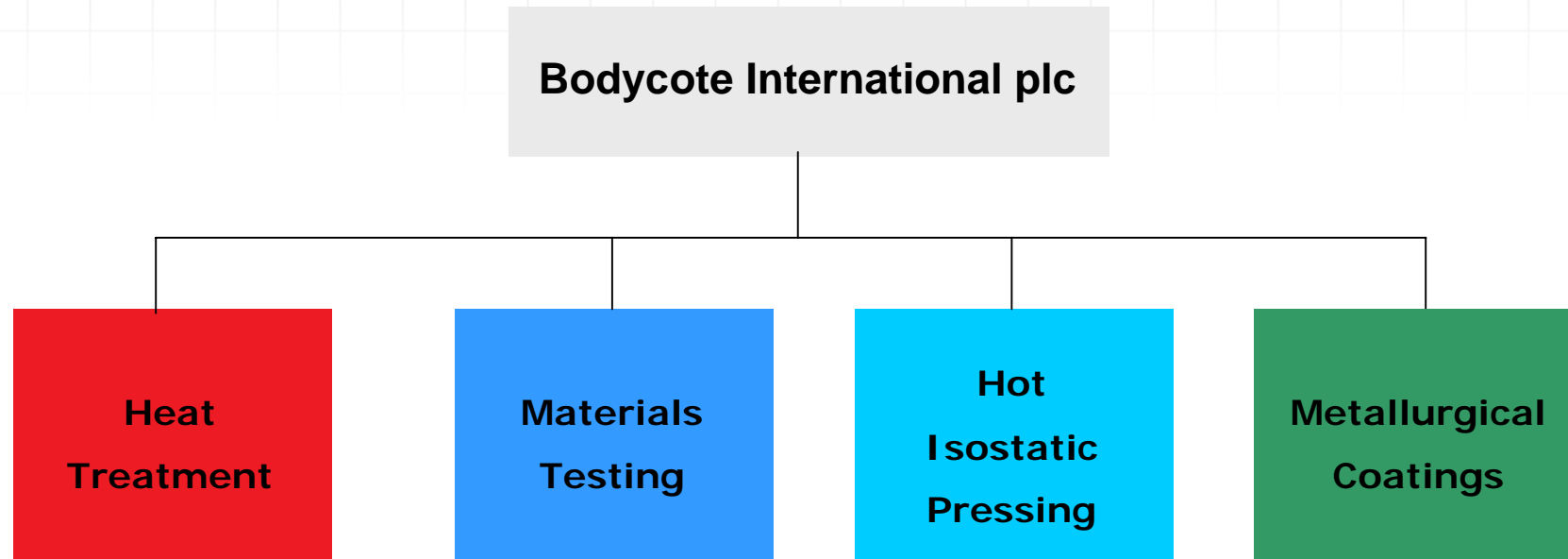




# Positioned for Future Growth

December 2004

# Strategic Business Units

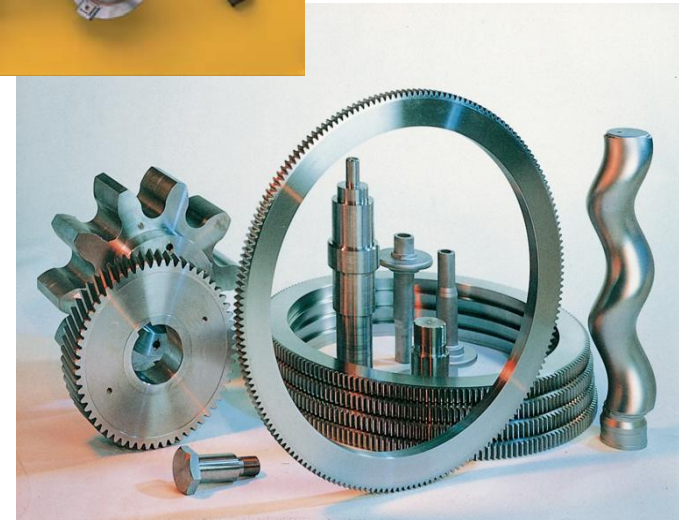


**Bodycote is currently operating  
232 plants in 22 countries  
with 7500 employees**

# 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 HI Pping?

## HI Pping

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.

HI Pping 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





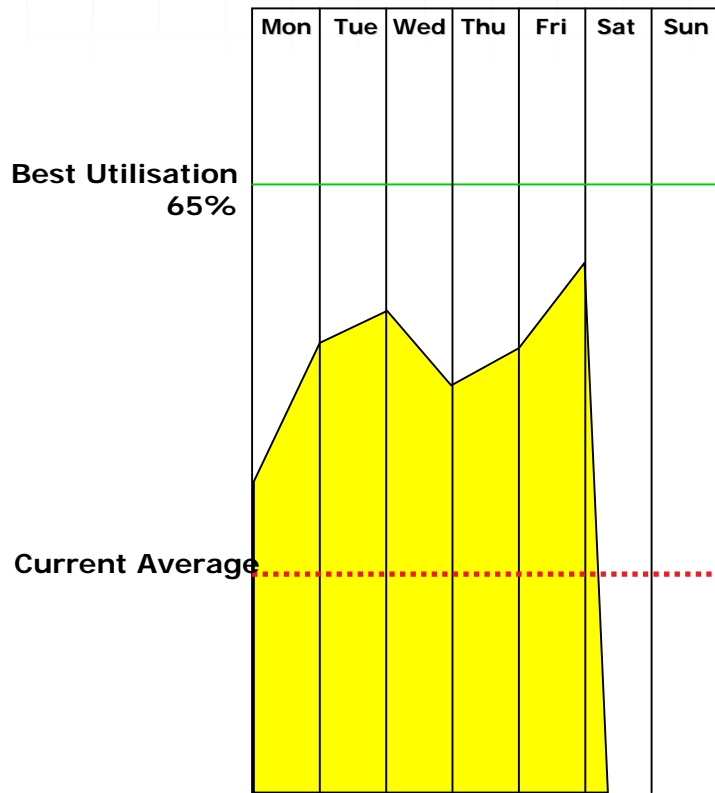
# Strategy Implementation

- 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)

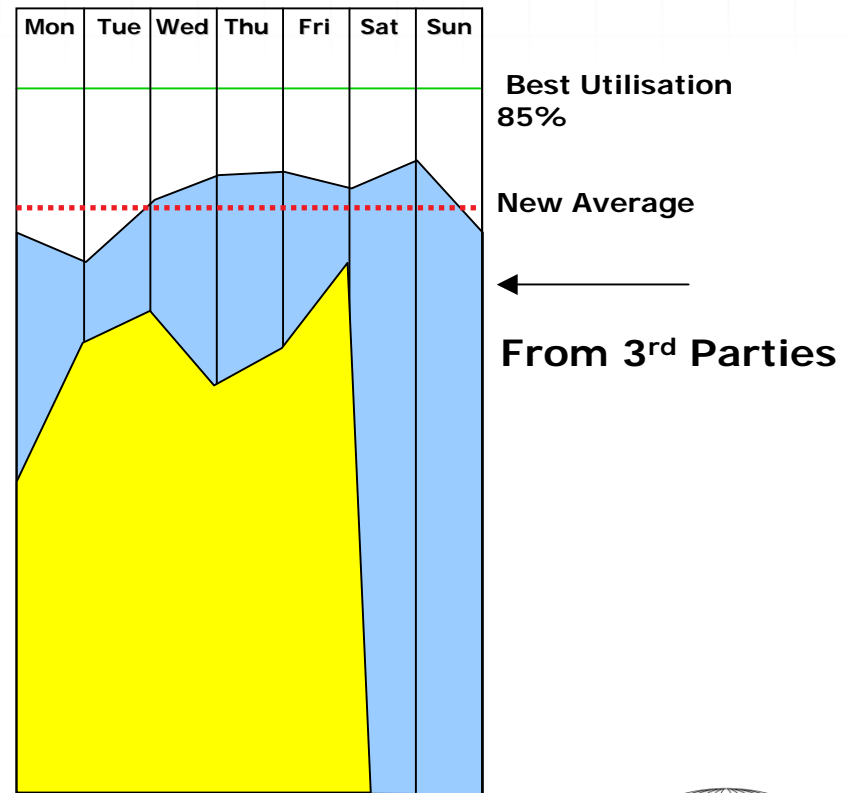
**In-House 5.5 days**



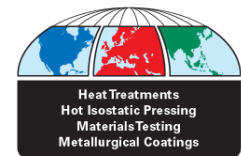
**From own business**

**Bodycote 7 days**

**Driver for cost down**



**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

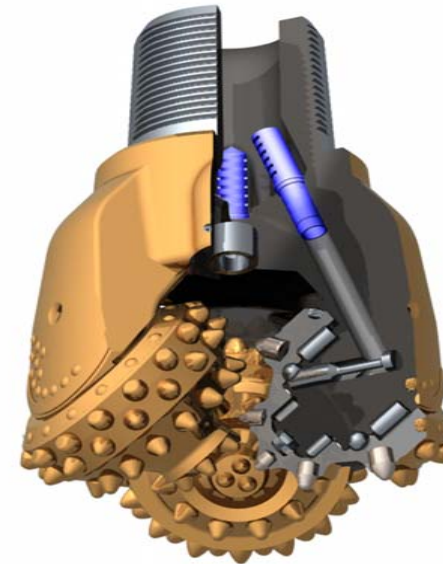


# Outsourcing for Rotary Drill Bits

Vasteras



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



# Geographic Expansion

## 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



## Electroplating

- 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 Electroplating

<u>£m</u>	<u>2003</u>	H1 <u>2004</u>
Sales	26.0	13.0
EBIT	(6.9)	(2.7)
EBITDA	(3.3)	(1.3)

**Improves Group ROS by 2% and ROCE by 1.5% compared to 2003**

**Retained  
Anodising/Organics/Sherardizing  
Businesses**

<b><u>£m</u></b>	<b><u>2003</u></b>	<b>H1 <u>2004</u></b>
Sales	14.9	8.2
EBIT	1.3	1.4
EBITDA	2.4	2.0

**Retained  
Slurry/Plasma Spray  
Businesses**

<b><u>£m</u></b>	<b><u>2003</u></b>	<b>H1 <u>2004</u></b>
Sales	3.5	1.8
EBIT	0.9	0.5
EBITDA	1.0	0.6

# IonBond

- Definitive #2 global PVD service provider
  - Cutting tool coatings
  - Diamond like carbon tribological coatings
  - Decorative coatings
  
- 25 facilities in 12 countries

## **IonBond** Strategy

- Consolidation of PVD market
- Release cash from under performing assets, increase ROCE
- Increases Bodycote PVD offering to customers
- Option to buy back in

# IonBond Deal Summary

	<u>£m</u>
Sale Proceeds	26.1
Cash	19.0
Deferred	1.9
Reinvested 15% of equity	5.2
Loss disposal	2.2
Transaction costs	0.8



## **IonBond Deal Summary continued**

- 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

	12 Months	H1
	<u>2003</u>	<u>2004</u>
	£m	£m
<b>Sales</b>	<b>15.6</b>	<b>9.1</b>
<b>EBIT</b>	<b>1.6</b>	<b>0.9</b>
<b>EBITDA</b>	<b>3.5</b>	<b>2.1</b>
<b>CAPEX</b>	<b>(4.1)</b>	<b>(2.1)</b>
<b>Cash Outflow</b>	<b>(0.6)</b>	<b>-</b>

**IonBond PVD Business –  
Bodycote Share Equity Accounted**

	Pro forma 15%	Pro forma 20%
	<u>2004</u>	<u>2004</u>
	£m	£m
<b>Sales</b>	<b>8.0</b>	<b>10.6</b>
<b>ROS</b>	<b>Low teens</b>	<b>Low Teens</b>

# 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

