PRESS RELEASE

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FULL YEAR RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2010

Financial Highlights

	2010	2009
Revenue – continuing operations	**£499.8m**	£435.4m
Headline operating profit[1] - continuing operations	**£52.1m**	£8.0m
Operating profit/(loss) - continuing operations	**£51.2m**	£(50.2)m
Headline profit before taxation[2] - continuing operations	**£46.1m**	£3.7m
Profit/(loss) before taxation - continuing operations	**£45.2m**	£(54.5)m
Headline operating cash flow[1] - continuing operations	**£77.3m**	£34.7m
Net debt	**£51.3m**	£85.5m
Basic headline earnings per share[3] - continuing operations	**18.3p**	0.4p
Basic earnings/(loss) per share	**14.9p**	(27.0)p
Dividend per share	**8.7p**	8.3p

Operational Highlights

- Market focused business structure – Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI) delivering improved sales opportunities and operational efficiencies
- Revenue growth ahead of market improvement due to share and mix gains. Group revenue up 14.8% (17.8% on a like-for-like basis). ADE revenues up 6.6% and AGI revenues up 21.1%
- Cost reduction programme delivered cumulative annualised structural savings of £45m in 2010 (2009: £30m)
- Disciplined capital expenditure and focus on working capital efficiency resulted in excellent cash flow performance – headline operating cash flow 148% of headline operating profit

Commenting, Stephen Harris, Chief Executive said:

"2010 saw a notable and pleasing improvement in the performance of the Group. Better macro economic conditions were an important contributor to this and the underlying ability of the business to deliver consistently superior value has been strengthened considerably. Total revenue growth was well ahead of market improvement. The reorganisation of the Group into market focused divisions has enhanced revenue growth and careful targeting of capital investment has improved cash flow and return on capital.

Looking at 2011, it is anticipated that automotive and general industrial business will continue to grow at a reasonable pace. Aerospace, defence and energy demand has begun to recover, although within this the power generation segment remains soft, with the timing of improvement still unclear. In summary, the Board is confident that 2011 will be another year of growth for Bodycote, albeit at a less rapid rate than experienced in 2010. The year has started in line with these expectations. Looking further out, the Board sees encouraging opportunities for improved through-cycle returns."

[1] a detailed reconciliation is provided in Business Performance on Page 6.
[2] a detailed reconciliation is provided in Business Performance on Page 13.
[3] a detailed reconciliation is provided in Note 4 to this announcement.

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OVERVIEW

In a year which saw variable rates of recovery across our major markets, the Group has made a substantial recovery from the loss reported in 2009. Sales increased by 14.8% to £499.8m. The improvement was underpinned by the success of the restructuring programme announced in 2008 and the continuing focus on tight operational and balance sheet management. Operating profit recovered to £51.2m and borrowings dropped from £85.5m to £51.3m.

We saw improvement in the automotive and general industrial (AGI) markets although volumes remain some way below the levels of 2008. The aerospace, defence and energy (ADE) markets tend to peak later in the economic cycle and sales growth reflected this. As a result of the restructuring programme the Group has now exited large amounts of unprofitable commodity business, and is actively growing its higher added value services. Bodycote should be capable of delivering improved through-cycle returns going forward.

DIVIDEND

In 2009 the Board recommended a maintained dividend despite the challenges posed by the downturn, based upon its confidence that actions taken by the new management team would restore the Company to a satisfactory level of profitability and cash generation. The Board is satisfied with the steady improvement in results throughout 2010 and is confident in the future outlook for the business. The Board is recommending that a final dividend of 5.75p be paid to shareholders, giving an increased total of 8.7p (4.8% increase) for the full year.

TRADING OVERVIEW

2010 was a year of recovery for Bodycote after the difficulties of the downturn in 2009. Sales grew by 14.8% to £499.8m with like for like sales (at constant currencies and rebased to take account of the sites closed in 2009) up 17.8%. Much of the sales growth was driven by the end of OEM supply chain destocking and increased end market demand with strong growth from the general industrial, oil and gas and, in particular, the automotive and heavy truck segments. These developments more than offset the decline in demand in power generation. Demand improvements in aerospace and defence also contributed to the sales growth but only marginally. It is noteworthy, however, that all of the Group's markets are still materially below 2008 levels. In addition to increases in end market demand, sales improved as a result of notable gains in market share. The most marked of these share gains was in the automotive segment where the latest technologies offered by Bodycote are supplanting more traditional forms of heat treatment.

The drive for efficiency in the Group yielded excellent results. Total headcount at the end of 2010 of 5,487 was marginally below that of a year earlier and is 28% below the peak headcount of June 2008. The year end headcount was 311 lower than the number at half year as the tail end restructuring programmes in France and Brazil came into effect. The tight discipline on the build back of expenses against a backdrop of rising sales drove margins up to 10.4% (1.8% in 2009). Increased selling prices contributed 100 basis points to the margins, offset by 70 basis points of increased input costs.

Net capital expenditure at £35.8m amounted to 0.8 times depreciation (0.6 in 2009). Approximately half of the expenditure in 2010 (0.4 times depreciation) was spent on developing capacity in emerging markets, increasing capacity for specific high added value processes in North America and investing in the Group's chosen proprietary technologies. The remainder of the capital expenditure was spent on maintenance. The Group is relatively well equipped with long life assets and has a low requirement for maintenance capital in the short and medium term. The level of capital expenditure, combined with strong control of working capital, led to headline operating cash flow of £77.3m, representing a cash conversion ratio of 148%. As a result, net debt at the year end was reduced to £51.3m.

STRATEGIC DEVELOPMENTS

As well as the drive for increased sales and higher levels of operating efficiency, 2010 was a year of implementation of the strategic agenda outlined in February of that year.

At the end of 2009 the Group was reorganised into two business areas. The aerospace, defence and energy business (ADE) is organised on a global basis, and comprises the Hot Isostatic Pressing (HIP) and heat treatment divisions. The Group's surface technology business is part of the ADE heat treatment division. In contrast, the automotive and general industrial business (AGI) is organised geographically, covering Western Europe, North America and the emerging markets. Customer reaction to the reorganisation has been very positive, with industry specialist sales teams able to engage with their customers in a far more productive way than was possible in the past. In addition, the specialisation of the plants in each business area has helped simplify the operations and improve efficiency.

Development of the emerging markets and investment in Bodycote's chosen proprietary technologies are key elements of the strategy. The emerging markets focus for Bodycote is on Eastern Europe, Brazil and China. While emerging markets revenues represent just over 10% of the Group's business today, Bodycote is already the market leader in Eastern Europe and Brazil and number two in China. In 2010 new greenfield sites were added in Poland, Czech Republic and Brazil, while additional modern capacity was deployed in existing plants in Turkey, Brazil and China.

The development of the Group's proprietary technologies continued apace in 2010:

- The Speciality Stainless Steel business unit (S3P) capacity was expanded by 20%, with a further 25% put on order in readiness for the increased demand now expected for this business.

- The Hot Isostatic Pressing Product Fabrication business unit (HIP PF) grew at 70%, albeit from a relatively modest base. The business operates from centres of excellence in Germany, Sweden and the USA with much of the process development and computer modelling carried out in the UK and the USA.

- The Corrosion Prevention Processes business unit (CPP) commissioned its first commercial production unit for the SheraCote® family of processes.

Progress was also made on developing the Group's personnel both internally and through the appointment of new talent in many areas. In addition, the Group's executive committee was also strengthened with new talent recruited during the year. The committee comprises five divisional Presidents, the Human Resources Director and the Group Finance Director, together with the Chief Executive Officer, who chairs the committee.

FUTURE TRENDS

The future trends for Bodycote's markets are very favourable. The more notable trends include:

- In the aerospace segment most industry analysts foresee a significant growth in flying hours and new build of aeroplanes associated with traffic for the emerging markets. The move to higher engine operating temperature requirements increases thermal processing needs. These are all positive factors for the demand for thermal processing.

- Rising oil and gas prices, together with the increasing sophistication associated with extracting difficult to reach reserves, are increasing the material requirements of exploration and production equipment, which in turn is driving greater demand for thermal processing services.

- Power generation, where Bodycote enjoys a strong presence in both heat treatment and HIP services, will resume its long term growth path in due course, as the expansion in the emerging markets continues.

- The automotive segment is moving to more sophisticated materials engineering as manufacturers try to reduce weight and increase strength. This in turn directly increases the amount of thermal processing required. In addition, the introduction of hybrid vehicles is leading to a larger number of components in vehicles, which in turn require more services offered by Bodycote.

Outsourcing remains a major opportunity for the Group. Agreements are typically framework in nature, with standard terms and conditions and a commitment to sole source the work from Bodycote. Pricing is normally defined as a base level with prices linked to various indices such as the cost of energy.

Going forward it is expected that the pace of outsourcing and size of outsource contracts will increase. This is due not only to the general tendency of companies to eliminate non core activities over time, but also to two other significant factors.

- The rising cost of energy. Bodycote is typically more energy efficient than manufacturers that process the work in-house and can balance the load in its process lines by aggregating work from several customers. Level loading, in itself, is a much more efficient way of operating thermal processing plants than the fluctuating load conditions faced by most manufacturers' in-house facilities. As a result, rising energy prices tend to drive increased levels of outsourcing.

- The general move of manufacturing industries to emerging markets. This not only creates opportunities in emerging markets for Bodycote to serve these customers, but also provides a source of opportunity in developed economies. This is because most customers that move their manufacturing to emerging markets tend not to close their facilities completely in the developed economies. Instead, these facilities stop being expanded and have investment constrained. The capital intensive nature of thermal processing means that such facilities often become undercapitalised or outmoded and outsourcing becomes an attractive option. The choice of companies capable of taking on such outsourced work in a reliable way is small, and Bodycote becomes the preferred partner for most of the customer base.

SUMMARY & OUTLOOK

2010 saw a notable and pleasing improvement in the performance of the Group. Better macro economic conditions were an important contributor to this and the underlying ability of the business to deliver consistently superior value has been strengthened considerably. Total revenue growth was well ahead of market improvement. The reorganisation of the Group into market focused divisions has enhanced revenue growth and careful targeting of capital investment has improved cash flow and return on capital.

Looking at 2011, it is anticipated that automotive and general industrial business will continue to grow at a reasonable pace. Aerospace, defence and energy demand has begun to recover, although within this the power generation segment remains soft, with the timing of improvement still unclear. In summary, the Board is confident that 2011 will be another year of growth for Bodycote, albeit at a less rapid rate than experienced in 2010. The year has started in line with these expectations. Looking further out, the Board sees encouraging opportunities for improved through-cycle returns.

BUSINESS PERFORMANCE

	2010 £m	2009 £m
Revenue – continuing operations	**499.8**	435.4
Operating profit/(loss)	**51.2**	(50.2)
Add back:		
Major facility closure costs	**-**	25.4
Impairment charge	**-**	31.5
Amortisation of acquired intangible fixed assets	**0.9**	1.3
Headline operating profit – continuing operations	**52.1**	8.0

Group revenue from continuing operations was £499.8m, an increase of £64.4m (14.8%) on 2009 (£435.4m). The increase in revenues at constant exchange rates amounted to £64.7m (14.9%). The year on year reduction in revenues as a result of site closures was £10.3m at constant exchange rates.

The Group made an operating profit of £51.2m (2009: loss £50.2m). Headline operating profit for the Group's continuing operations was £52.1m, an increase of £44.1m compared to 2009. Foreign exchange rate movements decreased profits by £0.5m. Headline operating margins from continuing operations increased from 1.8% to 10.4%.

	2010 £m	2009 £m
Headline operating profit	**52.1**	8.0
Add back non-cash items:		
Depreciation and amortisation	**47.4**	49.6
Share-based payments	**4.2**	(0.1)
Loss/(profit) on disposal of property, plant and equipment	**0.7**	(0.1)
Headline EBITDA[1]	**104.4**	57.4
Net capital expenditure	**(35.8)**	(32.2)
Net working capital movement	**8.7**	9.5
Headline operating cash flow	**77.3**	34.7
Cash cost of restructuring	**(9.2)**	(19.2)
Operating cash flow	**68.1**	15.5
Interest	**(5.5)**	(4.4)
Taxation	**(5.4)**	(24.4)
Lump sum contribution to pension scheme	**-**	(1.5)
Free cash flow	**57.2**	(14.8)

[1] Earnings before interest, tax, depreciation, amortisation, share-based payments and exceptional items.

Headline operating cash flow of £77.3m is made up of £104.4m headline EBITDA, a positive contribution from reduced working capital of £8.7m, and net capital expenditure of £35.8m. After interest and tax payments, the headline free cash flow was £66.4m. The outflow on exceptional items totalled £9.2m, and all of this was cash spend on the restructuring programme.

Capital expenditure has continued to be managed carefully. Capital spend (net of asset sales) in 2010 was £35.8m, being 0.8 times depreciation compared to 0.6 times in 2009. There has been a continued focus on cash collection and debtor days have been reduced to 59 days at 31 December 2010, compared to 63 days at 31 December 2009. The increase in sales of £64.4m compared to 2009 has resulted in an increase in debtors of £7.7m, although this has been more than offset by higher creditor balances.

KEY PERFORMANCE INDICATORS

The Group focuses on a small number of Key Performance Indicators (KPIs), which cover both financial and non-financial metrics.

The financial KPIs are Return on Capital Employed [1](ROCE), Return on Sales [2](ROS) and Headline Earnings Per Share[3] and the non-financial KPIs are the Percentage of ISO 14001 accredited facilities and Accident Frequency[4].

Financial

In 2010 the Group's financial performance improved significantly. As a result, ROCE for 2010 was 10.1% (2009: 1.5%), ROS was 10.4% (2009: 1.8%) and Headline Earnings Per Share was 18.3p (2009: 0.4p).

Non Financial

Reducing the environmental impact of the Group's activities is taken very seriously. Compliance with the requirements of ISO 14001 helps minimise the risk of adverse environmental effects at Bodycote locations. At the end of 2010, 81% of our plants had ISO 14001 accreditation - 140 plants out of a total of 173 (2009: 137 out of 178).

Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for anyone who works at or visits our locations. The major restructuring programme has not made this an easy task in 2010. Nevertheless, the Accident Frequency rate was reduced to 1.8 (2009: 1.9).

Definitions:

(1) Headline operating profit as a percentage of average capital employed from continuing operations. Capital employed is defined as net assets plus net debt.

(2) Headline operating profit as a percentage of revenue from continuing operations.

(3) Headline Earnings Per Share is defined in note 4 to this announcement.

(4) Accident Frequency – the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total hours worked.

BUSINESS OVERVIEW

The activities and management of the Group are organised into two market-facing business areas:

- Aerospace, Defence & Energy (ADE); and
- Automotive & General Industrial (AGI).

This reflects the differing market and customer characteristics in the two broadly defined groupings.

Within the ADE sectors, our customers think and operate globally and increasingly expect Bodycote to service them in the same way. Consequently, the ADE business is organised globally. This gives Bodycote a notable advantage as the only thermal processing company with a global footprint and knowledge of operating in all of the world's key manufacturing areas. A number of Bodycote's most important customers fall within the compass of ADE and Bodycote intends to continue to leverage its unique market position to increase revenues in these market sectors. The business incorporates the Group's activities in hot isostatic pressing and surface technology as well as the relevant heat treatment services.

Whilst the AGI marketplace has many multinational customers, it also has very many medium-sized and smaller businesses, with the large multinationals tending to operate on a more regionally-focused basis, as opposed to globally. Generally, there are more competitors to Bodycote in AGI and much of the business is locally-oriented, meaning that proximity to the customer is very important and excellent service is vital.

Bodycote's uniquely large network of 110 AGI facilities enables the business to offer the widest range of technical capability and security of supply, continuing to increase the proportion of technically differentiated services that it offers. Bodycote has a long and successful history of serving this wide-ranging customer base and the AGI business serves the following geographies:

- North America
- Western Europe
- Emerging Markets

BUSINESS REVIEW - AEROSPACE, DEFENCE & ENERGY

RESULTS

Revenues for Aerospace, Defence & Energy (ADE) were £202.1m in 2010 compared to £189.5m in 2009, an increase of 6.6%, reflecting improved aerospace OEM and oil & gas demand, partly offset by soft aerospace maintenance and repair requirements and weak Industrial Gas Turbines (IGT) markets. Revenues in constant currencies were also higher by 6.6%. Like-for-like revenue growth, excluding revenues from closed sites, was 8.5%.

Headline operating profit for ADE was £33.9m (2009: £24.7m), with margins improving from 13.0% to 16.8%.

2010 saw a lower level of capital expenditure in ADE, as we focus on filling available capacity. We expect that capital expenditure will continue to be lower than depreciation in 2011. Net capital expenditure in 2010 was £9.9m (2009: £19.1m) which represents 0.6 times depreciation (2009: 1.1 times depreciation).

Capital employed in ADE in 2010 was £240.0m (2009: £244.2m). The reduction reflects continuing management focus on improving return on capital. Return on capital employed in 2010 was 14.6% (2009: 10.1%).

GLOBAL MARKETS

Aerospace demand in 2010 differed markedly between requirements for new build programmes and for the maintenance and repair market. New build revenues were robust, being driven by raw material requirements (for example major forgings), which tend to increase more than a year ahead of corresponding finished components. This is, therefore, an encouraging leading indicator for future demands for our ADE business. On the other hand, demand for maintenance and repair was soft, although it showed signs of increasing in quarter four, as passenger miles continued to rise from the depressed levels of 2009.

Power generation demand fell by 28% in 2010 compared to 2009, largely as a result of a severe reduction in industrial gas turbine build. This sector began to fall in quarter four of 2009, a year later than early cycle businesses felt the impact of the recession, and reflects continuing difficulty in obtaining financing for major capital projects. The new build weakness has been exacerbated by generally lower electricity demand in the western economies, which has reduced maintenance requirements.

Revenues from oil & gas customers increased by 37%. North American gas production has been good and exploration, particularly for shale gas, has been strong. Oil markets have been robust and increased in quarter four of 2010 as oil prices moved towards the $100 per barrel level.

ACHIEVEMENTS IN 2010

With its modest restructuring programme completed early, the ADE business has been able to focus on strengthening its management teams and developing its customer offerings. In heat treatment we have gained additional OEM approvals for airframe components, opening additional opportunities for new build aircraft heat treatment. In HIP, revenues for product fabrication (HIP PF) increased by 70% and work included the largest yet single piece manifold for a sub-sea oil & gas application.

ORGANISATION AND PEOPLE

As part of developing our customer-facing divisions, a number of key management appointments have been made. In ADE, this has included recruitment of managers with global remits for sales, marketing and operations for both heat treatment and HIP. Measures to improve productivity, including the use of "lean" techniques, have taken over from the 2009 focus on restructuring. Overall headcount remained constant, at 1,926, and despite modest overall revenue growth in ADE, headline operating profit improved from £24.7m to £33.9m.

LOOKING AHEAD

The key objective for ADE in 2011 is to build on the foundation laid in 2010 to realise growth from new customers and processes, while driving further productivity and operating efficiency improvements. The clear focus on customer requirements and satisfaction and proprietary technology has produced revenue gains in 2010 and we expect further progress in 2011.

BUSINESS REVIEW - AUTOMOTIVE & GENERAL INDUSTRIAL

RESULTS

Automotive & General Industrial (AGI) revenues were £297.7m in 2010, compared to £245.9m in 2009, an increase of 21.1%, reflecting a general improvement in demand, particularly from automotive and heavy truck customers, in all geographies. Sales began to improve in quarter four of 2009 and accelerated in the first half of 2010 with further incremental improvement in the second half. Like-for-like revenue growth, excluding revenues from closed sites, was 25.1%.

Headline operating profit in AGI was £25.6m compared to a headline operating loss of £12.3m in 2009. Margins improved markedly from minus 5.0% to 8.6%.

Net capital expenditure in 2010 was £24.3m (2009: £12.5m), which represents 0.8 times depreciation (2009: 0.4 times depreciation). We expect that capital expenditure will continue to be lower than depreciation in 2011. Return on capital employed in 2010 was 9.3% (2009: minus 4.2%). On average, capital employed in 2010 was £302.0m (2009: £315.1m). The reduction reflects continuing restraint in capital expenditure as the Group maintains focus on improving capital returns by increasingly focusing on higher added-value activities.

MARKETS AND GEOGRAPHIES

The AGI business serves an extensive customer base across a wide range of market sectors. The impact of the downturn was severe in most of our markets and recovery rates in 2010 have varied significantly. First to show improvement was automotive, which along with aerospace and defence, is one of the two largest sectors for Bodycote. Automotive revenues grew by 40% in 2010. While demand increased strongly in all territories, market share gains accounted for 25% of the improvement as Bodycote's strength in depth proved attractive to customers worried about supply chain failure in the recession and afterwards and due to contract wins for specialist processes. General industrial markets have recovered at a gradual and more measured pace, with revenues ahead by 13%.

In North America, automotive revenues grew very strongly in the first half and with market share gains growth was over 100% compared to the first half of 2009. The second half saw more modest growth and for the year as a whole, sales were ahead by 69%. General industrial has witnessed steady growth throughout the year and was higher than 2009 by 20%.

As with North America, automotive led the recovery in Western Europe and particularly benefited France, Italy and Germany for which this is the most important sector. Automotive demand and market share gains together resulted in year on year revenue growth of 28%. General Industrial demand has improved gradually over the whole year with sales ahead of 2009 by 7%. The improvement in the Nordic countries came later in the year, being driven particularly by the return of heavy truck work, notably in Sweden. Overall sales in the Nordic region were up 29% compared to 2009, with revenues in Western Europe overall being up 13%.

The Group's business in emerging markets generally fared very well in 2010. Revenues grew 25% in Eastern Europe, with Poland in the lead, and by 58% in China. The Brazilian business has been the subject of major restructuring which has included reducing the workforce by 32%. The largest facility was closed, a new greenfield location was established, benefiting from the Group's European know-how, and capacity was expanded. Even during the disruption, sales in Brazil increased by 7% year on year. The business has a much reduced cost base and improved capability and has the right platform to benefit from short and medium term growth that we expect in Latin America.

ACHIEVEMENTS IN 2010

The major restructuring effort in the AGI business is all but complete, and was aimed at reducing the cost base and exiting low value added activities. This significant management challenge has been met in all parts of the business and the benefits are clearly evident in the 2010 financial performance. There has also been a high level of attention to maintaining the benefits of the restructuring. During 2010 we have increased capacity in several differentiated technologies in both the United States and Europe. Greenfield sites have been opened in the Czech Republic, Poland and Brazil. Speciality Stainless Steel Processing capacity has been added in Europe and the first production facility for SheraCote® has been commissioned in the UK. New outsourcing contracts have been won in all geographies.

ORGANISATION AND PEOPLE

In July 2008, the AGI business employed 5,201 people. By the end of 2009 this had been reduced to 3,505. Notwithstanding revenues in AGI increasing by 21%, headcount has declined from 3,505 to 3,456 in 2010, clearly demonstrating success in keeping costs under control and driving productivity improvements.

LOOKING AHEAD

The business is set to build on the notable improvements in performance delivered in 2010. This will be founded on continued cost control, capital expenditure targeted at the Group's various proprietary technologies and the development of emerging markets, along with close attention to meeting and exceeding all customers' expectations.

FINANCIAL OVERVIEW

	2010 £m	2009 £m
Revenue	**499.8**	435.4
Headline operating profit	**52.1**	8.0
Amortisation of acquired intangible fixed assets	**(0.9)**	(1.3)
Impairment charge	**-**	(31.5)
Major facility closure costs	**-**	(25.4)
Operating profit/(loss)	**51.2**	(50.2)
Net finance charge	**(6.0)**	(4.3)
Profit/(loss) before taxation	**45.2**	(54.5)
Taxation	**(11.7)**	3.4
Profit/(loss) for the year – continuing operations	**33.5**	(51.1)
Loss for the year – discontinued operations	**(5.8)**	-
Profit/(loss) for the year	**27.7**	(51.1)

Group revenues for 2010 increased by 14.8% from £435.4m to £499.8m. In constant currencies the annual increase was 14.9% (£64.7m). The improvement in the second half was somewhat better than in the first, with revenues, all of which were generated organically, increasing by 22.2% from £207.5m in 2009 to £253.5m.

Headline operating profit for the year increased from £8.0m to £52.1m, and headline operating margin was 10.4% (2009: 1.8%). Operating profit was £51.2m (2009: loss £50.2m) after charging £0.9m (2009: £1.3m) in respect of the amortisation of acquired intangibles, nil (2009: £31.5m) for impairment, and nil (2009: £25.4m) for major facility closure costs.

Headline operating cash flow for the Group was £77.3m (2009: £34.7m). This was 148.4% (2009: 433.8%) of headline operating profit, reflecting tight control of working capital, especially payables, which more than offset higher inventory and receivables, which increased as a result of the recovery in activity levels. Net capital expenditure in 2010 at £35.8m (2009: £32.2m) continued below the level of depreciation, reflecting continued careful management and a focus on utilising existing equipment.

After deducting interest and tax, the Group reported a positive free cash flow of £57.2m (2009: negative £14.8m).

During 2010, Bodycote secured its funding position with two of the Group's three bank facilities, both of which were due to mature during 2010, being refinanced. Total funding now available to Bodycote under its committed facilities is £230.9m (2009: £348.4m), expiring between March and July 2013.

EXCEPTIONAL COSTS

The total exceptional costs charged to the income statement amounted to £0.9m (2009: £58.2m).

The current year charge relates wholly to the amortisation of intangible assets arising from prior years' acquisitions. There were no acquisitions during the year. The level of the charge reduced compared to the prior year (2009: £1.3m) as certain assets were fully amortised in 2009.

With improved market conditions and the benefit of the wide ranging restructuring programme charged in 2008 and 2009, the Board has concluded that no impairment charge is required in 2010 (2009: goodwill impairment of £29.0m and investment impairment of £2.5m).

There were no major facility closure costs during 2010 (2009: £25.4m). Restructuring actions are now complete in most parts of the Group; the only exceptions being the finalisation of work in France, Brazil and Italy, which will continue into early 2011. Net cash expenditure as a result of the programme was £9.2m (2009: £19.2m), including £3.2m proceeds from the disposal of redundant assets. The restructuring initiatives delivered annualised cumulative savings of £45.0m in 2010. As the restructuring programme is now essentially complete further savings will be modest.

Restructuring provisions outstanding at 31 December 2010 total £20.2m, being £19.9m related to the 2008/2009 programme and £0.3m related to environmental remediation from earlier initiatives. Of the remaining £20.2m cash costs, £12.5m is expected to be spent in 2011 and £7.7m in 2012 and later. All expenditure after the end of 2011 will relate to environmental remediation.

OPERATING PROFIT FROM CONTINUING OPERATIONS

After charging exceptional items of £0.9m (2009: £58.2m), the operating profit from continuing operations was £51.2m (2009: loss of £50.2m).

PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Headline profit before tax for continuing operations was £46.1m (2009: £3.7m). The profit before tax for continuing operations was £45.2m (2009: loss of £54.5m), and these amounts are reconciled as follows:

	2010 £m	2009 £m
Headline operating profit	**52.1**	8.0
Net finance charge	**(6.0)**	(4.3)
Headline profit before tax	**46.1**	3.7
Amortisation of acquired intangible fixed assets	**(0.9)**	(1.3)
Impairment charge	**-**	(31.5)
Major facility closure costs	**-**	(25.4)
Profit/(loss) before tax - continuing operations	**45.2**	(54.5)

FINANCE CHARGE

The net finance charge from the continuing operations of the Group was £6.0m compared to £4.3m in 2009 (see details below). There is no movement due to interest rates; however, there has been an increase due to higher undrawn committed facility fees (£1.0m), costs of refinancing early in 2010 (£0.9m) and an increase in other charges (£0.3m), offset by lower average net debt (£0.1m) and a lower pension finance charge (£0.4m).

	2010 £m	2009 £m
Net interest payable	**1.9**	2.0
Financing costs	**2.3**	0.4
Other bank charges	**0.9**	0.6
Pension finance charge	**0.9**	1.3
Net finance charge	**6.0**	4.3

TAXATION

The tax charge was £11.7m for the year compared to a credit of £3.4m for 2009. The effective tax rate on continuing operations of 25.9% (2009: 6.2%) resulted from the blending of differing tax rates in each of the countries in which the Group operates. The low effective tax rate for 2009 resulted from the blending of profit making jurisdictions with loss making jurisdictions in that particular year as a result of the economic downturn.

The headline tax rate on continuing operations for 2010 was 25.4% (2009: 108.1%), being stated before amortisation of acquired intangibles (which are generally not allowable for tax purposes). In addition, £5.8m (2009: £nil) was charged in respect of the 2008 disposal of the Testing division (see Discontinued Operations below).

Subject to any future tax legislation changes, the headline tax rate is expected to remain below the current UK statutory tax rate of 28% in the medium term.

DISCONTINUED OPERATIONS

Bodycote has not discontinued any business streams during 2010. In 2008, the Group sold its Testing division and during 2010 provisions relating to taxation expected to arise from this disposal were reassessed. The impact on the Group accounts of these additional provisions is a charge of £5.8m (2009: nil). In the 2008 Group accounts, the effective rate of tax on the profit on disposal was stated as 11.0%. The revised effective rate of tax for the disposal, taking account of the additional tax provision, is 13.9%.

EARNINGS PER SHARE

Basic headline earnings per share from continuing operations (as defined in note 4) increased to 18.3p from 0.4p. Basic earnings/(loss) per share for the year are shown in the table below:

	2010 Pence	2009 Pence
Basic earnings/(loss) per share from:		
Continuing operations	**18.0**	(27.0)
Discontinued operations	**(3.1)**	-
Continuing and discontinued operations	**14.9**	(27.0)

DIVIDEND

The Board has recommended a final dividend of 5.75p (2009: 5.35p) bringing the total dividend to 8.7p per share (2009: 8.3p). If approved by shareholders, the final dividend of 5.75p per share for 2010 will be paid on 6 May 2011 to all shareholders on the register at close of business on 8 April 2011.

The Board aims to follow a progressive dividend policy as long as the dividend is covered at least twice by current year headline earnings. Dividend cover for 2010 was 2.1 times. The dividend in 2009 was not covered by headline earnings.

CAPITAL STRUCTURE

The Group's balance sheet at 31 December 2010 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	458.0	-	458.0
Goodwill and intangible assets	118.1	-	118.1
Current assets and liabilities	120.2	(144.0)	(23.8)
Other non-current assets and liabilities	3.1	(16.9)	(13.8)
Retirement benefit obligations	-	(11.6)	(11.6)
Deferred tax	48.3	(73.1)	(24.8)
Total before net debt	747.7	(245.6)	502.1
Net debt	23.5	(74.8)	(51.3)
Net assets as at 31 December 2010	**771.2**	**(320.4)**	**450.8**
Net assets as at 31 December 2009	771.1	(348.5)	422.6

Net assets increased by £28.2m (6.7%) to £450.8m (2009: £422.6m). The major movements compared to 31 December 2009 were a significant reduction in net debt (£34.2m), a decrease in property, plant and equipment (£3.8m), a decrease in retirement benefit obligations (£3.4m), together with an increase in net current assets (£1.7m) and an increase in net deferred tax liabilities (£8.3m).

The decrease in property, plant and equipment was due to net capital expenditure of £35.8m being exceeded by depreciation of £46.1m, with foreign exchange variances of £8.0m reducing the net decrease to £3.8m.

Movements in net current assets were due to the increased level of trading activity in 2010 compared to 2009, which resulted in an increase in inventories by £2.8m. Trade receivables and other receivables increased by £7.7m as a result of increased sales levels, and tight control of working capital led trade and other payables to increase by £23.8m.

Current tax liabilities decreased by £1.8m as a result of the reassessment of tax liabilities resulting from the ongoing restructuring programme, while the changes in the timing of dividend payments from January to November resulted in a reduction in the proposed dividend creditor of £5.5m. Restructuring provisions reduced by £6.9m, as Group restructuring activities proceeded as planned.

Net liabilities for derivative financial instruments decreased by £3.7m due to a combination of instrument maturity and changes in exchange and interest rates.

Retirement benefit obligations reduced by £3.4m during the year, primarily as a result of the announced change in the relevant index for the UK scheme from RPI to CPI in respect of the revaluation of deferred members' benefits.

The net deferred tax liability increased by £8.3m during the year due to reductions in tax rates in certain countries, which resulted in a decrease in the value of the Group's recognised deferred tax losses.

NET DEBT

Group net debt at 31 December 2010 was £51.3m (2009: £85.5m). During the year, loans of £32.6m under committed facilities were repaid. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding.

CASH FLOW

The net increase in cash and cash equivalents was £0.5m (2009: net decrease of £231.6m), made up of net cash from operating activities of £95.6m (2009: £11.0m), less investing activities of £36.6m (2009: £27.3m) and less cash used in financing activities of £58.5m (2009: £215.3m).

The increase in net cash from operating activities from £11.0m to £95.6m is driven primarily by the increase in headline EBITDA from £57.4m to £104.4m. Tight control of working capital, especially payables, more than offset increases in the level of inventory and receivables which were higher as a result of the increased level of activity. The net effect was a decrease in the level of working capital of £8.7m, and £1.1m when the movements in restructuring provisions are included.

Net cash outflows from investing activities increased from £27.3m to £36.6m, as the levels of net capital expenditure in 2010 at £35.8m (2009: £32.2m), although higher than in the prior year, remained below historic levels, reflecting continued tight management control. Proceeds on disposal of subsidiary undertakings reduced from £6.9m in 2009 to £nil in 2010.

Net cash outflows used in financing activities reduced from £215.3m to £58.5m. 2009 saw the repayment of £231.9m of loans following the disposal of the Testing division in 2008, while 2010 saw a further repayment of loans of £34.0m, together with payment of three dividends (totaling £20.9m), following the Board's decision to pay the interim dividend of 2010 two months earlier than in previous years.

There has been a continued focus on cash collection with debtor days at 31 December 2010 falling to 59 days from 63 days a year earlier. Net interest payments for the year were £5.5m (2009: £4.4m) and tax payments were £5.4m (2009: £24.4m).

CAPITAL EXPENDITURE

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £35.8m (2009: £32.2m). The multiple of net capital expenditure to depreciation was 0.8 times (2009: 0.6 times), which reflects the Group's continued careful management of its capital expenditure programme. As at 31 December 2010 the Group had capital expenditure creditors of £6.9m (2009: £8.3m). In addition capital expenditure commitments amounted to £2.5m (2009: £6.7m). A proportion of the current year capital expenditure was incurred to support the restructuring programme in the consolidation of plants and the re-installation of furnaces transferred from closed plants. Major capital projects that were in progress during 2010 include the upgrade of large capacity heat treatment equipment for the US aerospace sector, additional capacity in France for an automotive outsourcing project, increased stainless steel processing capacity, expansion of capacity in Mexico and production equipment for our new SheraCote® process.

BORROWING FACILITIES

At 31 December 2010, the Group had the following committed facilities:

Facility	Expiry Date	Facility £m	Loan Utilisation £m	Letter of Credit Utilisation £m	**Facility Headroom £m**
£110m Revolving Credit	31 March 2013	110.0	-	-	**110.0**
€125m Revolving Credit	31 July 2013	107.9	64.4	-	**43.5**
$20m Revolving Credit	31 March 2013	13.0	0.2	5.4	**7.4**
		230.9	64.6	5.4	**160.9**

CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising capital, reserves and retained earnings.

The capital structure is reviewed regularly by the Board of Directors. The Group's policy is to maintain gearing, determined as the proportion of net debt to total capital, within defined parameters, allowing movement in the capital structure appropriate to the business cycle and corporate activity. The gearing ratio at 31 December 2010 has fallen to 11% (2009: 20%) as a result of both reduced net debt and increased profit in the period.

The Group's debt funding policy is to borrow centrally (where it is tax efficient to do so), using a mixture of short-term borrowings, longer-term loans and finance leases. These borrowings, together with cash generated from operations, are lent or contributed as equity to subsidiaries as required. The aim of the Group's funding policy is to ensure continuity of finance at reasonable cost, based on committed facilities from several sources, arranged with a spread of maturities. The recent market for bank funding has been restricted to shorter tenures than have been available in the past and, therefore, it is intended in due course to extend the maturity profile of the Group's funding (currently 2.4 years).

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this Group Review. The review includes an overview of the Group's financial position, its cash flows, liquidity position and borrowing facilities. In addition, there is a description of the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Group meets its working capital requirements through a combination of committed and uncommitted facilities and overdrafts. The overdrafts and uncommitted facilities are repayable on demand but the committed facilities are due for renewal as shown below. There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future.

- US$20m Revolving Credit Facility maturing 31 March 2013
- £110m Revolving Credit Facility maturing 31 March 2013
- €125m Revolving Credit Facility maturing 31 July 2013

The Group's forecasts and projections, taking account of reasonable potential changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

The Directors have reviewed forecasts and projections for the Group's markets and services, assessing the committed facility and financial covenant headroom, central liquidity, and the company's ability to access further funding. The Directors also reviewed downside sensitivity analysis over the forecast period. Following this review, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £m	2009 £m	Note
Revenue – continuing operations	**499.8**	435.4	
Operating profit / (loss) – continuing operations	**51.2**	(50.2)	2
Operating profit prior to exceptional items	**52.1**	8.0	
Amortisation of acquired intangible fixed assets	**(0.9)**	(1.3)	
Impairment charge	**-**	(31.5)	
Major facility closure costs	**-**	(25.4)	
Operating profit / (loss) – continuing operations	**51.2**	(50.2)	
Investment revenue	**0.3**	1.5	
Finance costs	**(6.3)**	(5.8)	
Profit / (loss) before taxation – continuing operations	**45.2**	(54.5)	
Taxation	**(11.7)**	3.4	3
Profit / (loss) for the year – continuing operations	**33.5**	(51.1)	
Discontinued operations			
Loss for the year – discontinued operations	**(5.8)**	-	
Profit / (loss) for the year	**27.7**	(51.1)	
Attributable to:			
Equity holders of the parent	**27.6**	(50.1)	
Non-controlling interests	**0.1**	(1.0)	
	27.7	(51.1)	
Earnings / (loss) per share			4
	Pence	Pence	
From continuing operations:			
Basic	**18.0**	(27.0)	
Diluted	**18.0**	(27.0)	
From continuing and discontinued operations:			
Basic	**14.9**	(27.0)	
Diluted	**14.9**	(27.0)	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £m	2009 £m
Profit / (loss) for the year	**27.7**	(51.1)
Reduction of revaluation surplus	**(0.1)**	-
Exchange gains / (losses) on translation of foreign operations	**9.7**	(4.8)
Actuarial gains / (losses) on defined benefit pension schemes	**3.7**	(3.3)
Tax on items taken directly to equity	**(0.9)**	0.9
Other comprehensive income / (expense) for the year	**12.4**	(7.2)
Total comprehensive income / (expense) for the year	**40.1**	(58.3)
Attributable to:		
Equity holders of the parent	**40.0**	(57.3)
Non-controlling interests	**0.1**	(1.0)
	40.1	(58.3)

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2010

	2010 £m	2009 £m	Note
Non-current assets			
Goodwill	**107.7**	107.9	
Other intangible assets	**10.4**	10.9	
Property, plant and equipment	**458.0**	461.8	
Other investments	**0.5**	0.5	
Finance lease receivables	**-**	0.5	
Deferred tax assets	**48.3**	56.9	
Derivative financial instruments	**-**	0.1	
Trade and other receivables	**2.6**	3.0	
	627.5	641.6	
Current assets			
Inventories	**14.4**	11.6	
Finance lease receivables	**0.4**	0.4	
Derivative financial instruments	**-**	0.6	
Trade and other receivables	**99.2**	91.1	
Cash and bank balances	**23.5**	19.6	
Assets held for sale	**6.2**	6.2	
	143.7	129.5	
Total assets	**771.2**	771.1	
Current liabilities			
Trade and other payables	**120.4**	93.2	
Dividends payable	**-**	5.5	
Current tax liabilities	**9.6**	11.4	
Obligations under finance leases	**0.4**	0.7	
Borrowings	**8.9**	6.0	
Derivative financial instruments	**-**	4.0	
Provisions	**14.0**	21.3	5
	153.3	142.1	
Net current liabilities	**(9.6)**	(12.6)	
Non-current liabilities			
Borrowings	**64.8**	96.8	
Retirement benefit obligations	**11.6**	15.0	
Deferred tax liabilities	**73.1**	73.4	
Obligations under finance leases	**0.7**	1.6	
Derivative financial instruments	**-**	0.4	
Provisions	**12.8**	11.7	5
Other payables	**4.1**	7.5	
	167.1	206.4	
Total liabilities	**320.4**	348.5	
Net assets	**450.8**	422.6	
Equity			
Share capital	**32.8**	32.5	
Share premium account	**176.3**	176.0	
Own shares	**(8.0)**	(7.3)	
Other reserves	**138.1**	134.1	
Hedging and translation reserves	**36.0**	26.3	
Retained earnings	**73.9**	58.7	
Equity attributable to equity holders of the parent	**449.1**	420.3	
Non-controlling interests	**1.7**	2.3	
Total equity	**450.8**	422.6	

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 24 February 2011. They were signed on its behalf by:

S.C. Harris) Directors
D.F. Landless)

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £m	2009 £m	Note
Net cash from operating activities	**95.6**	11.0	6
Investing activities			
Purchases of property, plant and equipment	**(35.2)**	(35.3)	
Proceeds on disposal of property, plant and equipment and intangible assets	**1.4**	4.3	
Purchases of intangible fixed assets	**(2.0)**	(1.2)	
Purchase of non-controlling interest	**(0.8)**	(0.5)	
Disposal of subsidiaries / associates	**-**	6.9	
Lump sum contribution to pension scheme	**-**	(1.5)	
Net cash used in investing activities	**(36.6)**	(27.3)	
Financing activities			
Interest received	**0.3**	2.1	
Interest paid	**(5.8)**	(6.5)	
Dividends paid	**(20.9)**	(20.0)	
Dividends paid to a non-controlling shareholder	**(0.1)**	(0.1)	
Repayments of bank loans	**(34.0)**	(231.9)	
Payments of obligations under finance leases	**(1.3)**	(1.5)	
New bank loans raised	**3.2**	41.1	
New obligations under finance leases	**0.2**	0.2	
Proceeds on issue of ordinary share capital	**0.6**	0.4	
Own shares purchased / settlement of share options	**(0.7)**	0.9	
Net cash used in financing activities	**(58.5)**	(215.3)	
Net increase / (decrease) in cash and cash equivalents	**0.5**	(231.6)	
Cash and cash equivalents at beginning of year	**16.3**	249.5	
Effect of foreign exchange rate changes	**0.8**	(1.6)	
Cash and cash equivalents at end of year	**17.6**	16.3	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital £m	Share premium account £m	Own Shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
1 January 2009	32.4	175.7	(10.9)	137.3	31.1	126.4	492.0	4.9	496.9
Net loss for the year	-	-	-	-	-	(50.1)	(50.1)	(1.0)	(51.1)
Exchange differences on translation of overseas operations	-	-	-	-	(63.1)	-	(63.1)	(0.2)	(63.3)
Movement on hedges of net investments	-	-	-	-	58.3	-	58.3	-	58.3
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	(2.4)	(2.4)	-	(2.4)
Total comprehensive expense for the year	-	-	-	-	(4.8)	(52.5)	(57.3)	(1.2)	(58.5)
Issue of share capital	0.1	0.3	-	-	-	-	0.4	-	0.4
Return of capital to shareholders and redemption of B shares	-	-	-	0.7	-	(0.7)	-	-	-
Acquired in the year / settlement of share options	-	-	0.9	-	-	-	0.9	-	0.9
Share-based payments	-	-	2.7	(3.9)	-	0.9	(0.3)	-	(0.3)
Dividends paid	-	-	-	-	-	(15.4)	(15.4)	(0.1)	(15.5)
Purchase of non-controlling interest	-	-	-	-	-	-	-	(1.3)	(1.3)
31 December 2009	**32.5**	**176.0**	**(7.3)**	**134.1**	**26.3**	**58.7**	**420.3**	**2.3**	**422.6**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**27.6**	**27.6**	**0.1**	**27.7**
Exchange differences on translation of overseas operations	**-**	**-**	**-**	**-**	**10.7**	**-**	**10.7**	**-**	**10.7**
Movement on hedges of net investments	**-**	**-**	**-**	**-**	**(1.0)**	**-**	**(1.0)**	**-**	**(1.0)**
Reduction of revaluation surplus	**-**	**-**	**-**	**(0.1)**	**-**	**-**	**(0.1)**	**-**	**(0.1)**
Actuarial gains on defined benefit pension schemes net of deferred tax	**-**	**-**	**-**	**-**	**-**	**2.8**	**2.8**	**-**	**2.8**
Total comprehensive income for the year	**-**	**-**	**-**	**(0.1)**	**9.7**	**30.4**	**40.0**	**0.1**	**40.1**
Issue of share capital	**0.3**	**0.3**	**-**	**-**	**-**	**-**	**0.6**	**-**	**0.6**
Acquired in the year / settlement of share options	**-**	**-**	**(0.7)**	**-**	**-**	**-**	**(0.7)**	**-**	**(0.7)**
Share-based payments	**-**	**-**	**-**	**4.1**	**-**	**0.2**	**4.3**	**-**	**4.3**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(15.4)**	**(15.4)**	**(0.1)**	**(15.5)**
Purchase of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.6)**	**(0.6)**
31 December 2010	**32.8**	**176.3**	**(8.0)**	**138.1**	**36.0**	**73.9**	**449.1**	**1.7**	**450.8**

The remaining 1.7 million B shares were redeemed in 2009.

Included in other reserves is the capital redemption reserve arising on redemption of the Group's B shares of £129.4m (2009: £129.4m). The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2010 3,837,581 (2009: 2,100,427) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

1 Business and Geographical Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance.

The Group's reportable segments have been determined in accordance with the activity of the Group, focusing on key market sectors. Principally, this splits the Group into two business areas being:

- Aerospace, Defence & Energy (ADE); and
- Automotive & General Industrial (AGI)

This initial split is determined following consideration of factors including the different customer sets, differing service requirements and different characteristics of business activity. A further split is then made for the geographical divisions of the Group being:

- Western Europe
- North America; and
- Emerging Markets.

Group	ADE 2010 £m	AGI 2010 £m	Head Office and Eliminations 2010 £m	Consolidated 2010 £m
Revenue				
Total Revenue	**202.1**	**297.7**	**-**	**499.8**
Result				
Headline operating profit prior to share-based payments and unallocated corporate expenses	**35.1**	**27.2**	**-**	**62.3**
Share-based payments	**(1.2)**	**(1.6)**	**(1.4)**	**(4.2)**
Unallocated corporate expenses	**-**	**-**	**(6.0)**	**(6.0)**
Headline operating profit / (loss)	**33.9**	**25.6**	**(7.4)**	**52.1**
Amortisation of acquired intangible fixed assets	**(0.4)**	**(0.5)**	**-**	**(0.9)**
Segment result	**33.5**	**25.1**	**(7.4)**	**51.2**
Investment revenue				**0.3**
Finance costs				**(6.3)**
Profit before taxation				**45.2**
Taxation				**(11.7)**
Profit for the year				**33.5**

Inter-segment sales are not material in either year.
The Group does not rely on any individual major customers.

1 Business and Geographical Segments continued

Aerospace, Defence & Energy	**Western Europe 2010 £m**	**North America 2010 £m**	**Emerging markets 2010 £m**	**Total ADE 2010 £m**
Revenue				
Total revenue	**92.2**	**108.9**	**1.0**	**202.1**
Result				
Headline operating profit prior to share-based payments	**15.7**	**19.5**	**(0.1)**	**35.1**
Share-based payments	**(0.5)**	**(0.7)**	**-**	**(1.2)**
Headline operating profit / (loss)	**15.2**	**18.8**	**(0.1)**	**33.9**
Amortisation of acquired intangible fixed assets	**(0.2)**	**(0.2)**	**-**	**(0.4)**
Segment result	**15.0**	**18.6**	**(0.1)**	**33.5**

Automotive & General Industrial	**Western Europe 2010 £m**	**North America 2010 £m**	**Emerging markets 2010 £m**	**Total AGI 2010 £m**
Revenue				
Total revenue	**204.6**	**43.0**	**50.1**	**297.7**
Result				
Headline operating profit prior to share-based payments	**21.3**	**5.4**	**0.5**	**27.2**
Share-based payments	**(1.2)**	**(0.3)**	**(0.1)**	**(1.6)**
Headline operating profit	**20.1**	**5.1**	**0.4**	**25.6**
Amortisation of acquired intangible fixed assets	**(0.1)**	**-**	**(0.4)**	**(0.5)**
Segment result	**20.0**	**5.1**	**-**	**25.1**

Group	ADE 2009 £m	AGI 2009 £m	Head Office and Eliminations 2009 £m	Consolidated 2009 £m
Revenue				
Total Revenue	189.5	245.9	-	435.4
Result				
Headline operating profit prior to share-based payments and unallocated corporate expenses	24.7	(12.3)	-	12.4
Share-based payments	-	-	0.1	0.1
Unallocated corporate expenses	-	-	(4.5)	(4.5)
Headline operating profit / (loss)	24.7	(12.3)	(4.4)	8.0
Amortisation of acquired intangible fixed assets	(0.6)	(0.7)	-	(1.3)
Impairment charge	(5.0)	(25.7)	(0.8)	(31.5)
Major facility closure costs	0.9	(25.9)	(0.4)	(25.4)
Segment result	20.0	(64.6)	(5.6)	(50.2)
Investment revenue				1.5
Finance costs				(5.8)
Loss before taxation				(54.5)
Taxation				3.4
Loss for the year				(51.1)

1 Business and Geographical Segments continued

Aerospace, Defence & Energy	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total ADE 2009 £m
Revenue				
Total revenue	91.3	97.4	0.8	189.5
Result				
Headline operating profit / (loss)	11.7	13.3	(0.3)	24.7
Amortisation of acquired intangible fixed assets	(0.3)	(0.3)	-	(0.6)
Impairment charge	-	(5.0)	-	(5.0)
Major facility closure costs	(1.0)	1.9	-	0.9
Segment result	10.4	9.9	(0.3)	20.0

Automotive & General Industrial	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total AGI 2009 £m
Revenue				
Total revenue	176.2	30.7	39.0	245.9
Result				
Headline operating profit / (loss)	(10.1)	0.6	(2.8)	(12.3)
Amortisation of acquired intangible fixed assets	(0.1)	-	(0.6)	(0.7)
Impairment charge	(3.0)	(20.0)	(2.7)	(25.7)
Major facility closure costs	(16.9)	0.1	(9.1)	(25.9)
Segment result	(30.1)	(19.3)	(15.2)	(64.6)

Other Information

Group	**ADE 2010 £m**	**AGI 2010 £m**	**Head Office and eliminations 2010 £m**	**Consolidated 2010 £m**
Capital additions	**10.1**	**25.3**	**1.8**	**37.2**
Depreciation and amortisation	**17.8**	**29.5**	**1.0**	**48.3**
Balance Sheet				
Assets:				
Segment assets	**307.0**	**435.7**	**28.0**	**770.7**
Other investments	**-**	**0.5**	**-**	**0.5**
Consolidated total assets	**307.0**	**436.2**	**28.0**	**771.2**
Liabilities:				
Segment liabilities	**64.7**	**123.9**	**131.8**	**320.4**
Segment net assets / (liabilities)	**242.3**	**312.3**	**(103.8)**	**450.8**

1 Business and Geographical Segments continued

Aerospace, Defence & Energy	**Western Europe 2010 £m**	**North America 2010 £m**	**Emerging markets 2010 £m**	**Total ADE 2010 £m**
Capital additions	**6.0**	**4.1**	**-**	**10.1**
Depreciation and amortisation	**9.5**	**8.1**	**0.2**	**17.8**
Balance Sheet				
Assets:				
Segment assets	**168.8**	**136.1**	**2.1**	**307.0**
Other investments	**-**	**-**	**-**	**-**
Consolidated total assets	**168.8**	**136.1**	**2.1**	**307.0**
Liabilities:				
Segment liabilities	**29.1**	**35.3**	**0.3**	**64.7**
Segment net assets	**139.7**	**100.8**	**1.8**	**242.3**

Automotive & General Industrial	**Western Europe 2010 £m**	**North America 2010 £m**	**Emerging markets 2010 £m**	**Total AGI 2010 £m**
Capital additions	**13.1**	**2.3**	**9.9**	**25.3**
Depreciation and amortisation	**22.0**	**3.1**	**4.4**	**29.5**
Balance Sheet				
Assets:				
Segment assets	**304.1**	**54.4**	**77.2**	**435.7**
Other investments	**0.5**	**-**	**-**	**0.5**
Consolidated total assets	**304.6**	**54.4**	**77.2**	**436.2**
Liabilities:				
Segment liabilities	**94.6**	**15.3**	**14.0**	**123.9**
Segment net assets	**210.0**	**39.1**	**63.2**	**312.3**

Group	ADE 2009 £m	AGI 2009 £m	Head Office and eliminations 2009 £m	Consolidated 2009 £m
Capital additions	21.3	14.2	1.0	36.5
Depreciation and amortisation	17.9	32.3	0.7	50.9
Impairment losses recognised in income	5.9	38.7	0.8	45.4
Balance Sheet				
Assets:				
Segment assets	331.2	464.0	(24.6)	770.6
Other investments	-	0.5	-	0.5
Consolidated total assets	331.2	464.5	(24.6)	771.1
Liabilities:				
Segment liabilities	75.2	134.1	139.2	348.5
Segment net assets / (liabilities)	256.0	330.4	(163.8)	422.6

1 Business and Geographical Segments continued

Aerospace, Defence & Energy	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total ADE 2009 £m
Capital additions	14.5	6.8	-	21.3
Depreciation and amortisation	9.5	8.3	0.1	17.9
Impairment losses recognised in income	(0.2)	6.1	-	5.9
Balance sheet				
Assets:				
Segment assets	162.6	166.9	1.7	331.2
Other investments	-	-	-	-
Consolidated total assets	162.6	166.9	1.7	331.2
Liabilities:				
Segment liabilities	35.9	39.1	0.2	75.2
Segment net assets	126.7	127.8	1.5	256.0

Automotive & General Industrial	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total AGI 2009 £m
Capital additions	7.9	1.7	4.6	14.2
Depreciation and amortisation	24.6	2.9	4.8	32.3
Impairment losses recognised in income	11.5	20.2	7.0	38.7
Balance sheet				
Assets:				
Segment assets	334.0	58.6	71.4	464.0
Other investments	0.5	-	-	0.5
Consolidated total assets	334.5	58.6	71.4	464.5
Liabilities:				
Segment liabilities	102.4	14.7	17.0	134.1
Segment net assets	232.1	43.9	54.4	330.4

Revenue by country

	2010 £m	2009 £m
USA	**142.8**	123.0
France	**76.3**	74.9
Germany	**61.1**	50.2
UK	**54.7**	52.7
Others	**164.9**	134.6
Total Revenue – continuing operations	**499.8**	435.4

2 Operating profit / (loss)

	Continuing operations 2010 £m	Continuing operations 2009 £m
Revenue	**499.8**	435.4
Cost of sales	**(332.9)**	(321.5)
Gross profit	**166.9**	113.9
Other operating income	**2.3**	3.7
Distribution costs	**(17.4)**	(18.4)
Other administration expenses*	**(99.7)**	(90.9)
Other operating expenses	**-**	(0.3)
Amortisation of acquired intangible fixed assets*	**(0.9)**	(1.3)
Impairment charge*	**-**	(31.5)
Major facility closure costs*	**-**	(25.4)
Operating profit / (loss)	**51.2**	(50.2)

*Administration expenses total £100.6m (2009: £149.1m).

Exceptional items comprise:

	2010 £m	2009 £m
Amortisation of acquired intangible fixed assets	**0.9**	1.3
Impairment of goodwill	**-**	29.0
Major facility closure costs	**-**	25.4
Impairment of investment in / loan due from associate	**-**	2.5
	0.9	58.2

3 Taxation

	Continuing operations		Discontinued operations		Total	
	2010	2009	**2010**	2009	**2010**	2009
	£m	£m	**£m**	£m	**£m**	£m
Current taxation – charge for the year	**8.8**	2.0	**-**	-	**8.8**	2.0
Current taxation – adjustments in respect of previous years	**(3.8)**	1.8	**5.8**	-	**2.0**	1.8
Deferred tax	**6.7**	(7.2)	**-**	-	**6.7**	(7.2)
	11.7	(3.4)	**5.8**	-	**17.5**	(3.4)

UK corporation tax is calculated at 28.0% (2009: 28.0%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.
Of the total charge to current tax £5.8m (2009: £Nil) is additional provisions relating to taxation expected to arise from the 2008 disposal of the Testing business.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2010	2009
	£m	£m
Profit / (loss) before tax:		
Continuing operations	**45.2**	(54.5)
Tax at the UK corporation tax rate of 28.0% (2009: 28.0%)	**12.7**	(15.3)
Tax effect of expenses that are not deductible in determining taxable profit	**(3.8)**	11.8
Deferred tax assets not recognised	**3.7**	6.3
Tax provision in respect of the disposal of the Testing division	**5.8**	-
Tax effect of other adjustments in respect of previous years	**(1.8)**	1.6
Effect of different tax rates of subsidiaries operating in other jurisdictions	**0.9**	(7.8)
Tax expense / (credit) for the year	**17.5**	(3.4)

The tax charge / (credit) on items taken directly to equity is £0.9m (2009: £(0.9)m).

4 Earnings / (loss) per share

The calculation of the basic and diluted earnings / (loss) per share is based on the following data:

Earnings / (loss)	**2010 £m**	2009 £m
Earnings / (loss) for the purpose of basic earnings / (loss) per share being net profit / (loss) attributable to equity holders of the parent	**27.6**	(50.1)

Number of Shares	**2010 Number**	2009 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**185,543,260**	185,557,762
Effect of dilutive potential ordinary shares: Share options	**180,586**	16,466
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**185,723,846**	185,574,228

From continuing operations	**2010 £m**	2009 £m
Earnings / (loss)		
Net profit / (loss) attributable to equity holders of the parent	**27.6**	(50.1)
Adjustments to exclude loss for the year from discontinued operations	**5.8**	-
Profit / (loss) from continuing operations for the purpose of basic earnings / (loss) per share excluding discontinued operations	**33.4**	(50.1)

The denominators used are the same as those detailed above for both basic and diluted earnings / (loss) per share from continuing and discontinued operations.

	2010 pence	2009 pence
Earnings / (loss) per share from continuing and discontinued operations:		
Basic	**14.9**	(27.0)
Diluted	**14.9**	(27.0)

	2010 pence	2009 pence
Loss per share from discontinued operations:		
Basic	**(3.1)**	-
Diluted	**(3.1)**	-

4 Earnings / (loss) per share continued

	2010 pence	2009 pence
Earnings / (loss) per share from continuing operations:		
Basic	**18.0**	(27.0)
Diluted	**18.0**	(27.0)

Headline earnings	**2010 £m**	2009 £m
Net profit / (loss) attributable to equity holders of the parent	**27.6**	(50.1)
Add back:		
Impairment charge	**-**	31.5
Amortisation of acquired intangible fixed assets (net of tax)	**0.8**	1.2
Major facility closure costs (net of tax)	**(0.2)**	18.1
Loss for the year – discontinued operations	**5.8**	-
Headline earnings	**34.0**	0.7

Earnings per share from headline earnings:	**2010 pence**	2009 pence
Basic	**18.3**	0.4
Diluted	**18.3**	0.4

5 Provisions

	Restructuring £m	Restructuring Environmental £m	Environmental £m	Total £m
At 1 January 2010	**17.6**	**9.5**	**5.9**	**33.0**
Increase in provision	**5.1**	**1.6**	**0.6**	**7.3**
Release of provision	**(1.8)**	**(0.1)**	**-**	**(1.9)**
Utilisation of provision	**(11.1)**	**(1.3)**	**-**	**(12.4)**
Exchange difference	**0.2**	**0.5**	**0.1**	**0.8**
At 31 December 2010	**10.0**	**10.2**	**6.6**	**26.8**

Included in current liabilities	**14.0**
Included in non-current liabilities	**12.8**
	26.8

The restructuring provision relates to the remaining costs associated with the closure of various Heat Treatment sites. Further details are contained in the Finance Director's Report.

The Group provides for the costs of environmental remediation that have been identified, either as part of acquisition due diligence, or in other circumstances where remediation by the Group is required. This provision is reviewed annually and is separated into Restructuring Environmental and Environmental to separately identify environmental provisions relating to the restructuring programme from those arising in the ordinary course of business.

The increase in restructuring provisions is due to the ongoing implementation of the global restructuring initiatives. In addition, income of £4.0m was recognised following the disposal of non core assets associated with the restructuring plans. The reversal of certain asset impairments of £0.8m was also recognised in relation to the ongoing restructuring.

Cash outflows in respect of these liabilities are expected to occur within 5 years.

6 Notes to the cash flow statement

	2010 £m	2009 £m
Profit / (loss) for the year	**27.7**	(51.1)
Adjustments for:		
Investment revenue	**(0.3)**	(1.5)
Finance costs	**6.3**	5.8
Taxation – continuing and discontinued	**17.5**	(3.4)
Depreciation of property, plant and equipment	**46.1**	48.5
Amortisation of intangible assets	**2.2**	2.4
Loss / (profit) on disposal of property, plant and equipment	**0.7**	(0.1)
Share-based payments	**4.2**	(0.1)
Impairment charge	**-**	31.5
Major facility closure costs	**(1.6)**	12.6
EBITDA*	**102.8**	44.6
(Increase) / decrease in inventories	**(2.7)**	1.4
(Increase) / decrease in receivables	**(4.7)**	29.2
Increase / (decrease) in payables	**15.5**	(21.6)
Decrease in provisions	**(7.0)**	(5.9)
Cash generated by operations	**103.9**	47.7
Cash outflow from settlement of derivative financial instruments	**(2.9)**	(12.3)
Income taxes paid	**(5.4)**	(24.4)
Net cash from operating activities	**95.6**	11.0

*Earnings before interest, tax, depreciation, amortisation, impairment and share-based payments.

	2010 £m	2009 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**23.5**	19.6
Bank overdrafts (included in borrowings)	**(5.9)**	(3.3)
	17.6	16.3

7 Basis of Preparation

The financial information has been based on the Company's financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. Whilst the financial information contained in this preliminary announcement has been computed in accordance with International Financial Reporting Standards, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRS in April 2011. The financial information has been prepared under the same accounting policies as the 2009 financial statements.

8 Non Statutory Financial Statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009, but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under S498 (2) or (3) Companies Act 2006.