Positioned for Future Growth

December 2004
Bodycote is currently operating 232 plants in 22 countries with 7500 employees.
What is Heat Treatment?

Heat Treatment increases the mechanical properties of critical components so they can last longer, operate with less mass and withstand extreme conditions.
What is Materials Testing?

Materials Testing provide independent, accredited materials testing services to almost every business sector. The results of testing facilitate product development, production release, forensic analysis and certification.
**What is HIPping?**

**HIPping** uses high temperature and pressure to achieve structural changes in metals and other materials. HIP technology enables critical castings to be densified, powder metallurgy products to be improved and novel materials to be made. HIPping is a vital step in manufacturing aero engine components.
What are Metallurgical Coatings?

Metallurgical Coatings utilises a variety of technologies e.g.

- anodising and sherardizing for protection against corrosion
- specialist ceramic and metallic slurry coatings for wear resistance
- plasma coatings for thermal barrier protection
Bodycote positioned as subcontractor of choice
Focused on core business
Competitive advantages being exploited
Roll-out proprietary value added processes
Infill existing markets
Follow customer expansion into low cost areas
Development of people
Furnace Utilisation
(75% of Heat Treatment is still captive in Europe)

In-House 5.5 days
- Best Utilisation: 65%
- Current Average

Bodycote 7 days
- Best Utilisation: 85%
- New Average

Driver for cost down
- From own business
- From 3rd Parties

Strategic Partnership
Bodycote Business Models

- ‘Strategic Partnership’ Agreements
  - ‘Factory Gates’ option – permits third party in-load
  - Reciprocal business development

- Long Term Agreements
  - Price stability and volume linked rebates
  - Capacity and service guarantees

- Conventional Subcontract Support
  - Concentrate on core business
  - Higher quality assurance
Ford & GM Outsource Successes at Livonia

- New LPC furnace installation
- Latest technology for case hardening transmission parts
- Market leading services
Slide number 11 - Outsourcing for Rotary Drill Bits

Vasteras

- Deep case hardening
- Iron ore mining – Canada
- Bodycote processing extends productive life 6x vs. captive process
Heat Treatment

- Eastern Europe – bolt on acquisition and partnership with western customers:
  - Poland
  - Hungary
  - Romania
  - Turkey

- China – partnership with western customers
Trading Update

- Trading YTD in line with management expectations
- Sales ahead 7.7% (excluding electroplating, at constant exchange rates)
- Energy impact
  - 2004: negligible
  - 2005: significant share passed onto customers
- Electroplating exit on schedule
- Cash generation continues to be ahead of last year
Trading Update*

- **Heat treatment**
  - Turnover ahead (+5%) in all geographies bar France
  - Operating profit up 16%

- **Materials Testing**
  - Sales up 10% with margins slightly ahead

- **HIP**
  - Turnover more than 20% higher
  - US up more than 30% - best ever sales

- **Metallurgical Coatings**
  - Sales up 6%, profits up 50%

* All values are at constant exchange rates
Positioned for Future Growth

- Disposal of Electroplating
- Merger of PVD Activities
- Ongoing bolt-on acquisitions programme
17 facilities in 4 countries
15 separate deals for 17 plants
2004 anticipated cash realisations £14.0m
Deferred consideration £3.5m
6 Anodising/Organics/Sherardizing plants retained
# Impact of Disposed Businesses

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>2003</th>
<th>2004</th>
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<tbody>
<tr>
<td>Sales</td>
<td>26.0</td>
<td></td>
<td>13.0</td>
</tr>
<tr>
<td>EBIT</td>
<td>(6.9)</td>
<td></td>
<td>(2.7)</td>
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<tr>
<td>EBITDA</td>
<td>(3.3)</td>
<td></td>
<td>(1.3)</td>
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</table>

Improves Group ROS by 2% and ROCE by 1.5% compared to 2003
<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
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</thead>
<tbody>
<tr>
<td>Sales</td>
<td>14.9</td>
<td>8.2</td>
</tr>
<tr>
<td>EBIT</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2.4</td>
<td>2.0</td>
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</table>
## Retained Slurry/Plasma Spray Businesses

<table>
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<tr>
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<th>2003</th>
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<tbody>
<tr>
<td>Sales</td>
<td>3.5</td>
<td>1.8</td>
</tr>
<tr>
<td>EBIT</td>
<td>0.9</td>
<td>0.5</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1.0</td>
<td>0.6</td>
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</table>
Definitive #2 global PVD service provider
- Cutting tool coatings
- Diamond like carbon tribological coatings
- Decorative coatings

25 facilities in 12 countries
Consolidation of PVD market
Release cash from under performing assets, increase ROCE
Increases Bodycote PVD offering to customers
Option to buy back in
### Deal Summary

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
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</thead>
<tbody>
<tr>
<td>Sale Proceeds</td>
<td>26.1</td>
</tr>
<tr>
<td>Cash</td>
<td>19.0</td>
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<tr>
<td>Deferred</td>
<td>1.9</td>
</tr>
<tr>
<td>Reinvested 15% of equity</td>
<td>5.2</td>
</tr>
<tr>
<td>Loss disposal</td>
<td>2.2</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>0.8</td>
</tr>
</tbody>
</table>
Number 2 global supplier: Pro forma 2004 sales £53m

Joint marketing and branding agreement

Mutually exclusive 5 year supply agreement for heat treatment and PVD

Board representation

Right of first refusal
## Financial Impact

**Bodycote PVD Business**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>£15.6m</td>
<td>£9.1m</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>£1.6m</td>
<td>£0.9m</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>£3.5m</td>
<td>£2.1m</td>
</tr>
<tr>
<td><strong>CAPEX</strong></td>
<td>(£4.1m)</td>
<td>(£2.1m)</td>
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<tr>
<td><strong>Cash Outflow</strong></td>
<td>(£0.6m)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Pro forma 15%</td>
<td>Pro forma 20%</td>
</tr>
<tr>
<td>------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td><strong>2004</strong></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Sales</td>
<td>8.0</td>
<td>10.6</td>
</tr>
<tr>
<td>ROS</td>
<td>Low teens</td>
<td>Low Teens</td>
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</table>
2004-2005 Acquisitions Programme

- Materials Testing
- Eastern Europe
- Complementary Technologies
- Objective – 15% ROCE in medium term
Summary

- Focused on core competences
- Strengthened balance sheet
- Positioned for outsourcing growth
- Focused on rebuilding ROCE
- Expanding into emerging markets