



SALE OF TESTING BUSINESS AND RETURN OF CASH TO SHAREHOLDERS

Aug 28, 2008

Bodycote plc ("Bodycote") is pleased to announce that it has entered into a conditional agreement for the sale of its Testing Strategic Business Unit ("Testing Business") to Clayton, Dubilier and Rice (acting through CDR Tabasco Limited, a company incorporated by Clayton Dubilier & Rice Fund VII LP to effect the acquisition) ("CD&R") for a consideration of approximately £417 million on a cash and debt free basis and a vendor loan note ("VLN") in respect of 65 acres of surplus land in Mississauga, Canada (the "Sale"). Following the Sale the Board proposes to return approximately £260 million to Shareholders (equivalent to 80 pence per share).

Highlights:

the consideration for the Sale comprises approximately £417 million in cash payable on completion, subject to the adjustments set out below, and a vendor loan note in respect of 65 acres of surplus land in Mississauga, Canada;

the sale price of approximately £417 million reflects the high quality of the Testing Business and Bodycote's success in executing its strategy to build the Testing Business across a range of disciplines and geographies;

the Sale, which is conditional on the approval of Bodycote's Shareholders and the receipt of certain regulatory approvals, is expected to complete before the end of October 2008;

the Board has assessed the capital structure of the Company in determining the quantum of the return of cash to Shareholders, whilst having regard for the need to maintain flexibility to continue to execute its strategy to develop the Thermal Processing Strategic Business Unit ("Thermal Processing Business");

following the Sale, Bodycote expects to accelerate the improvement in the financial performance of the Thermal Processing Business as a result of increased focus, through increasing the amount of high added value and speciality processes, further expansion in emerging markets and by restructuring underperforming facilities, especially in North America;

the Board believes that the financial performance of the ongoing Group will enable the continuance of a progressive dividend policy, targeting dividend cover of 2.0 to 2.5 times;

following completion of the Sale, Bodycote intends to return 80 pence per share to Shareholders (approximately £260 million). The Board intends that the proposed return of cash will be effected

through a B share scheme. A separate circular giving details of the B share scheme and related share consolidation will be posted to Shareholders as soon as practicable after completion of the Sale; and In addition, John Hubbard has confirmed his intention to step down as Chief Executive Officer when a successor is found. The search to select a person to execute the ongoing strategy is well advanced and the new Chief Executive Officer is expected to be announced shortly.

Bodycote Chairman, Alan Thomson, said:

"Bodycote has built a very successful Testing Business. The time is now right to realise this value for our Shareholders, allowing Bodycote to concentrate on its Thermal Processing Business and enabling it to deliver its full potential."

1. Background to the Sale

As announced in the Bodycote AGM and interim management statement on 30 April 2008, in early 2008 the Board undertook an in-depth strategic review of the Group's two Strategic Business Units, Thermal Processing and Testing. This review concluded that substantial shareholder value could be realised by disposing of the entire Testing Business and by focussing on the wide ranging opportunities for further development of the Thermal Processing Business. The principal reasons for this are as follows:

the strategy implemented by Bodycote has created two market leading Strategic Business Units, each with strong management teams and excellent prospects;

the Testing Business has been developed into a market leading business with experienced management and a diversified geographic and sector exposure;

the Thermal Processing Business enjoys an unrivalled base of expertise in heat treatment, hot isostatic pressing and special surface treatments, providing a vital value-added link in the manufacture and development of advanced materials for aerospace, oil and gas, power generation, automotive, precision castings and medical engineering applications;

as the Testing Business has continued to widen its service offering and sector exposure into such activities as Health Sciences and Environment, and Measurement Technologies, the Testing Business has increasingly operated distinctly from the Thermal Processing Business, with diminishing opportunity for synergies between them.

The Board appointed KPMG Corporate Finance to act as Financial Adviser and Joint Sponsor on the Sale. The Board has also appointed Credit Suisse Securities (Europe) and Lehman Brothers International (Europe) to act as Joint Brokers and Sponsors on the transaction.

The Board believes that the price agreed with CD&R recognises the attractiveness of the Testing Business, its infrastructure base, the strength of its market position in high growth industries, its highly skilled workforce, its experienced and strong management team and its future organic growth prospects.

2. Information on the Testing Business

The Testing Business is one of the world's leading laboratory-based testing businesses, operating from over 130 laboratories in more than 25 countries worldwide. It provides global clients with technically demanding, value-added, and mainly non-discretionary testing of industrial materials, engineered components, pharmaceuticals and environmental conditions.

Deployed during product development or final production, the Testing Business's services range from destructive and non-destructive testing of products, to advanced and bespoke materials testing and design consultancy.

It holds leading positions within high growth and technically demanding markets such as aerospace and industrial gas turbines, oil and gas and pharmaceuticals, and goes to market through two divisions:

Materials Testing, Engineering & Technology and Measurement Technologies: This is the testing of metals, alloys, plastics and composites used in product development, component assembly, manufacturing and general engineering applications. Principal end-markets include the aerospace and industrial gas turbines, oil and gas, civil engineering, transport and general engineering sectors; and

Health Sciences and Environment: This is testing services for the pharmaceuticals, food and environment sectors. Services range from chemical composition analysis and soil sampling, to food labelling and regulatory consulting.

In the year to 31 December 2007 the Testing Business generated revenue of £176.1 million, headline operating profit* of £21.0 million and operating profit of £15.7 million.

In the six months ending 30 June 2008 the Testing Business generated revenues of £100.2 million, headline operating profit* of £11.5 million and operating profit of £11.1 million. The gross assets of the Testing Business as at 30 June 2008 were approximately £260.0 million.

* Headline operating profit is profit before non-recurring items, amortisation and impairment, interest and tax.

3. Principal terms of the Sale

Under the terms of the Sale and Purchase Agreement, Bodycote has agreed to sell the Testing Business to CDR Tabasco Limited, a company incorporated by Clayton Dubilier & Rice Fund VII LP to effect the acquisition, for a consideration of approximately £417 million, comprising approximately £300 million payable in cash on completion and approximately £117 million in cash in respect of intra-group balances, subject to the adjustments described below. In addition, CD&R will issue Bodycote a VLN which entitles Bodycote to the net proceeds of sale of 65 acres of surplus land in Mississauga, Canada on its disposal subject to the deduction of transaction costs and various taxes.

The consideration payable at completion of the Sale will be adjusted for the following items:

changes in intra-group trading balances and interest on intra-group debt balances between signing of the Sale and Purchase Agreement, and completion;

a profit adjustment depending on the exact timing of completion; and

the cost of provision of shared services to the Testing Business in the period from signing until completion.

The land at Mississauga has a net book value of £0.3 million at 30 June 2008 but upon re-zoning and planning consent is expected to be worth considerably more. The VLN is unsecured, non-interest bearing, with recourse only to the land or the net proceeds of sale mentioned above.

The Sale is conditional on the approval of Shareholders and on the receipt of certain regulatory approvals and is expected to complete before the end of October 2008. A circular will be distributed as soon as practicable ahead of an extraordinary general meeting convened to seek Shareholder approval for the Sale.

Bodycote has agreed to pay the purchaser a break fee of 1.0% of the cash consideration if Shareholders do not approve the Sale.

4. Use of proceeds and financial effects of the Sale

The net cash proceeds of the Sale are expected to be approximately £380 million after tax, professional fees and other costs relating to the Sale. These net proceeds will be used:

to return approximately £260 million to Shareholders as described above;

to pay into the Group's pension fund approximately £18 million; and

the balance will be used initially to reduce the Group's indebtedness. In due course, these funds will be used to invest in growing the Thermal Processing Business as described below.

If the Sale had occurred on 1 January 2007, the effect would have been to reduce Group earnings for the financial year ended 31 December 2007. The Sale is also expected to reduce Group earnings in the financial year to 31 December 2008. However, since the Sale will be followed by a return of cash the Board believes that this transaction creates substantial value for Shareholders.

5. Return of cash to Shareholders and Financial Impact

In light of the Sale and Bodycote's continuing cash-flow profile the Board believes that it is appropriate to effect a significant return of cash to Shareholders. The Board proposes to return 80 pence per share to Shareholders (approximately £260 million) shortly after completion of the Sale. The return of cash will be subject to shareholder approval at a separate extraordinary general meeting.

Bodycote expects to issue a separate circular to Shareholders as soon as practicable after completion of the Sale detailing the method and timing of the proposed return of cash, which is currently expected to be made by way of a B share scheme accompanied by a share consolidation designed to maintain comparability of share price, earnings per share and dividends. This would provide UK tax resident Shareholders with flexibility to elect to receive cash in the form of a capital payment or in the form of dividend income, or a combination of the two.

6. Development of the Thermal Processing Business

Following the Sale, Bodycote expects to accelerate the improvement in the financial performance of the Thermal Processing Business as a result of an increased focus on Thermal Processing, through increasing the amount of high added value and speciality processes, further expansion in emerging markets and by restructuring underperforming facilities, especially in North America.

The market for outsourced thermal processing and associated services is large, fragmented and growing, driven by the opportunity to reduce costs and carbon emissions for customers, and because the specialist treatments offered enable product life to be extended and or improved engineering properties to be achieved. Bodycote is the clear worldwide market leader in this field and it intends to leverage this position to achieve superior growth and financial performance.

Currently the Thermal Processing Business' results are strong in Europe but less so in North America, whilst its emerging market business is growing strongly and it is anticipated that margins will improve markedly as throughput increases at greenfield sites. In North America, a significant number of locations which offer less high-value services will be consolidated with remaining locations (and or in certain cases closed). We expect these actions to bring North American margins in line with those in Europe, which itself will be enhanced by the consolidation of a small number of under performing sites.

Organic sales growth and margin enhancement is expected to be further improved by increasing high value-added processes such as Hot Isostatic Pressing, Kolstersing®, nitriding, vacuum brazing, low

pressure carburising, electron beam welding and thermal spray.

The Board expects overall sales growth in the Thermal Processing Business to be well ahead of industrial production driven by increased outsourcing activity, the focus on high value added services and the growth of the Group's presence in emerging markets.

The combination of differentiated services and outsourcing partnerships, along with wide geographic and market sector spread, is expected to further reduce the Thermal Processing Business' exposure to demand cycles. Any such impact is also expected to be mitigated by continued control of labour costs, particularly in Western Europe, where contract labour is used to maintain our flexibility.

Selective acquisitions will be made to enhance the development of the Group and its financial performance. In all geographies, but especially in developed markets, these will be aimed at enhancing high value-added processes which typically enjoy higher margins. Bodycote's Thermal Processing Business is already the clear market leader in Eastern Europe and Latin America and we aim to achieve a similar position in the key Asian markets.

The Group will also be focussed on improved cash generation, which will come from margin improvement, disciplined capital investment and enhanced working capital performance.

A conference call for analysts and investors will be held at 8.30am today, hosted by John Hubbard, Chief Executive and David Landless, Finance Director. Call-in details are as follows: +44 (0)1452 542 363; call reference 62380665. The call will also be webcast at www.bodycote.com later today.

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About Bodycote

Founded in 1923, Bodycote plc offers premier metallurgical services at more than 300 facilities in 35 countries worldwide. Headquartered in Macclesfield, UK, Bodycote also provides material testing services. Sales in 2007 exceeded US\$1 billion. Bodycote Japan K.K. is headquartered in Nagoya. For more information, visit www.bodycote.co.jp

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