



# 2006 PRELIMINARY RESULTS

# Highlights



• Revenue	£559m	+19%
• Headline Operating Profit <sup>(1)</sup>	£80m	+18%
• ROCE <sup>(1)</sup>	10.8%	+9%
• Testing Sales Growth	£58m	+67%
• 17 bolt - on Acquisitions (Forecast 2007 Sales)	£94m	
• Outsourcing - 149 new arrangements	+£8m	

<sup>1</sup> pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

# Preliminary Results



	2006 £m	2005 £m	Change %
Revenue	<b>558.6</b>	470.9	+19
EBITDA <sup>(1)</sup>	<b>125.1</b>	109.1	+15
Headline Operating Profit <sup>(1)</sup>	<b>79.7</b>	67.8	+18
Headline Profit before Tax <sup>(2)</sup>	<b>70.0</b>	58.8	+19
Headline EPS <sup>(3)</sup>	<b>17.3p</b>	14.6p	+18
Dividend/Share	<b>7.0p</b>	6.4p	+9

1 pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

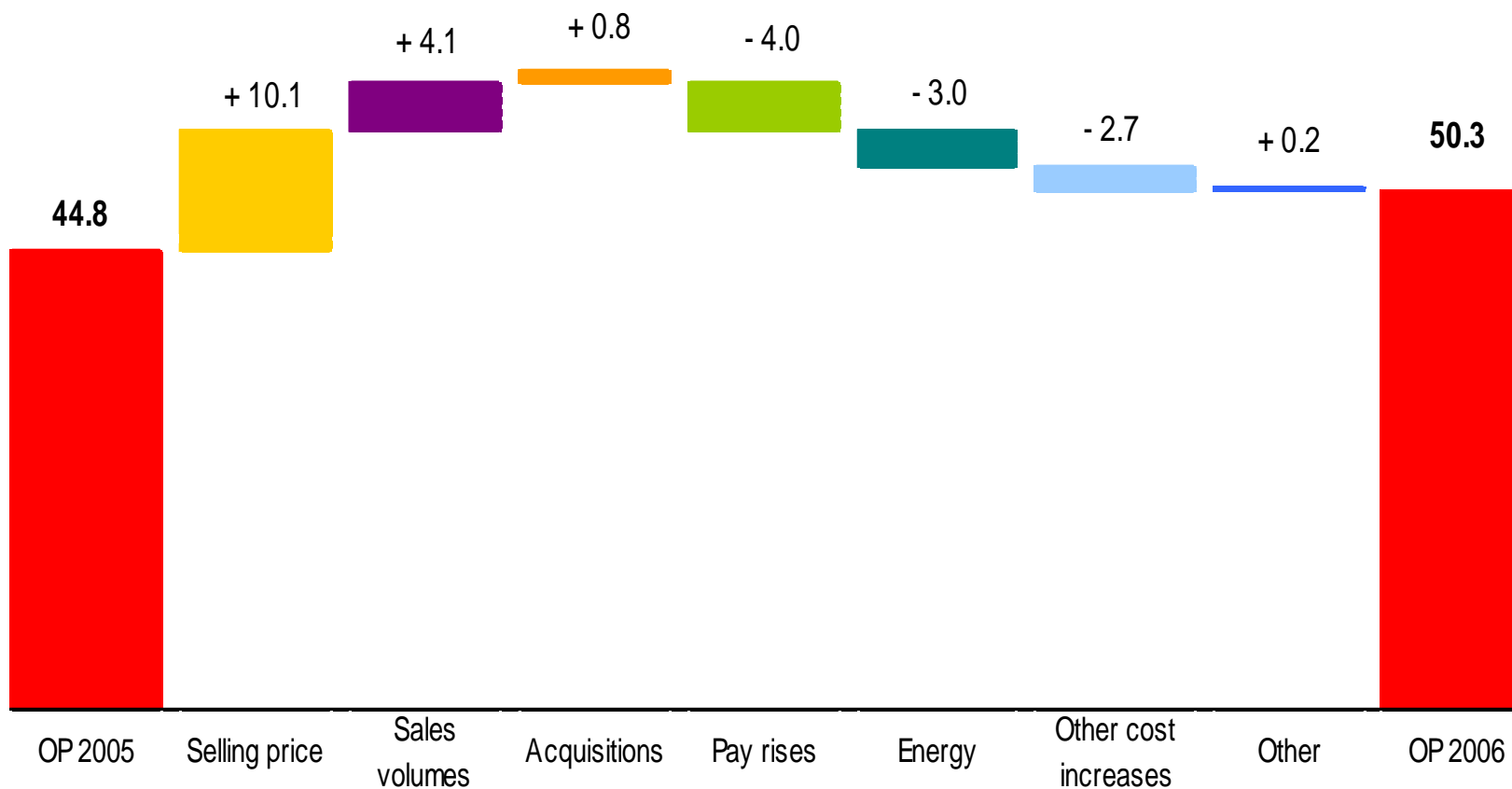
2 pre impairment of goodwill, amortisation/impairment of acquired intangibles, tax on associates, major facility closure costs, impairment of investment in associate, cost of early settlement of USD Private Placement debt.

3 pre impairment of goodwill, amortisation/impairment of acquired intangibles, major facility closure costs, cost of early settlement of USD Private Placement debt, tax settlement in respect of prior year, impairment of investment in associate.

# Profit Bridge – Heat Treatment



In £m

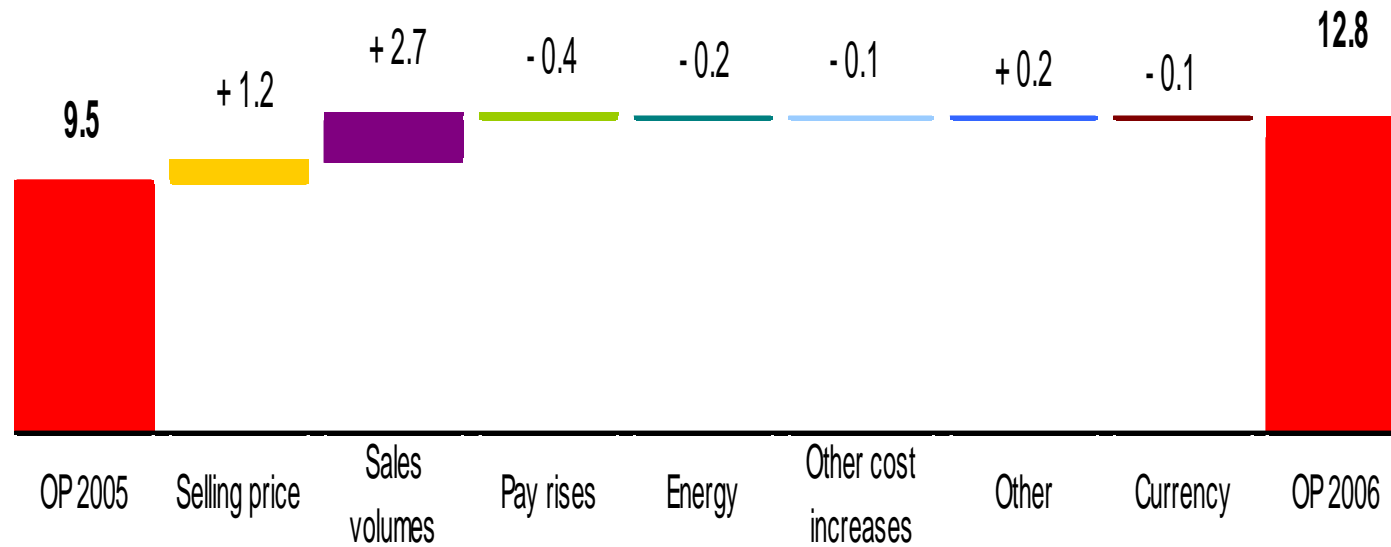


Operating Profit is stated pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

# Profit Bridge - HIP



In £m

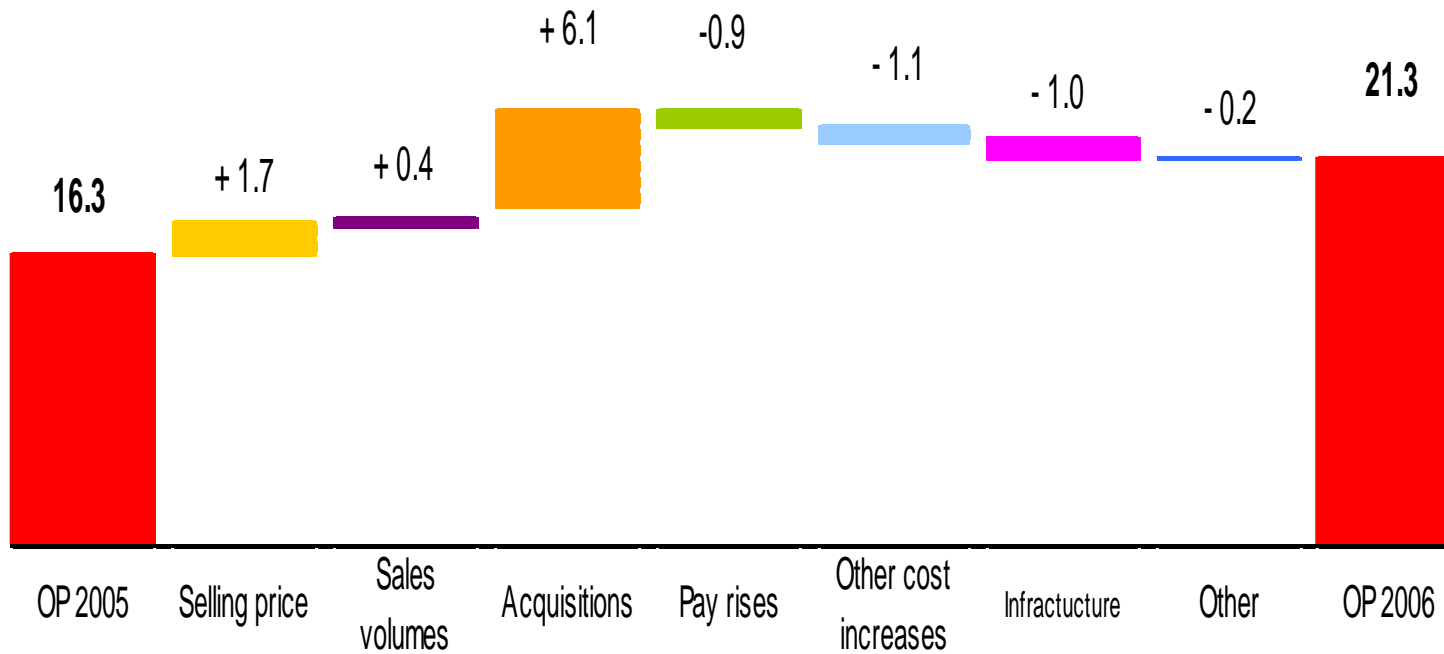


Operating Profit is stated pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

# Profit Bridge - Testing



In £m



Operating Profit is stated pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

# Sales and Operating Profit - By Region



2005 £m		2006 £m	EMEA £m	Americas £m	Asia Pacific £m
349.2	Heat Treatment	375.0	255.9	119.1	0.0
35.2	Hot Isostatic Pressing	38.9	16.9	22.0	
<b>384.4</b>	<b>Thermal Processing</b>	<b>413.9</b>	<b>272.8</b>	<b>141.1</b>	<b>0.0</b>
	Testing METM *	100.7	64.7	34.8	1.2
	Testing HSE **	44.0	19.3	24.7	
<b>86.5</b>	<b>Testing</b>	<b>144.7</b>	<b>84.0</b>	<b>59.5</b>	<b>1.2</b>
<b>470.9</b>		<b>558.6</b>	<b>356.8</b>	<b>200.6</b>	<b>1.2</b>
	<u>Operating Profit <sup>(1)</sup></u>				
44.8	Heat Treatment	50.3	38.5	12.1	(0.3)
9.5	Hot Isostatic Pressing	12.8	4.8	8.0	
<b>54.3</b>	<b>Thermal Processing</b>	<b>63.2</b>	<b>43.3</b>	<b>20.2</b>	<b>(0.3)</b>
	Testing METM *	14.3	9.7	4.5	0.1
	Testing HSE **	7.0	2.4	4.6	
<b>16.3</b>	<b>Testing</b>	<b>21.3</b>	<b>12.1</b>	<b>9.1</b>	<b>0.1</b>
(2.8)	Head Office	(4.8)			
<b>67.8</b>		<b>79.7</b>	<b>55.4</b>	<b>29.3</b>	<b>0.1</b>

<sup>1</sup> net impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

\* METM: Materials Testing / Engineering Technology / Measurement Solutions

\*\* HSE: Health Sciences and Environmental

# YoY Change in sales / 2006 operating margins



YoY Change in sales	TOTAL %	Organic%	EMEA %	Organic%	Americas %	Organic%	Asia Pacific %
Heat Treatment	7	5	8	5	6	3	
Hot Isostatic Pressing	11	11	9	9	12	12	
<b>Thermal Processing</b>	<b>8</b>	<b>5</b>	<b>8</b>	<b>6</b>	<b>6</b>	<b>5</b>	
Testing METM	57	8	62	8	44	7	0
Testing HSE	96	5	57	5	145	6	
<b>Testing</b>	<b>67</b>	<b>7</b>	<b>61</b>	<b>7</b>	<b>73</b>	<b>6</b>	<b>0</b>
<b>GROUP</b>	<b>19</b>	<b>6</b>	<b>17</b>	<b>6</b>	<b>20</b>	<b>5</b>	<b>0</b>

## 2006 Operating margins

Heat Treatment	13.4	15.0	10.2	0.0
Hot Isostatic Pressing	32.9	28.4	36.5	0.0
<b>Thermal Processing</b>	<b>15.3</b>	<b>15.9</b>	<b>14.3</b>	<b>0.0</b>
Testing METM	14.2	14.9	13.0	8.3
Testing HSE	16.0	12.6	18.5	0.0
<b>Testing</b>	<b>14.7</b>	<b>14.4</b>	<b>15.3</b>	<b>8.3</b>
Head Office				
<b>GROUP</b>	<b>14.3</b>	<b>15.5</b>	<b>14.6</b>	<b>8.3</b>



# Sales By Market



<b>Sector</b>	<b>2006</b>	<b>2005</b>
	<b>%</b>	<b>%</b>
Automotive		
- Cars & Light Truck	20	21
- Heavy Truck & Bus	5	6
Aerospace/Defence	20	19
Construction, Agricultural, Railways & Marine	16	16
Tooling	8	9
Health Science & Environmental	8	7
Oil & Gas	7	7
Power Generation	5	5
Consumer Products	5	3
Electronics & Telecoms	3	3
Miscellaneous(e.g pulp & paper, nuclear)	3	4
	<u>100</u>	<u>100</u>

# Profit Reconciliation

	2006	2005	Change
	£m	£m	%
Headline Profit before Tax (1)	70.0	58.8	+19
Goodwill/Intangibles/Impairment/Amortn.	(7.0)	(6.0)	
Ionbond Impairment	(8.3)	-	
Major facilities closure costs	(5.0)	-	
USPP make whole	(3.1)	-	
Profit before Tax	46.6	52.8	-12
Tax	(2.7)	(11.9)	-77
Profit after Tax	43.9	40.9	+7

<sup>1</sup> pre impairment of goodwill, amortisation/impairment of acquired intangibles, tax on associates, major facility closure costs, impairment of investment in associate.

# Summary Cash Flow and Financial Ratios

	2006 £m	2005 £m
<b>EBITDA<sup>1</sup></b>	125.1	109.1
<b>Non-cash movements</b>	1.5	(2.0)
<b>Working Capital Movement</b>	(9.0)	(3.0)
<b>Net CAPEX</b>	(55.4)	(44.1)
<b>Interest</b>	(12.8)	(9.5)
<b>Tax</b>	(8.4)	(8.3)
<b>Free Cash Flow</b>	<u>41.0</u>	<u>42.1</u>
<b>Net Debt/EBITDA</b>	1.3x	1.0x
<b>Interest cover</b>	7.0x	9.1x
<b>Gearing</b>	36%	25%
<b>Free Cash Flow</b>	7%	9%
<b>Capex/Depreciation</b>	1.2x	1.1x

<sup>1</sup> pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

# Balance Sheet

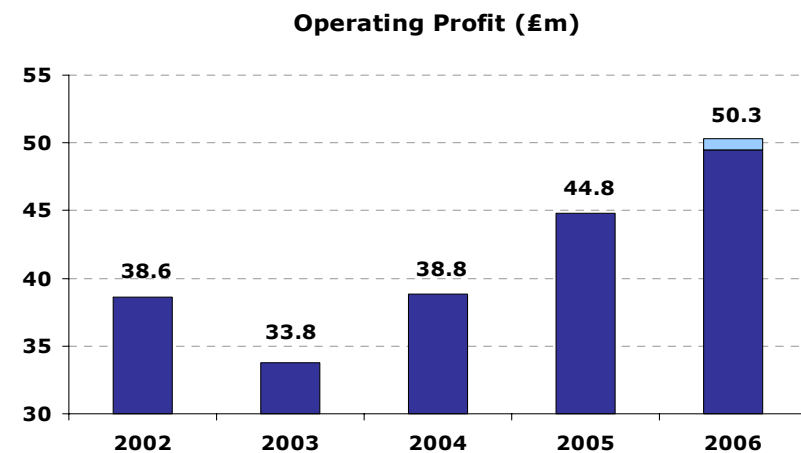
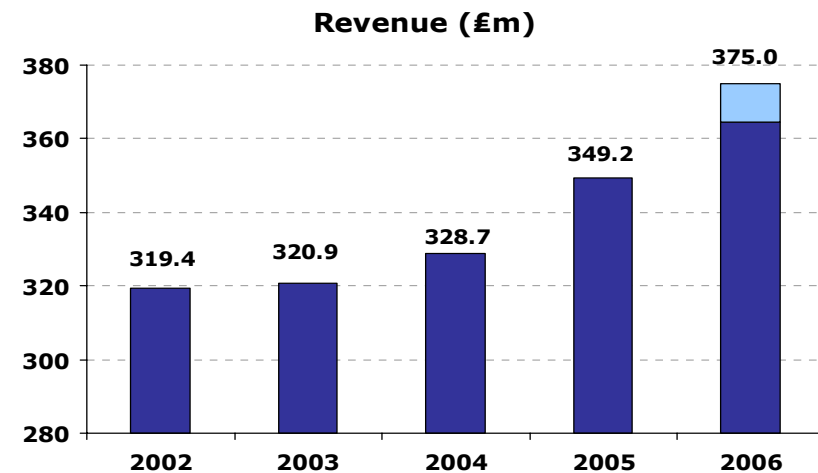


	2006 £m	2005 £m
Goodwill	201.9	154.2
Tangible and Intangible Fixed Assets	458.8	446.6
Investments	1.2	9.2
Trading Working Capital	40.7	29.2
Other Net Assets	(87.8)	(97.1)
	<hr/>	<hr/>
Net Assets before Borrowings	614.8	542.1
	<hr/> <hr/>	<hr/> <hr/>
Shareholders' Funds	449.5	432.1
Minority Interests	4.4	1.4
Net Borrowings	160.9	108.6
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Equity and Borrowings	614.8	542.1
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# Heat Treatment

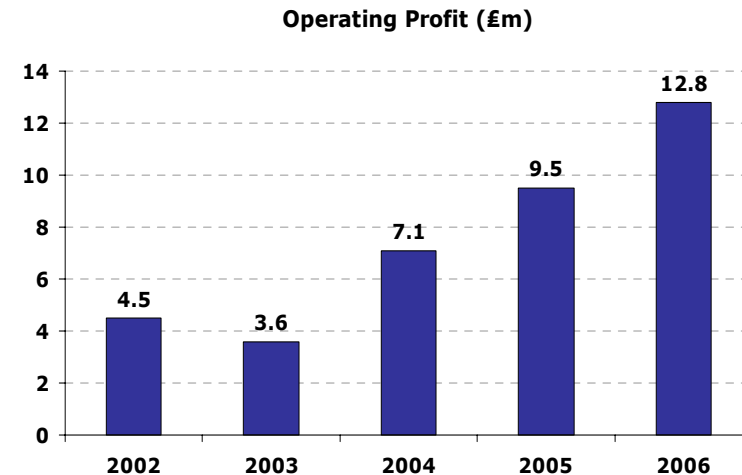
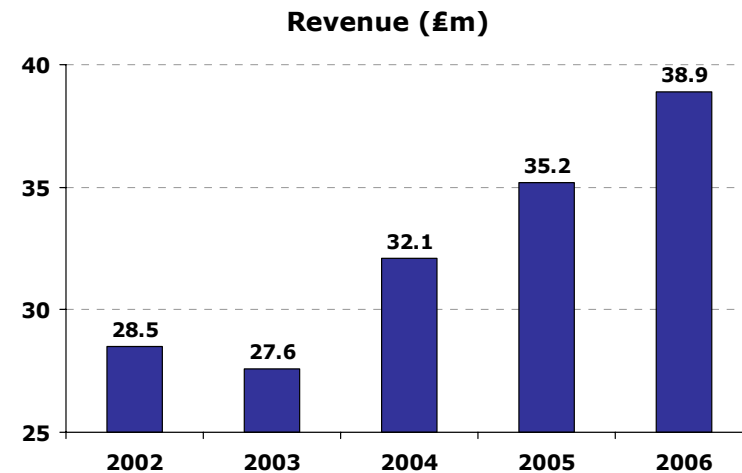


- Energy cost increases recovered
- Leveraging customer base
- Outsourcing
- Technology roll-out
- Manufacturing growth markets
- ROCE improving, now 8.5%



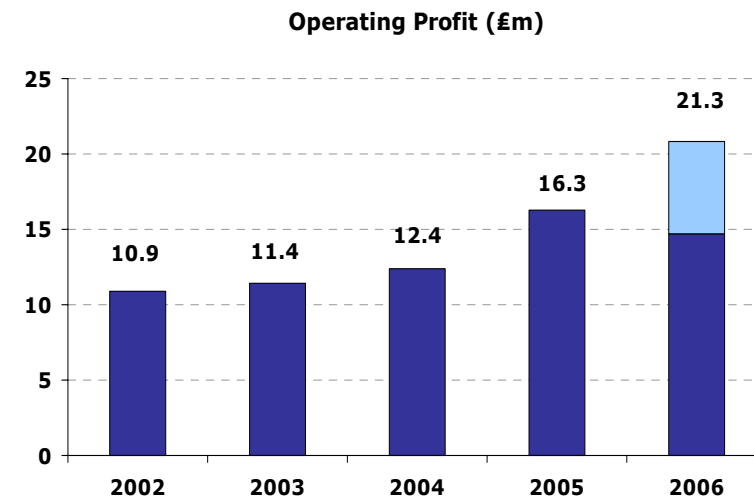
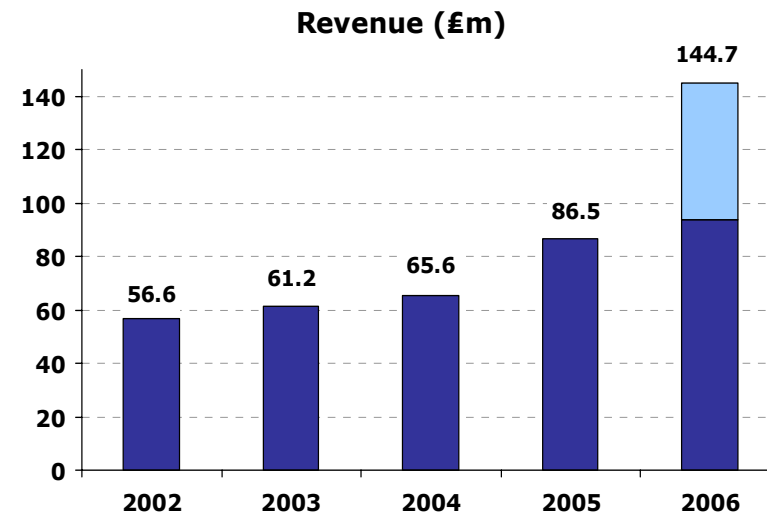
# Hot Isostatic Pressing

- Volume growth/operational gearing
- Densal continues to grow
- Additional capacity being added
- ROCE > 20%
- Aerospace/Power Generation demand robust



# Testing

- Revenue now at £170m annualised
- Margin 15%
- Integrating acquisitions
- ROCE remains strong, 20%
- Organic growth
- Outsourcing wins
- Acquisition pipeline



# Strategy

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- Increase importance of Testing
- Expand the Group into developing manufacturing geographies
- Intensify outsourcing initiatives



# Strategy Implementation

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- Deliver ROCE in MID-TEENS %
- Thermal Processing and Testing Strategic Business Units to be equivalent size within five years
- Network presence in EMEA, Americas and Asia Pacific to be balanced
- Grow sales c.15% pa
  - ORGANIC
  - OUTSOURCING
  - ACQUISITIONS

# Current Trading and Prospects



- 07 started marginally ahead of expectations and significantly ahead of year 2006 - Europe strong, Americas steady
- Aerospace, power generation, oil, gas & health sciences markets continue to grow
- Automotive gaining share
- Energy costs moderating
- Outsourcing initiatives continue to deliver growth
- Pipeline of Bolt-on acquisitions
- Confident in prospects for 2007



# 2006 PRELIMINARY RESULTS

**Appendix**

# Operational Locations



	Heat Treatment	HIP	Testing	Total
USA	39	4	16	59
France	31	1		32
UK	19	3	38	60
Germany	17	1	1	19
Sweden	12	1	11	24
Brazil	7			7
Czech Republic	6		1	7
Poland	6			6
Turkey	6			6
Netherlands	5		2	7
Finland	5		2	7
Italy	4		2	6
Austria	3			3
Canada	2		20	22
Switzerland	2			2
Belgium	2	1	1	4
Denmark	2		2	4
Romania	2			2
China	1			1
Liechtenstein	1			1
Hungary	1			1
UAE			5	5
Ireland			1	1
Hong Kong			1	1
Oman			1	1
Norway			1	1
Qatar			1	1
Australia			1	1
<b>Total</b>	<b>173</b>	<b>11</b>	<b>107</b>	<b>291</b>

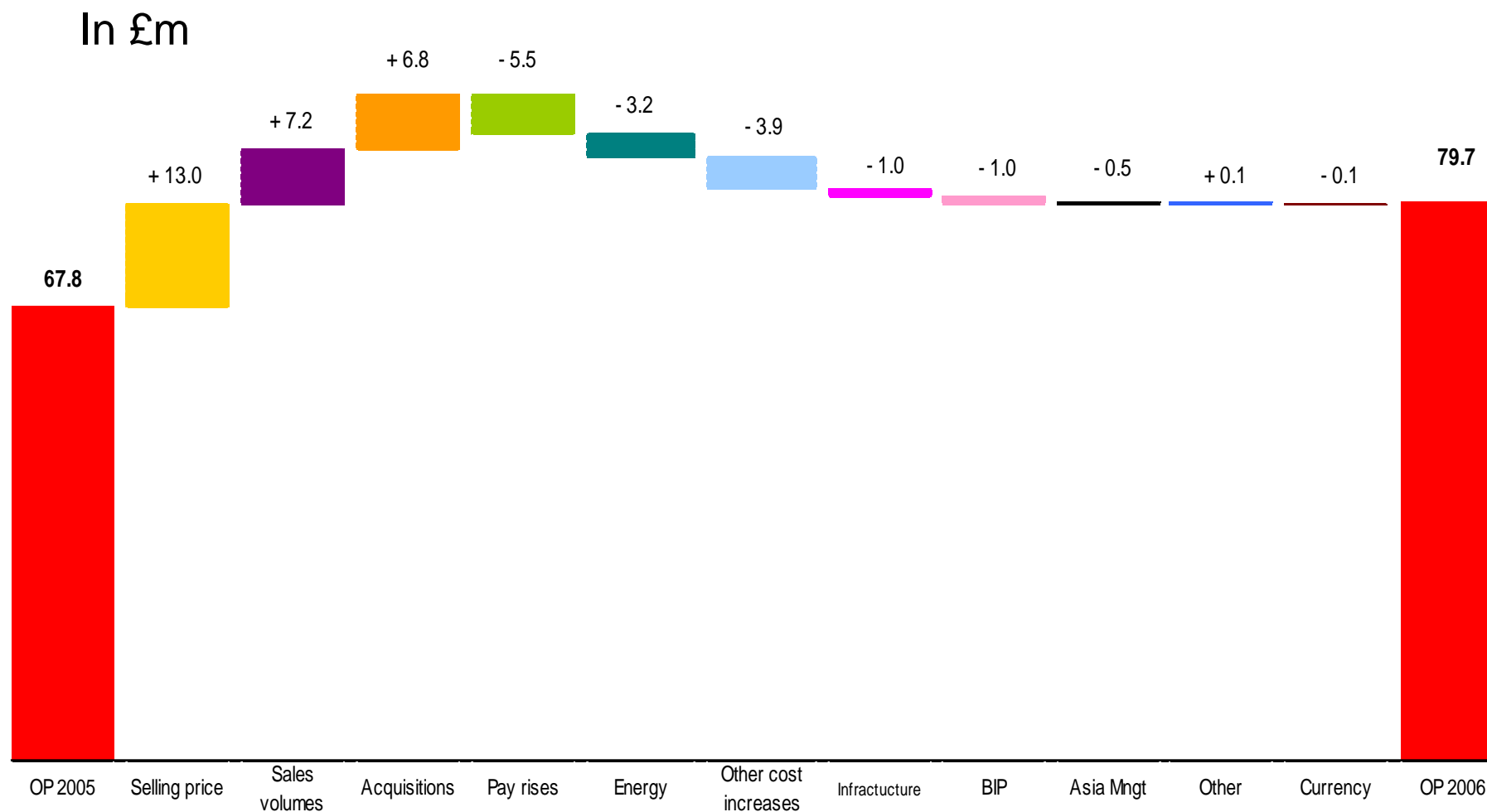
# Analysis Of Organic/Acquisition Growth



	HT £m	HIP £m	Testing £m	Head Office £m	Total £m
<b>Sales</b>					
2005	349.2	35.2	86.5		470.9
Organic	16.3	4.0	5.7		26.0
Acquisition	10.6		51.0		61.6
Currency	(1.1)	(0.3)	1.5		0.1
<b>2006</b>	<b>375.0</b>	<b>38.9</b>	<b>144.7</b>		<b>558.6</b>
<b>Operating Profit <sup>(1)</sup></b>					
2005	44.8	9.5	16.3	(2.8)	67.8
Organic	4.7	3.4	(1.1)	(1.8)	5.2
Acquisition	0.8		6.1	(0.1)	6.8
Currency		(0.1)			(0.1)
<b>2006</b>	<b>50.3</b>	<b>12.8</b>	<b>21.3</b>	<b>(4.7)</b>	<b>79.7</b>
% on sales					
2006	13.4%	32.9%	14.7%		14.3%
2005	12.8%	27.0%	18.8%		14.4%

<sup>1</sup> pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

# Profit Bridge – Group

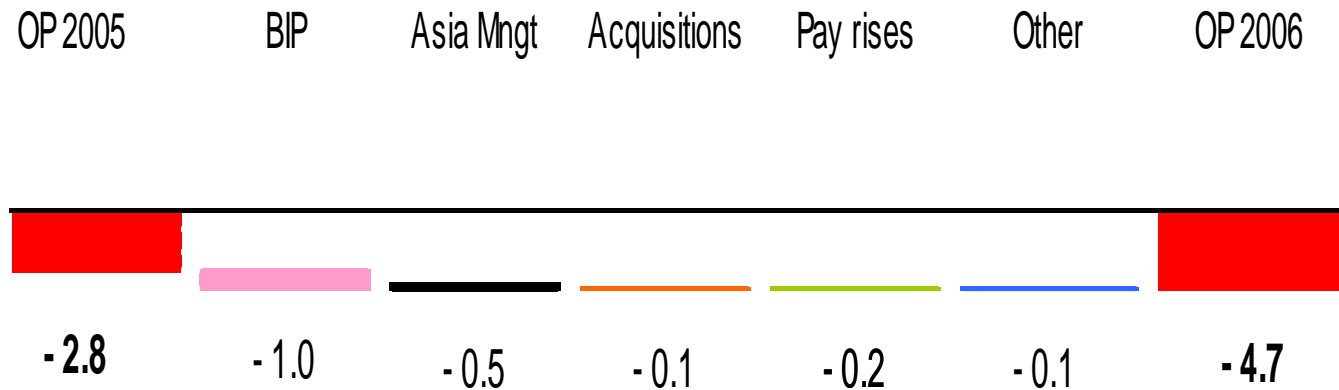


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# Profit Bridge – Head Office

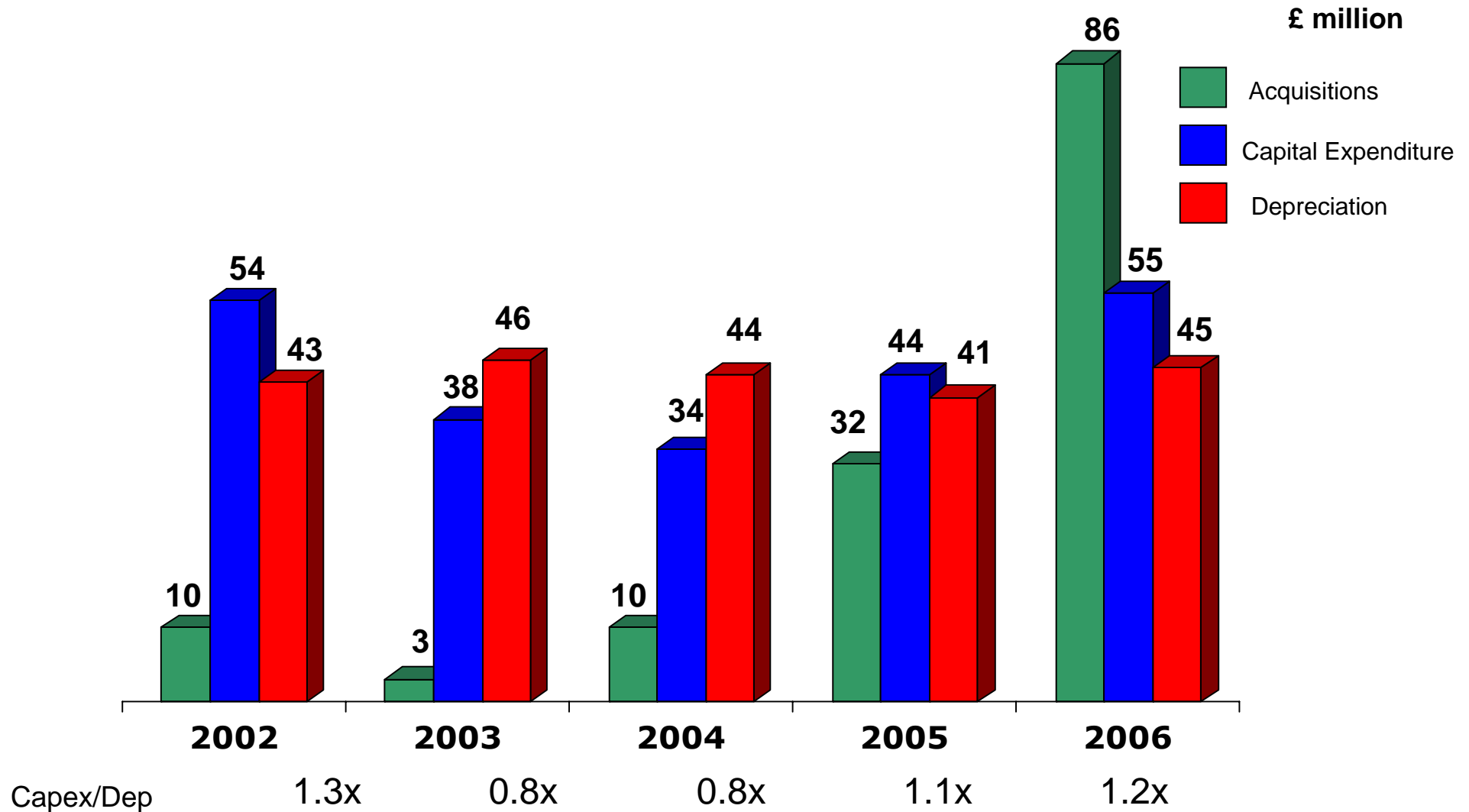


In £m



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# Acquisitions, Capital Expenditure & Depreciation





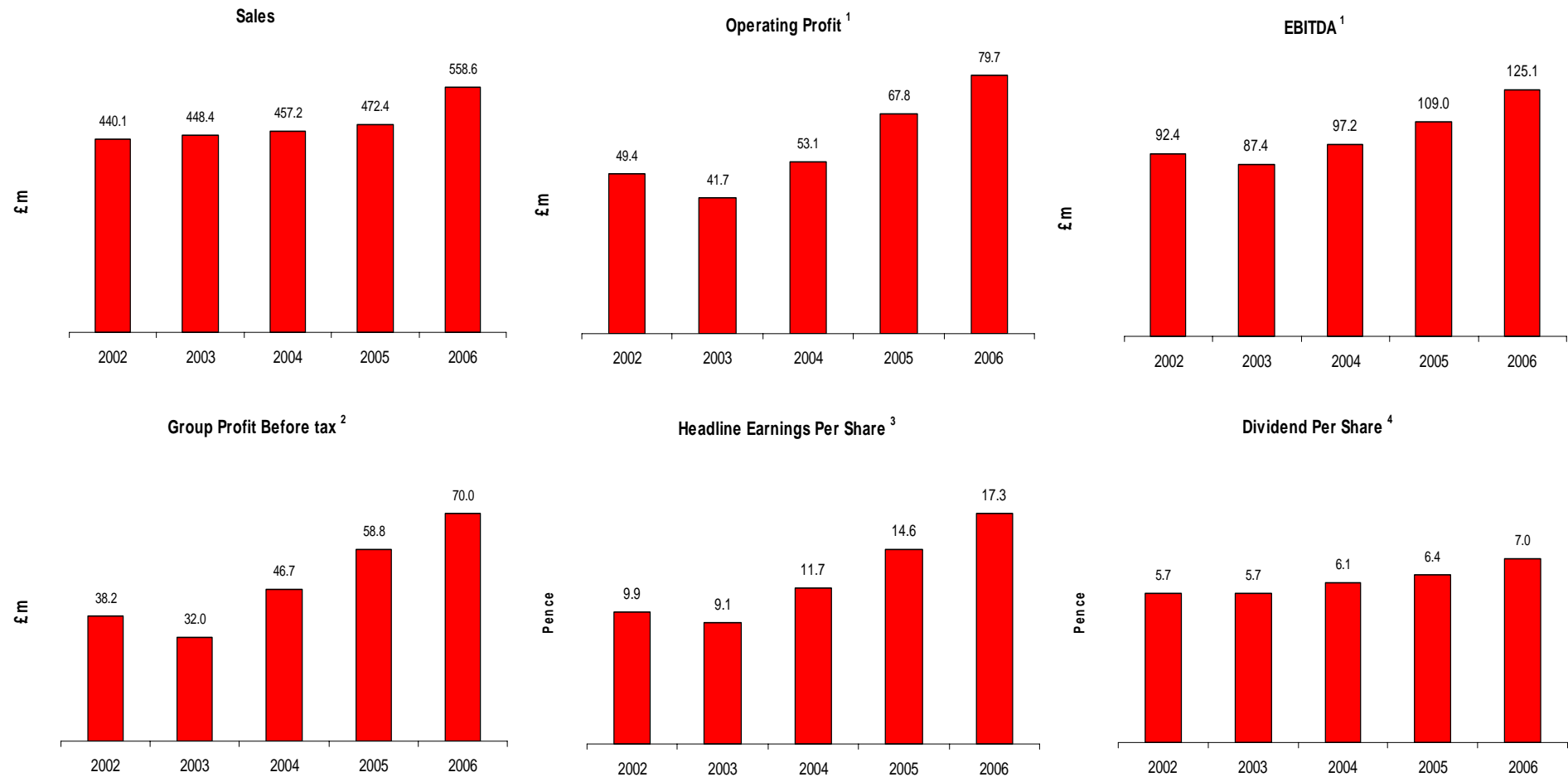
# Impact Of Exchange Rates



	Sales £m	Operating Profit <sup>1</sup> £m
2006 As Reported	558.6	79.7
2006 Using 2005 Rates	558.5	79.8
Impact	(0.1)	0.1

<sup>1</sup> pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

# Financial Highlights



1 pre impairment of goodwill, amortisation/impairment of acquired intangibles, interest and tax on associates, major facility closure costs, impairment of investment in associate.

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4 as restated for the 1 to 4 rights issue in March 2004.



**Bodycote**