-
211.5		229.3	147.1	79.4	2.8
12.7	Electroplating	1.4	1.4	-	-
7.2	PVD	-	-	-	-
231.4		230.7	148.5	79.4	2.8
	<u>Operating Profit<sup>1</sup></u>				
19.7	Heat Treatment	21.1	15.9	5.2	-
5.3	Testing	6.5	4.3	1.6	0.6
3.5	Hot Isostatic Pressing	4.2	1.6	2.6	-
2.2	Surface Engineering	1.6	1.2	0.4	-
(1.2)	Head Office	(1.1)	(1.1)	-	-
29.5		32.3	21.9	9.8	0.6
(3.0)	Electroplating	-	-	-	-
0.6	PVD	0.8	0.8	-	-
27.1		33.1	22.7	9.8	0.6

6 <sup>1</sup> Pre impairment of goodwill, amortisation of acquired intangibles, restructuring costs and interest and tax on associates

# Sales By Market



	H1 2005	FY 2004
	%	%
<b>Sector</b>		
Automotive		
- Cars & Light Truck	23	24
- Heavy Truck & Bus	5	5
Aerospace/Defence	18	17
Construction, Agricultural, Railways & Marine	15	15
Tooling	11	11
Oil & Gas	6	6
Power Generation	6	5
Consumer Products	3	4
Health Science, Environmental & Food	6	5
Electronics & Telecoms	3	4
Miscellaneous(e.g pulp & paper, nuclear)	4	4
	<hr/>	<hr/>
	100	100

# Summary Cash Flow and Financial Ratios



	H1 2005 £m	H1 2004 £m
EBITDA	53.5	48.6
Working Capital Movement	(13.4)	(3.3)
CAPEX	(18.5)	(16.1)
Interest	(4.8)	(4.9)
Tax	(2.6)	0.1
Free Cash Flow	14.2	24.4
Net Debt/EBITDA <sup>1</sup>	0.9x	1.3x
Interest Cover <sup>2</sup>	8.5x	5.6x
Gearing	23%	32%
Free Cash Flow <sup>3</sup>	6%	11%
Capex/Depreciation	0.9x	0.8x

<sup>1</sup> Annualised

<sup>2</sup> Pre impairment of goodwill, amortisation of acquired intangibles, restructuring costs and interest and tax on associates

<sup>3</sup> % of total revenue



# Balance Sheet



	H1 2005	H1 2004
	£m	£m
Goodwill and other intangible assets	152.0	139.4
Tangible Fixed Assets	415.1	448.4
Investments	8.7	0.8
Trading Working Capital	66.3	59.1
Other Net Current Assets	(126.3)	(111.2)
	<u>515.8</u>	<u>536.5</u>
Shareholders' Funds	416.7	406.7
Minority Interests	1.1	0.9
Net Borrowings	98.0	128.9
	<u>515.8</u>	<u>536.5</u>

# IFRS – Balance Sheet Differences

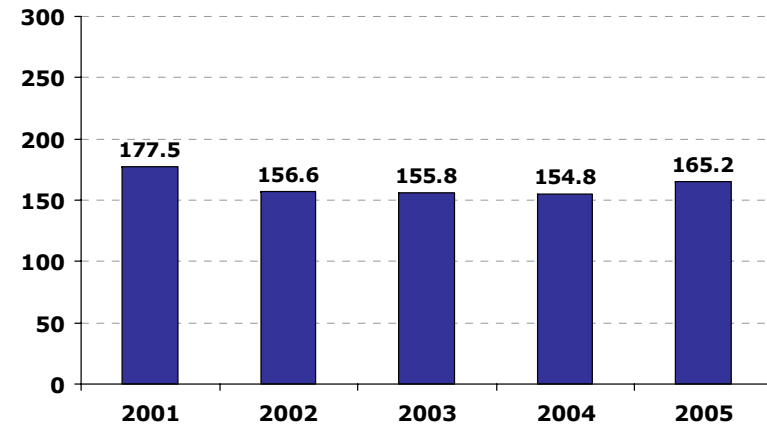


<u>Changes to Equity</u>	£m
Goodwill amortisation	4.2
Dividend recognition	7.2
Pension scheme deficits	(19.5)
Deferred tax	(9.5)
Non-current assets held for sale	(0.5)
Leases	(0.4)
	<hr/>
	(18.5)
	<hr/>

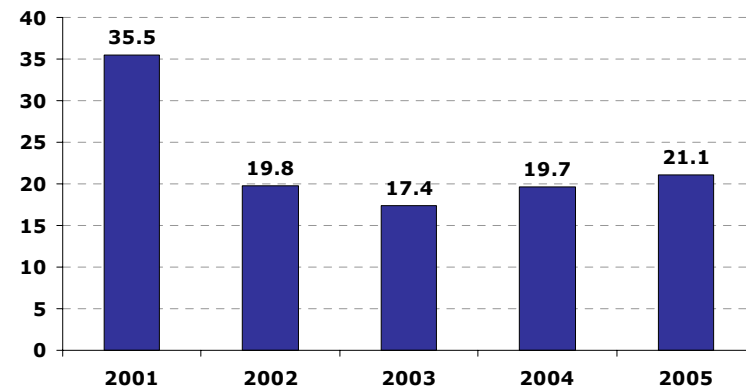
# Heat Treatment

- Sales growing
- Margin slightly ahead
- NA, France improving
- Energy costs (NA/UK)
- People unit costs high (NA)
- China greenfield Q1 2006

H1 Revenue (£m)



H1 Operating Profit\* (£m)

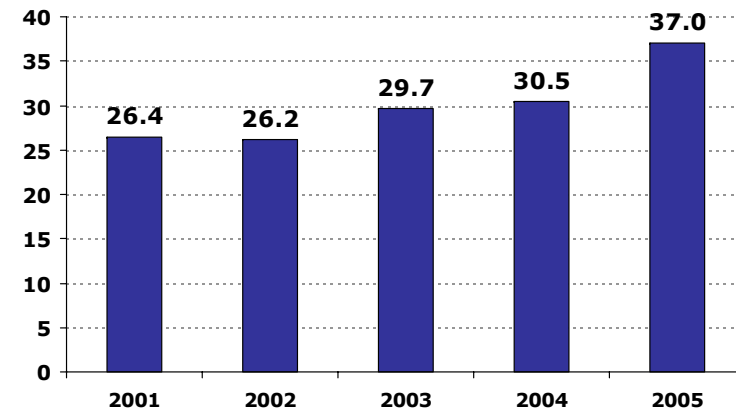


\* 2001, 2002 and 2003 not restated for IFRS

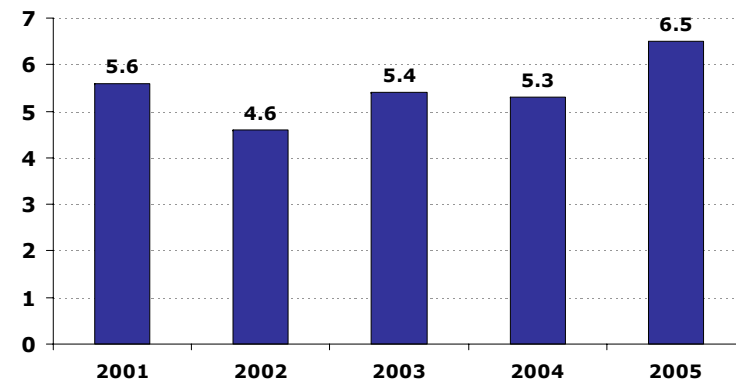
# Testing

- Accelerating growth
- Strong margins
- Pipeline of bolt-on acquisitions
- Leveraging know how

H1 Revenue (£m)



H1 Operating Profit\* (£m)



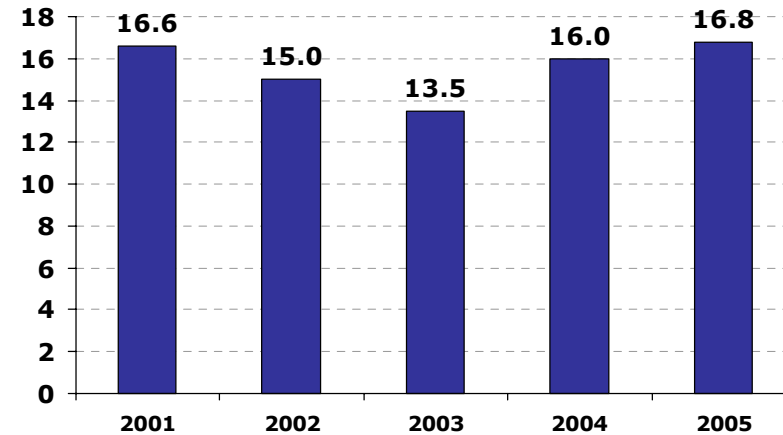
\* 2001, 2002 and 2003 not restated for IFRS

# Hot Isostatic Pressing

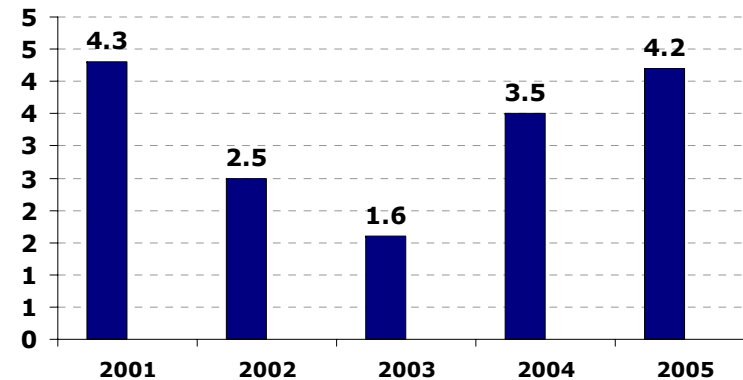


- Volume continues growth
- Operational gearing strong
- ROCE approaching acceptable level
- Capacity coming on stream

H1 Revenue (£m)



H1 Operating Profit\* (£m)



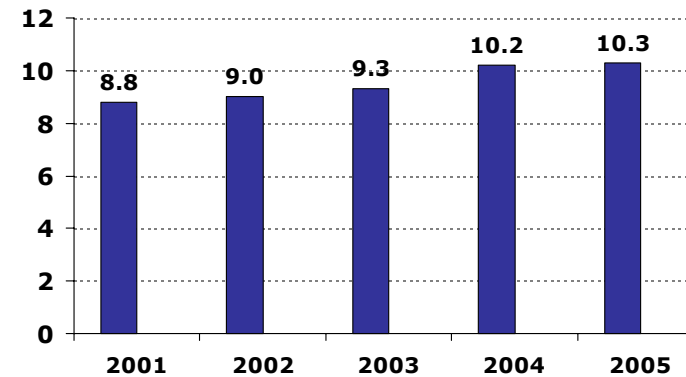
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# Surface Engineering

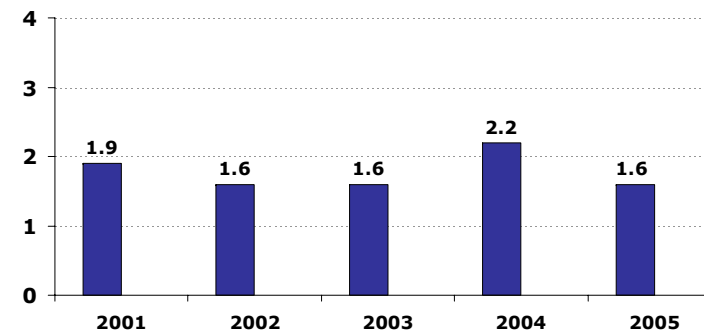


- CoatAlloy® going commercial
- Sherardizing roll out/scale up
- Thermal spray expanding
- Anodising softens

H1 Revenue (£ m)



H1 Operating Profit\* (£ m)



\* 2001, 2002 and 2003 not restated for IFRS

# Current Trading and Outlook

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- H2 continuing H1 trend (holidays in H2)
- **IonBond** on plan
- Recent acquisitions expected to contribute
- Outsourcing initiatives continue to be developed
- Recovery of higher energy costs improving
- New investments in processes starting to contribute
- Continue bolting on acquisitions

# Strategy

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- Consistently deliver an attractive ROCE
- Accelerate growth of Testing
- Expand profitably into developing economies
- Increase strategic partnerships as % of sales
- Continue roll out and development of technology
- Development of people



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## **2005 Interim Results**

### **Appendix**

# Operational Locations



	Heat Treatment	HIP	Testing	Surface Engineering	IonBond PVD	TOTAL
USA	43	4	7	1	10	65
UK	19	3	27	3	2	54
France	31	1		1	7	40
Germany	16	1		1	3	21
Sweden	9	1	5	3	1	19
Canada	2		8		2	12
Netherlands	5		2		1	8
Italy	4		2		2	8
Czech Republic	6		1		1	8
Poland	5					5
Finland	4			1		5
Switzerland	2				3	5
UAE			4			4
Austria	3				1	4
Belgium	2	1				3
Denmark	3					3
China	1				2	3
Oman			2			2
Mexico					2	2
Liechtenstein	1					1
Norway			1			1
Hungary	1					1
Romania	1					1
Thailand					1	1
Singapore					1	1
Qatar			1			1
<b>TOTAL</b>	<b>158</b>	<b>11</b>	<b>60</b>	<b>10</b>	<b>42</b>	<b>281</b>

# Analysis Of Organic/Acquisition Growth

	HT £m	Testing £m	HIP £m	Surface Engineering £m	Electro- plating £m	PVD £m	Head Office £m	Total £m
<b><u>Revenue</u></b>								
2004	154.8	30.5	16.0	10.2	12.7	7.2	-	231.4
Organic	7.6	3.3	1.0	0.4	-	-	-	12.3
Acquisition	2.8	2.8	-	-	-	-	-	5.6
Disposal	(0.5)	-	-	(0.4)	(11.3)	(7.2)	-	(19.4)
Currency	0.5	0.4	(0.2)	0.1	-	-	-	0.8
<b>2005</b>	<b>165.2</b>	<b>37.0</b>	<b>16.8</b>	<b>10.3</b>	<b>1.4</b>	<b>-</b>	<b>-</b>	<b>230.7</b>
<b><u>Operating Profit</u></b>								
2004	19.7	5.3	3.5	2.2	(3.0)	0.6	(1.2)	27.1
Organic	0.7	0.6	0.7	(0.6)	0.1	0.2	0.1	1.8
Acquisition	0.5	0.6	-	-	-	-	-	1.1
Disposal	-	-	-	-	2.9	-	-	2.9
Currency	0.2	-	-	-	-	-	-	0.2
<b>2005</b>	<b>21.1</b>	<b>6.5</b>	<b>4.2</b>	<b>1.6</b>	<b>-</b>	<b>0.8</b>	<b>(1.1)</b>	<b>33.1</b>
<b><u>% on Revenue</u></b>								
<b>2005</b>	12.8%	17.6%	25.0%	15.5%	-%	-%		14.3%
<b>2004</b>	12.7%	17.4%	21.9%	21.6%	(23.6)%	3.3%		11.7%

# Impact Of Exchange Rates



	Revenue £m	Operating Profit <sup>1</sup> £m
H1 2005 As Reported	229.3	33.1
H1 2005 Using 2004 Rates	228.5	32.9
Impact	+ 0.8	+ 0.2

<sup>1</sup> Pre impairment of goodwill, amortisation of acquired intangibles and restructuring costs and interest and tax on associates

# Acquisitions, Capital Expenditure & Depreciation

