Bodycote

PRESS RELEASE

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PRELIMINARY RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Financial Highlights

- Revenue from continuing operations decreased by 21.1% to £435.4m (2008: £551.8m)
- Headline operating profit[1] from continuing operations of £8.0m (2008: £71.2m)
- Operating loss (after exceptional charges of £58.2m) from continuing operations of £50.2m (2008: loss of £51.7m after exceptional charges of £122.9m)
- Headline profit before tax[1] of £3.7m (2008: £67.6m)
- Loss before tax of £54.5m (2008: loss of £55.3m)
- Positive headline operating cash flow[2] (before the impact of restructuring) of £34.7m (2008: £63.1m)
- Basic headline earnings per share[3] from continuing operations of 0.4p (2008: 17.5p)
- Basic earnings per share, after exceptional charges, decreased to a loss of 27.0p. (2008: earnings of 48.2p, including discontinued operations)
- Net debt at year end of £85.5m (2008: £64.7m)
- Final dividend maintained, giving unchanged 8.3p dividend for the year

Operational Highlights

- Cost reduction programme delivered structural savings of £30m in 2009 - will increase to £43m in 2010
- Operational reshaping nearing completion, with 25 facilities closed – 7% of capacity eliminated
- New strategy defined with a market focused business structure – Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI)
- Enhanced focus on cash flow

Commenting on the Results, Stephen Harris, Chief Executive said:

"2009 was a year of transition for Bodycote, with a major cost reduction programme implemented, a new strategy defined and the Group reshaped accordingly. End markets were very challenging with sharply lower volumes, the impact of which was addressed by significant cost reductions. We delivered a headline operating profit for the full year, more than offsetting the losses incurred in the first half. Many of our automotive and general industrial markets have already started to recover but we do not expect the aerospace, defence and energy markets to strengthen until later in 2010. The pace of recovery remains uncertain and potentially uneven. We anticipate that full recovery in demand may take several years. This notwithstanding, we enter 2010 with a reshaped business and renewed vigour."

[1] a detailed reconciliation is provided in Business Performance on Page 5
[2] a detailed reconciliation is provided in Business Performance on Page 5
[3] a detailed reconciliation is provided in Note 4 to this announcement.

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OVERVIEW

In 2008, the Board indicated that the Group was already experiencing the effects of what might become a deep economic downturn. Looking at the situation one year on, the recession has proved to be every bit as bad as anticipated and while the worst seems to be over, there is little sign yet of any meaningful improvement in trading conditions.

Following the disposal of the Testing division in the final quarter of 2008, the Board announced the appointment of Stephen Harris as the new Chief Executive with effect from the start of 2009.

In his first year he has led a major transformation exercise concentrating to date on three specific areas:

- Following an in-depth strategic review, the Group's operations and organisation are now focused on its core technologies and key markets.

- A major restructuring programme has taken place, addressing the sharp reduction in demand and reducing the fixed and variable cost base. The results of this are now contributing to the improved operational results.

- Linked to the strategic review, a full evaluation of management strength in all disciplines has been carried out. This has resulted in a number of new appointments already, as part of delayering the organisation, and several positions will be filled in the first half of 2010.

In the absence of any significant trading upturn, it is still too early to see the full impact of these initiatives. Nevertheless, the Board expects that with a revitalised management team focused on key markets and core technologies, together with a reduction in the proportion of low value-added activities, the Group should soon be reporting improved results. The full benefit will only be realised when sustainable growth returns to our major areas of activity.

GROUP RESULTS

The difficulties encountered by most of the businesses are clearly reflected in the 2009 results. Revenue from operations declined by 21.1% to £435.4m. At constant rates of exchange, the sales reduction exceeded 29%. To compensate for the loss of business, employee numbers have been reduced by a similar proportion and 25 of the original 203 operating sites have been closed. The profit recovery in the second half of 2009 has started to reflect these adjustments to the cost base, although the full effect of the changes will not be evident until the second half of 2010.

It was pleasing to note that the focus on cash management resulted in a satisfactory year end position. The cash cost of re-organising the Group's activities was largely funded by a sharp reduction in working capital such that the £20.8m increase in net debt during 2009 was entirely accounted for by the tax paid following the successful disposal of the Testing division in 2008. It is also reassuring to report that the Group's major borrowing facility has, in January 2010, been renewed with existing banks through until March 2013. This will ensure that Bodycote can complete its restructuring programme while providing the fixed and working capital resources which will enable the Group to fully benefit from the anticipated recovery in major markets over the next three years.

DIVIDEND

The Board considered carefully the level of dividend to be paid out to shareholders following the 2009 results. Having maintained the half year payout at the 2008 level, Board members felt that recent improving trading conditions, linked to the renewal of the major banking facility, enabled a final dividend of 5.35p per share to be recommended, giving a total of 8.30p for the year, unchanged from 2008. Although the disappointing result in 2009 means that the dividend will not be covered by earnings, the Board is confident that the actions taken to improve the operating performance, underpinned by a strong year end balance sheet, should enable the Group to fully cover the payout in 2010. The final dividend will be paid to shareholders in May following approval at the Annual General Meeting.

TRADING OVERVIEW

2009 was undoubtedly one of the fiercest economic storms that Bodycote, and indeed most other companies, has endured. In the face of rapidly declining demand on almost every front, volumes fell at the worst point to nearly 37% below prior year levels. The storm started to abate in the fourth quarter of the year and the final picture for the whole of 2009 was a year-on-year revenue decline of £116.4m, or 29.6% in constant currencies, to £435.4m.

Aided by significant and rapid restructuring actions, the fall in headline operating profit[1] was contained to £63.2m, so that the year end figure finished at £8.0m (2008: £71.2m), notwithstanding the loss that was incurred in the first half. This represents an operational gearing of 40%, at constant currencies, well below that exhibited by Bodycote in previous downturns. The restructuring actions led to an exceptional charge of £25.4m, of which £12.8m was cash and £12.6m was asset write-downs. In addition, the impairment of goodwill and investments amounted to £31.5m.

The restructuring programme has involved the closure of 25 facilities in total, the permanent decommissioning of some inefficient process lines and mothballing of others at a number of the remaining plants, together with the matching of headcount to demand throughout the organisation. The benefit has been a cost reduction of £30.4m in 2009 - equivalent to £43.0m on an annualised basis. In addition to these restructuring actions, all costs were critically examined and reduced where possible, leading to further substantial savings. The number of employees has been reduced by 29% since the peak in July 2008, to a total of 5,512.

The savings achieved from closing or consolidating plants and decommissioning lines are permanent. Other savings are largely volume related and can be expected to reverse to some degree as volumes rise.

Capital expenditure at £32.2m was well controlled and yielded a capital expenditure to depreciation ratio of 0.6, net of £4.3m of asset sales. This was 57% lower than in 2008. Headline operating cash flow[2] was £34.7m, well above headline operating profit. Year end net debt was £85.5m (2008: £64.7m). The increase in net debt was effectively due to £22.4m of tax paid in the year relating to the disposal of the Testing division that occurred in 2008.

A new £110m debt facility, extending until 2013, was put in place in January 2010, replacing the expiring 2010 facility. A second facility for $20m, which was also due to expire in 2010 was renewed in February 2010 and also extends to 2013. The covenant terms are unchanged, and the facilities provide headroom for expansion opportunities.

[1] a detailed reconciliation is provided in Business Performance on Page 5

[2] a detailed reconciliation is provided in Business Performance on Page 5

RESHAPING BODYCOTE

As the restructuring activities have progressed, great care has been taken to ensure that operational excellence and customer service have been maintained and that the business is ready for the upturn. In addition, a detailed strategic review has been carried out that has enabled us to refine our future strategy and reshape the business along specific strategic lines. The Group has now been organised as two business areas, each facing a different customer set with different characteristics and different requirements.

The Aerospace, Defence & Energy (ADE) business consists of 63 facilities and is organised on a global basis. It includes the Group's aerospace, defence and energy certified heat treatment activities, hot isostatic pressing and surface technology services. The latter two of these technologies are predominantly used in the aerospace, defence and energy markets and the total available market is overwhelmingly in these end-user sectors.

The Automotive & General Industrial (AGI) business consists of 115 facilities organised into four geographically based sub-divisions. The geographic organisation reflects the predominance of local work that is carried out for customers in the automotive and general industrial sectors.

It is worth noting that all of Bodycote's facilities in the emerging markets (Eastern Europe, Brazil and Asia), with the exception of the facilities in Singapore and Dubai, are part of the Automotive & General Industrial business. While this does not impede our ability to expand in the ADE sectors when it is required in these geographies, it does reflect the growth of core manufacturing activities in the emerging markets that the AGI customers are driving. So far, our customers from the developed markets in the ADE sectors have moved (or are in the process of moving) primarily activities such as assembly to these markets. Little or none of this ADE assembly activity requires the thermal processing services that Bodycote offers.

One of the refinements to the strategy is to be more selective about which emerging markets we pursue, and to drive harder in those we target. As a consequence of this approach, we have consolidated our facilities in India into one (from three) and have exited Thailand. The small associate venture in Thailand was sold back to the original owners in late 2009.

In total, the new divisional structure allows the Company to discriminate much more readily between different types of customer needs and to focus activity and investment in a more deliberate way.

In keeping with the new organisational structure, the executive committee has been expanded from five to nine members with the addition of two new global Divisional Presidents, a Director of Human Resources and a Director of Business Development.

THE FUTURE

Irrespective of the pace of the recovery, in the short term the tighter business disciplines and more focused capital investment procedures which were put in place in 2009 will enhance shareholder value in 2010 and beyond. The business process improvement and customer service enhancement programmes initiated during the year are another part of the drive for value creation.

Bodycote's recovery will be driven not only by general global demand but also by our own ability to gain market share. In addition, in the longer term, Bodycote stands to benefit from two trends. The first is a likely acceleration in the trend for customers to outsource. In 2009 many have seen the problems associated with having high fixed cost thermal processing operations in-house that are entirely dependent on their own product throughput. Outsourcing this type of activity, which is often not core to our customers' business, is becoming a hotter topic as a result of the recession.

The second significant factor that will help to drive Bodycote's business in the coming years is the growing awareness of environmental sustainability and the need for carbon reduction. One of Bodycote's core competences as specialists in thermal processing is the efficient use of energy. The ability to aggregate work from multiple customers and process the work in a more energy efficient way helps reduce costs for customers and also lowers their aggregate carbon footprint.

Clearly, the key to Bodycote's future success is its employees. The difficulties of 2009 have been demanding, and the Group's employees have risen to the challenge that the world economy threw at us and moved the business a long way forward, even in the face of adversity.

BUSINESS PERFORMANCE

	2009 £m	2008 £m
Revenue	**435.4**	551.8
Operating loss	**(50.2)**	(51.7)
Add back:		
Major facility closure costs	**25.4**	77.6
Impairment charge	**31.5**	44.0
Amortisation of acquired intangible fixed assets	**1.3**	1.3
Headline operating profit	**8.0**	71.2

Group revenue from continuing operations was £435.4m, a decrease of £116.4m (21.1%) on 2008 (£551.8m). The decline in revenues at constant exchange rates amounted to £163.3m (29.6%), which included revenues of £12.5m (2.3%) lost due to plant closures.

The restructuring of the Group was largely completed in 2009, but required a further charge of £25.4m, of which asset write-downs accounted for £12.6m and cash costs for £12.8m. No further restructuring charges are expected in 2010.

An impairment charge of £31.5m was made following the management's review of the carrying value of assets. Of the total charge, £29.0m related to goodwill and the balance of £2.5m arose following the unwinding of the associate venture in Thailand.

Consequently the Group is reporting an operating loss of £50.2m (2008: loss £51.7m).

Headline operating profit for the Group's continuing operations was £8.0m, a decrease of £63.2m compared to 2008. Foreign currency movements increased profits by £1.1m (1.5% on 2008). Headline operating margins from continuing operations declined from 12.9% to 1.8%.

	2009 Headline £m	**2009 Exceptional £m**	**2009 Total £m**	**2008 Total £m**
EBITDA[1]	**57.4**	**(12.8)**	**44.6**	**118.3**
Working capital movement	9.0	-	9.0	(13.0)
Provision movement	0.5	(6.4)	(5.9)	30.6
Net capital expenditure	(32.2)	-	(32.2)	(74.9)
Operating cash flow	**34.7**	**(19.2)**	**15.5**	**61.0**
Interest	(4.4)	-	(4.4)	(8.0)
Taxation	(2.0)	(22.4)	(24.4)	(20.5)
Lump sum contribution to pension plan	(1.5)	-	(1.5)	(21.0)
Free cash flow	**26.8**	**(41.6)**	**(14.8)**	**11.5**

[1] Earnings before interest, tax, depreciation, amortisation, impairment and share based payments

Headline Operating cash flow of £34.7m is made up of £57.4m EBITDA, a positive contribution from reduced working capital of £9.0m, and net capital expenditure of £32.2m.

After interest and tax payments, the headline free cash flow was £26.8m.

The outflow on exceptional items totalled £41.6m, of which £22.4m was the tax payable on the Testing disposal, and £19.2m was the cash spend on the restructuring programme, of which £6.4m had been accrued in the previous year.

Capital expenditure was restricted to necessary items of renewal along with the completion of expansion projects started before the downturn. Capital spend (net of asset sales) in 2009 was £32.2m, being 0.6 times depreciation compared to 1.3 times in 2008.

There has been a continued focus on cash collection and debtor days have been reduced to an average of 66 days in 2009, compared to 68 days in 2008, which along with the decline in revenue, accounts for the reduction in working capital.

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 KPI's are Return on Capital Employed (1)(ROCE) and Return on Sales (2)(ROS) and the non-financial KPIs are the Percentage of ISO 14001 accredited facilities and Accident Frequency(3).

As a direct consequence of the severe economic downturn, and despite the major restructuring programme and a multitude of other cost reduction action, ROCE for 2009 was 1.5% (2008: 12.1%) and ROS was 1.8% (2008: 12.9%).

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 2009, 77% of our plants had ISO 14001 accreditation - 137 plants out of a total of **178** (2008: 137 out of 193).

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 2009. Nevertheless, the Accident Frequency rate fell to 1.9 from 2.0 in 2008.

Definitions:

(1) Headline operating profit as a percentage of average capital employed from continuing operations. Capital employed includes tangible and intangible assets and all non-interest bearing assets and liabilities.
(2) Headline operating profit as a percentage of revenue from continuing operations.
(3) Accident frequency – the number of lost time accidents x 200,000 (approximately 100 man years), divided by the total hours worked.

BUSINESS OVERVIEW

The activities and management of the Group have been reorganised into two market-facing business areas:

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

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

Within the ADE sectors, our customers tend to 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 very locally oriented, meaning that proximity to the customer is very important and excellent service is vital.

Bodycote’s uniquely large network of 115 AGI facilities enables the business to offer the widest range of technical capability and security of supply. The AGI business aims to increase the proportion of technically differentiated services it offers. Bodycote has a long and successful history of serving this wide-ranging customer base and the newly established AGI business serves the following geographies:

- North America
- Western Europe
- Emerging Markets

AEROSPACE, DEFENCE & ENERGY (ADE)

RESULTS

Revenues for ADE were £189.5m in 2009 compared to £220.1m in 2008, a reduction of 13.9%. Revenues in constant currencies were lower by 23.5% reflecting reduced aerospace after-market requirements, some postponement of large power generation projects and the impact of lower oil prices on oil & gas exploration and production. Revenues benefited by 9.6% as a consequence of the weakness of sterling compared to most of the currencies in the countries in which the Group operates.

Headline operating profit for ADE was £24.7m (2008: £45.5m), with margins weakening from 20.7% to 13.0%. The restructuring programme delivered cost savings of £9.8m in 2009 and the annualised rate as we enter 2010 is expected to amount to £14.5m.

2009 was characterised by a significant reduction in capital expenditure across the Group, including in ADE, as widespread reduction in customer demand left capacity available for medium-term development. Long lead-time projects which were started before the recession, most notably the installation of a new large HIP unit in Sweden, were, however, completed or largely completed in 2009.

Capital employed in ADE in 2009 was £244.2m (2008: £249.8m). The reduction reflects the effects of the restructuring programme, which included the closure of facilities and the removal of assets from service in a number of other locations, partly offset by investment to enhance the capabilities of the business. Net capital expenditure in 2009 was £19.1m (2008: £20.2m) which represents 1.1 times depreciation (2008: 1.2 times depreciation). Return on capital employed in 2009 was 10.1% (2008: 18.2%).

MARKETS

Aerospace demand declined at a steady rate throughout the year with after-market requirements falling in response to reduced flying hours by airlines. Business with OEM airframe and engine manufacturers remained solid, especially for wide-body programmes. Defence demand has remained good.

Power generation requirements softened as the year progressed and in Europe demand fell substantially in the second half. This impacted both heat treatment and hot isostatic pressing and reflects customer inventory adjustments and some push-back in major power station build programmes around the world.

Oil & gas suffered significant decline as global energy prices fell and with them exploration and production activity, although work for production activity started to strengthen towards the end of the year.

ACHIEVEMENTS IN 2009

2009 saw the formation of the global Aerospace, Defence & Energy business. This has resulted in the realignment of some 63 facilities into a single, market-focused organisation targeted at meeting the requirements of major OEMs and their supply chains throughout the world. The ADE business has 34 Nadcap accredited facilities. Many facilities are also approved to the aerospace quality standard AS 9100. An important area of development in 2009 was to position the business to benefit from the impending growth in build programmes for the Airbus A380 and Boeing Dreamliner for airframe, engine and landing gear components.

ORGANISATION AND PEOPLE

The establishment of the ADE business required a number of organisational changes to enable the new market-focused approach to operate efficiently. At the same time, management implemented significant cost cutting measures, including the closure of six locations to deal with the effects of reduced demand. The majority of the processing capability and sales were transferred to other facilities. The objective has been to reduce the cost base and, at the same time, improve the efficiency of service. Although this resulted in a headcount reduction of 439 during the year and 489 since July 2008, the business is now positioned to be more effective in meeting customer requirements.

LOOKING AHEAD

The key objective for ADE in 2010 is to realise the benefits of the new market-facing organisation and drive the expansion of its proprietary and differentiated technologies. The new market-facing organisation is targeted at improving the customer experience of Bodycote and increasing the business's understanding of the requirements of prime manufacturers. This in turn, is expected to increase sales to existing clients and to improve the conversion rate of potential into actual business.

AUTOMOTIVE & GENERAL INDUSTRIAL (AGI)

RESULTS

Automotive & General Industrial revenues were £245.9m in 2009, which compares to £331.7m in 2008, a reduction of 25.9%. In constant currencies revenues were down by 33.1%, reflecting the widespread reduction in manufacturing output in all geographies. Revenues benefited by 7.2% as a result of the weakness of sterling compared to 2008. Demand began to improve slowly in the fourth quarter of 2009, but had only a modest impact on the year as a whole.

Headline operating loss in AGI was £13.3m compared to a headline operating profit of £29.8m in 2008. Margins fell from 9.0% to minus 5.4%. The restructuring programme has been substantial and the AGI business realised savings of £20.6m in 2009. This is expected to increase to £28.5m in 2010.

Net capital expenditure in 2009 was £12.5m (2008: £34.9m), which represents 0.4 times depreciation (2008: 1.1 times depreciation). Return on capital employed in 2009 was minus 4.2%

(2008: 7.9%). On average, capital employed in 2009 was £315.1m (2008: £377.6m). The major part of the reduction was due to the effects of the restructuring programme, including the various plant closures. The business is increasingly focusing on higher added-value activities.

MARKETS AND GEOGRAPHIES

The Automotive & General Industrial business serves an extensive variety of customers and has been impacted by the wide-ranging recession that began to affect Bodycote's business in the fourth quarter of 2008. This has only recently begun to abate, albeit at a modest pace. The largest reductions were in the heavy truck sector (down by 48.1%), followed by automotive (down by 29.0%). General industrial sectors were down by an average of 22.7%. Overall, the business recorded sales down by 25.9% compared to 2008, a notable part of which was the result of supply chain destocking.

In North America, automotive demand began to fall early in this recession (during the middle of 2008) and the year-on-year reduction in 2009 was 15.5%. Demand began to improve in the second half of 2009. General industrial sales declined by 17.7% in 2009 and have remained at these reduced levels in the latter part of 2009.

In Western Europe, sales in the automotive sector were down by over 40.0% and this had a significant impact on Bodycote's business, particularly in France, Germany and Italy. The most severe impact of the downturn, however, was felt in the heavy truck sector, in which Bodycote has a concentration in Sweden and Germany. Sales to this sector were down by approximately 60%, with only a modest recovery to date. Across Western Europe sales were down by 27.7% compared to 2008.

The impact of the recession has been quite varied in Bodycote's emerging market territories. In Eastern Europe, the Czech Republic was down 40.5% year-on-year, reflecting its reliance on German manufacturing. By contrast, Polish sales declined by 30.9% as heavy machinery and mining demand was less severely impacted than automotive. In Brazil, sales are split broadly evenly between automotive and general industrial markets and, although year-on-year revenues were down 25.9%, sales have started to recover. In Asia (China and India) the downturn was short-lived and recovery is well underway. As a consequence, 2009 sales were only 5.2% below those of 2008.

ACHIEVEMENTS IN 2009

During the year, the Group has reinforced the geographically oriented management structure within the Automotive & General Industrial business. The nature of the markets has some distinct differences in each of the North American, Western European and emerging economies, particularly in the level of the maturity of thermal processing requirements. This, along with the typically local nature of customer requirements, means the business is organised to focus on geographic areas. As a consequence of the reductions in demand, restructuring of the AGI's cost base has been critical and has been pursued vigorously.

The business has continued to increase capacity in several specialist technologies which have all suffered less than average reductions in demand during the downturn and, in some cases, sales have increased in 2009. Low pressure carburising, which is being used increasingly for high-end automotive gears, in both North America and Europe, recorded growth, as new transmissions were introduced by power train manufacturers. 2009 also saw the first full year of production for Speciality Stainless Steel Processes (a sub-division of the AGI business) in southern Germany, to complement existing capability in the Netherlands, France and the USA. A new facility in Finland is now operational and able to service the wind energy market for deep case carburising of very large gears.

ORGANISATION AND PEOPLE

In July 2008, the AGI business employed 5,201 people, but by the end of 2009 this had been reduced to 3,505. At the same time, 19 facilities were shut permanently and in many locations equipment and production lines have been mothballed. In addition, many pieces of equipment from closed sites have been transferred to new locations or placed in storage for future use, as and when customer demand increases.

LOOKING AHEAD

The major objectives for the Automotive & General Industrial business are to realise the full benefits of the extensive restructuring programme of 2009, expand the use of Bodycote's proprietary technologies and drive migration of technology from the developed to the emerging markets. Additionally, the business will continue to reduce the amount of low-return work it processes and increasingly focus on delivering value to customers.

FINANCIAL OVERVIEW

	2009[1]	2008[1]
	£m	£m
Revenue	**435.4**	551.8
Headline operating profit	**8.0**	71.2
Amortisation of acquired intangible fixed assets	**(1.3)**	(1.3)
Impairment charge	**(31.5)**	(44.0)
Major facility closure costs	**(25.4)**	(77.6)
Operating loss	**(50.2)**	(51.7)
Net finance costs	**(4.3)**	(3.6)
Loss before tax	**(54.5)**	(55.3)

[1] From continuing operations

Group results for 2009 were severely impacted by the economic downturn, with revenue falling by 21.1% from £551.8m to £435.4m and, as a consequence, headline operating profit fell from £71.2m to £8.0m. To deal with the changed circumstances an impairment charge of £31.5 m was made and a wide ranging restructuring of the Group's activities, aimed at better aligning the cost base with these lower demand levels, resulted in an exceptional charge for facility closures of £25.4m. In 2010 these restructuring initiatives, begun in 2008 and extended in 2009, can be expected to generate annualised savings of £43.0m for the Group, of which £36.2m are cash savings. Consequently the Group reported an operating loss for the year of £50.2m (2008: £51.7m).

Despite the much reduced headline operating profit, the Group was still able to report a positive operating cash flow of £15.5m (2008: £61.0m), mainly because net capital expenditure in 2009 fell to £32.2m compared to £74.9m in 2008. After deducting interest, tax and lump sum pension contributions, the Group reported a negative free cash flow of £14.8m (2008: positive £11.5m).

Bodycote begins 2010 with its funding position secured. Two of the three bank facilities were due to mature during 2010. These have been refinanced in line with the Group's funding requirements following the disposal of the Testing division and taking into account the cost of holding undrawn funds. Total funding now available to Bodycote under its committed facilities is £233.4m (2008: £359.8m).

EXCEPTIONAL COSTS

The total exceptional costs charged to the income statement amounted to £58.2m (2008: £122.9m) and were made up of the following elements:

Amortisation of acquired intangible fixed assets £1.3m (2008: £1.3m)

The charge relates to the amortisation of intangible assets arising from acquisitions. There were no acquisitions during 2009 and, as a result, there was no change to the charge compared to 2008.

Impairment Charge £31.5m (2008: £44.0m)

The impairment charge arose as a result of the write-down of goodwill (£29.0m) and a further £2.5m arose in respect of the unwinding of the associate venture in Thailand. The Group tests goodwill semi-annually and the charge relates to goodwill for businesses that have been discontinued or where management have concluded that book value of goodwill was in excess of its recoverable amount. The largest impairment was for goodwill attributable to the 2001 Lindberg acquisition in the North American heat treatment business, amounting to £25.0m.

Major Facility Closure Costs £25.4m (2008: £77.6m)

	P&L Exceptional Charge			
	Total	Asset Write Down	Cash	Phasing of Cash spend
	£m	£m	£m	£m
2008	**77.6**	42.7	34.9	2.1
2009	**25.4**	12.6	12.8	19.2
2010	**-**	-	-	17.7
2011 & later	-	-	-	8.7
Total	**103.0**	55.3	47.7	47.7

The major facility closure costs of £25.4m relates to the 2009 restructuring programme and includes asset write-downs of £12.6m and cash costs of £12.8m. The restructuring programme was started in 2008 in response to the economic downturn that began in the last quarter of that year. It became clear early in 2009 that the downturn was deeper than anticipated and additional restructuring initiatives were launched across the Group, with the most significant being in Brazil, France, Germany and Sweden. The total cost of the restructuring programme since 2008 has been £103.0m, of which £55.3m related to the write-down of assets and £47.7m to cash costs including redundancies, dismantling and site clean-up. As at 31 December 2009, £21.3m of the cash costs had been spent. Of the remaining £26.4m cash costs, £17.7m is expected to be spent in 2010 and

£8.7m in 2011 and later. Of these costs, £6.2m is to cover redundancy payments, £10.7m for site closure and £9.5m for environmental remediation.

Annual savings compared to pre-restructuring base

	Total	Western Europe	North America	Emerging Markets
	£m	£m	£m	£m
2009	**30.4**	16.1	11.1	3.2
2010	**43.0**	25.1	13.9	4.0

The restructuring initiatives delivered savings of £30.4m in 2009, of which £25.6m are cash savings. The level of savings will increase to £43.0m in 2010, as Bodycote sees the benefits of the completion of the restructuring programme.

Restructuring provisions outstanding at 31 December 2009 total £27.1m, being £26.4m related to the 2008/2009 programme and £0.7m related to environmental remediation from earlier initiatives.

OPERATING LOSS FROM CONTINUING OPERATIONS

After charging exceptional items of £58.2m (2008: £122.9m), the operating loss from continuing operations was £50.2m (2008: loss of £51.7m).

LOSS BEFORE TAX FROM CONTINUING OPERATIONS

Headline profit before tax for the continuing operations was £3.7m (2008: £67.6m). The loss before tax for the continuing operations was £54.5m (2008: loss of £55.3m).

Headline profit before tax is derived as follows:

	2009	2008
	£m	£m
Headline operating profit[1]	**8.0**	71.2
Net finance charge	**(4.3)**	(3.6)
Headline operating profit before tax	**3.7**	67.6
Amortisation of acquired intangible fixed assets	**(1.3)**	(1.3)
Impairment charge	**(31.5)**	(44.0)
Major facility closure costs	**(25.4)**	(77.6)
Loss before tax	**(54.5)**	(55.3)

[1] Operating profit pre-exceptional items

FINANCE CHARGE

The net finance charge from the continuing operations of the Group was £4.3m compared to £3.6m in 2008. The increase arose from a combination of higher average net debt and higher pension finance costs offset by lower interest rates.

TAXATION

Total taxation was a credit of £3.4m for the year compared to a credit of £17.2m for 2008. The effective tax rate for the Group of 6.2% resulted from the impact of blending profit-making jurisdictions with loss-making jurisdictions and of differing tax rates in each of the countries in which the Group operates (2008: 31.1%).

The headline tax rate on continuing operations for 2009 was 108.1% (2008:18.3%), being stated before amortisation of goodwill and acquired intangibles (both of which are generally not allowable for tax purposes) and before exceptional items. The unusual tax rate in 2009 results from the impact of combining the results of profit-making and loss-making entities that have different underlying tax rates and from the de-recognition of certain tax losses. A revival in economic conditions should enable utilisation and recognition of these tax losses in future years. The average underlying tax rates for Bodycote's profit and loss making subsidiaries were 28.8% and 24.9% respectively.

ASSOCIATED COMPANY – SSCP COATINGS SARL (SSCP)

SSCP is a highly leveraged private equity controlled business. Bodycote currently owns 24.4% of the share capital of SSCP, but the Group has previously fully impaired its equity and loans to this business. There is no impact in the Group's accounts in 2009 (2008: impairment charge of £12.1m).

DISCONTINUED OPERATIONS

Bodycote has not discontinued any business streams during 2009. In 2008, the Group sold its Testing division, which recorded sales of £164.9m and an operating profit of £19.9m in 2008.

EARNINGS PER SHARE

Basic headline earnings per share (as defined in note 4) decreased to 0.4p from 17.5p. Basic (loss)/earnings per share for the year are shown in the table below:

	2009	2008
	Pence	Pence
Basic (loss)/earnings per share from:		
Continuing and discontinued operations	**(27.0)**	48.2
less discontinued operations	**-**	60.7
Continuing operations	**(27.0)**	(12.5)

DIVIDEND

The Board has recommended a final dividend of 5.35p (2008: 5.35p) bringing the total dividend to 8.30p per share (2008: 8.30p). In December 2008 an additional, special distribution of 40p per ordinary share (from the proceeds from the disposal of the Testing division) was paid in December 2008. The 2009 dividend is not covered by basic headline earnings per share, as defined in note 4 (2008: 2.1 times).

If approved by shareholders, the final dividend of 5.35p per share for 2009 will be paid on 7 May 2010 to all shareholders on the register at close of business on 9 April 2010.

CAPITAL STRUCTURE

The Group's balance sheet at 31 December 2009 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	461.8	-	461.8
Goodwill and intangible assets	118.8	-	118.8
Current assets and liabilities	109.9	(135.4)	(25.5)
Other non current assets and liabilities	4.1	(19.6)	(15.5)
Retirement benefit obligations	-	(15.0)	(15.0)
Deferred tax	56.9	(73.4)	(16.5)
Total before net debt	751.5	(243.4)	508.1
Net debt	19.6	(105.1)	(85.5)
Net assets as at 31 December 2009	**771.1**	**(348.5)**	**422.6**
Net assets as at 31 December 2008	1,158.7	(661.8)	496.9

Net assets decreased by £74.3m (15.0%) to £422.6m (2008: £496.9m). The major movements compared to 31 December 2008 were due to a decrease in property, plant and equipment (£71.5m), and goodwill and intangible assets (£35.6m), which were partly offset by an increase in net current assets (£41.7m).

The largest decrease in property, plant and equipment came from foreign exchange translation losses (£37.7m) as a consequence of the stronger sterling rates on 31 December 2009 compared to 31 December 2008, particularly for the Euro and the US Dollar. Furthermore, net capital expenditure of £32.2m was exceeded by depreciation of £50.9m, while asset write-downs, as part of the restructuring programme, accounted for £12.6m.

The decrease in the goodwill asset resulted largely from the impairment testing performed by management.

Large movements were reported for net current assets. The reduced level of trading activity in 2009 compared to 2008 meant that trade receivables and other receivables decreased by £37.3m and trade and other payables decreased by £25.7m. Current tax liabilities decreased by £22.2m because the 2008 figure included a taxation liability which was settled during 2009 in respect of gains on disposal of the US Testing business of £22.4m. Net liabilities for derivative financial instruments decreased by £26.0m due to a combination of instrument maturity and changes in exchange and interest rates.

NET DEBT

Group net debt was £85.5m (2008: £64.7m). During the year, loans of £209.1m under committed facilities were repaid and as a consequence gross cash decreased by £238.8m to £19.6m. 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 decrease in cash and cash equivalents was £231.6m (2008: net increase of £209.4m), made up of net cash from operating activities of £11.0m, less investing activities of £27.3m and less cash used in financing activities of £215.3m, following the use of surplus cash balances to reduce debt.

The total cash generated by the Group during 2009 was £441.0m lower than last year. In 2008 the Group benefited from the £400.1m received from the disposal of the Testing division, of which £128.8m was distributed to shareholders as a special dividend. Furthermore, in 2009 the Group also suffered from lower cash generated from operating activities of £91.5m compared to 2008, mainly because the EBITDA for 2009 was lower by £73.7m (62.3% lower than 2008). This reduction in cash generation from operations was largely mitigated by lower net expenditure on capital expenditure and acquisitions (down £84.0m). The net cash outflow arising from loan repayments and new bank loans raised amounted to £192.8m.

There has been a continued focus on cash collection with debtor days at 31 December 2009 falling to 63 days from 68 days a year earlier.

Net interest payments for the year were £4.4m (2008: £8.0m) and tax payments were £24.4m (2008: £20.5m), of which £22.4m related to the disposal of the Testing division.

CAPITAL EXPENDITURE

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £32.2m (2008: £74.9m). The multiple of net capital expenditure to depreciation was 0.6 times (2008:1.3 times), which was a reflection of the Group's response to the economic environment by reducing non-essential capital expenditure. A proportion of the capital expenditure was incurred to support the restructuring programme in the consolidation of plants and the re-installation of furnaces transferred from closed plants. However, to increase capacity the Group continued to invest in a small number of long-lead time projects such as the new large HIP unit in Surahammar (Sweden) and a new Corr-I-Dur plant in Krnov (Czech Republic).

BORROWING FACILITIES

At 31 December 2009, Bodycote had three committed bank facilities: £225.0m (2008: £225.0m), expiring August 2010; €125.0m (2008: €125.0m), expiring July 2013; and US$20.0m (2008: US$20.0m), expiring July 2010, totalling £348.5m (2008: £359.7m). At the same date, the three facilities were drawn £0.0m (2008: £194.8m), £96.2m (2008: £107.3m) and £6.5m (2008: £10.5m) respectively, totalling £102.7m (2008: £312.6m).

On 8 January 2010 the £225m Revolving Credit Facility was refinanced with a committed facility at a lower amount of £110m to reflect the Group's lower expected funding requirements, with a maturity date of 31 March 2013. In addition, on 18 February 2010, the US$20m revolving credit facility was also refinanced to a maturity date of 31 March 2013.

CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, 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 Group's 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 2009 was 20.2% (2008: 13.0%).

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 certain subsidiaries. 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 current market for bank funding is restricted to shorter tenors than have been available in the past and, therefore, steps will be taken in due course to extend the maturity profile of the Group's funding (currently 3.3 years).

GOING CONCERN

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 current economic conditions create uncertainty, particularly over the levels of demand for the Group's services and the availability of bank and capital market finance in the future. However, 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.

After making enquiries, 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.

SUMMARY & OUTLOOK

2009 was a year of transition for Bodycote, with a major cost reduction programme implemented, a new strategy defined and the Group reshaped accordingly. End markets were very challenging with sharply lower volumes, the impact of which was addressed by significant cost reductions. We delivered a headline operating profit for the full year, more than offsetting the losses incurred in the first half. Many of our automotive and general industrial markets have already started to recover but we do not expect the aerospace, defence and energy markets to strengthen until later in 2010. The pace of recovery remains uncertain and potentially uneven. We anticipate that full recovery in demand may take several years. This notwithstanding, we enter 2010 with a reshaped business and renewed vigour.

Consolidated Income Statement
for the year ended 31 December 2009

	2009 £m	2008 £m	Note
Revenue			
Existing operations	**435.4**	541.4	
Acquisitions	**-**	10.4	
Revenue - continuing operations	**435.4**	551.8	
Operating (loss) / profit			2
Existing operations	**(50.2)**	(54.7)	
Acquisitions	**-**	3.0	
Operating loss - continuing operations	**(50.2)**	(51.7)	
Operating profit prior to exceptional items	**8.0**	71.2	
Amortisation of acquired intangible fixed assets	**(1.3)**	(1.3)	
Impairment charge	**(31.5)**	(44.0)	
Major facility closure costs	**(25.4)**	(77.6)	
Operating loss - continuing operations	**(50.2)**	(51.7)	
Investment revenue	**1.5**	4.9	
Finance costs	**(5.8)**	(8.5)	
Loss before taxation	**(54.5)**	(55.3)	
Taxation	**3.4**	17.2	3
Loss for the year - continuing operations	**(51.1)**	(38.1)	
Discontinued operations			
Profit for the year - discontinued operations	**-**	188.8	
(Loss) / profit for the year	**(51.1)**	150.7	
Attributable to:			
Equity holders of the parent	**(50.1)**	149.8	
Minority interests	**(1.0)**	0.9	
	(51.1)	150.7	
(Loss) / earnings per share			4
	Pence	Pence	
From continuing operations:			
Basic	**(27.0)**	(12.5)	
Diluted	**(27.0)**	(12.5)	
From continuing and discontinued operations:			
Basic	**(27.0)**	48.2	
Diluted	**(27.0)**	48.1	

Consolidated Balance Sheet
at 31 December 2009

	2009	2008	Note
	£m	£m	
Non-current assets			
Goodwill	**107.9**	141.6	
Other intangible assets	**10.9**	12.8	
Property, plant and equipment	**461.8**	533.3	
Interests in associates and other investments	**0.5**	8.2	
Finance lease receivables	**0.5**	0.7	
Deferred tax asset	**56.9**	52.5	
Derivative financial instruments	**0.1**	-	
Trade and other receivables	**3.0**	3.0	
	641.6	752.1	
Current assets			
Inventories	**11.6**	14.0	
Finance lease receivables	**0.4**	0.4	
Derivative financial instruments	**0.6**	1.8	
Trade and other receivables	**91.1**	128.4	
Cash and bank balances	**19.6**	258.4	
Assets held for sale	**6.2**	3.6	
	129.5	406.6	
Total assets	**771.1**	1,158.7	
Current liabilities			
Trade and other payables	**93.2**	118.9	
Dividends payable	**5.5**	9.4	
Current tax liabilities	**11.4**	33.6	
Obligations under finance leases	**0.7**	1.2	
Borrowings	**6.0**	16.3	
Derivative financial instruments	**4.0**	26.3	
Provisions	**21.3**	27.2	5
	142.1	232.9	
Net current (liabilities) / assets	**(12.6)**	173.7	
Non-current liabilities			
Borrowings	**96.8**	302.9	
Retirement benefit obligations	**15.0**	14.9	
Deferred tax liabilities	**73.4**	78.3	
Obligations under finance leases	**1.6**	2.7	
Derivative financial instruments	**0.4**	5.2	
Provisions	**11.7**	15.5	5
Other payables	**7.5**	9.4	
	206.4	428.9	
Total liabilities	**348.5**	661.8	
Net assets	**422.6**	496.9	

Consolidated Balance Sheet (continued)
at 31 December 2009

	2009 £m	2008 £m
Equity		
Share capital	**32.5**	32.4
Share premium account	**176.0**	175.7
Own shares	**(7.3)**	(10.9)
Other reserves	**134.1**	137.3
Hedging and translation reserves	**26.3**	31.1
Retained earnings	**58.7**	126.4
Equity attributable to equity holders of the parent	**420.3**	492.0
Minority interests	**2.3**	4.9
Total equity	**422.6**	496.9

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 25 February 2010. They were signed on its behalf by:

S.C. Harris
D.F. Landless

Consolidated Cash Flow Statement
for the year ended 31 December 2009

	2009 £m	2008 £m
Net cash from operating activities	**11.0**	102.5
Investing activities		
Purchases of property, plant and equipment	**(35.3)**	(77.1)
Proceeds on disposal of property, plant and equipment and intangible assets	**4.3**	4.6
Purchases of intangible fixed assets	**(1.2)**	(2.4)
Acquisition of investment in an associate	**-**	(5.6)
Acquisition of subsidiaries / purchase of minority interest	**(0.5)**	(29.3)
Disposal of subsidiaries / associates	**6.9**	400.1
Lump sum contribution to pension scheme	**(1.5)**	(21.0)
Net cash (used in) / received from investing activities	**(27.3)**	269.3
Financing activities		
Interest received	**2.1**	12.5
Interest paid	**(6.5)**	(20.5)
Dividends paid	**(20.0)**	(154.3)
Dividends paid to a minority shareholder	**(0.1)**	(0.1)
Repayments of bank loans	**(231.9)**	(6.0)
Payments of obligations under finance leases	**(1.5)**	(2.6)
New bank loans raised	**41.1**	8.0
New obligations under finance leases	**0.2**	0.3
Proceeds on issue of ordinary share capital	**0.4**	0.2
Own shares purchased / settlement of share options	**0.9**	0.1
Net cash used in financing activities	**(215.3)**	(162.4)
Net (decrease) / increase in cash and cash equivalents	**(231.6)**	209.4
Cash and cash equivalents at beginning of year	**249.5**	34.3
Effect of foreign exchange rate changes	**(1.6)**	5.8
Cash and cash equivalents at end of year	**16.3**	249.5

Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2009

	2009 **£m**	2008 £m
Exchange differences on translation of foreign operations	**(4.8)**	14.2
Actuarial losses on defined benefit pension schemes	**(3.3)**	(11.4)
Tax on items taken directly to equity	**0.9**	2.2
Net (expenses) / income recognised directly in equity	**(7.2)**	5.0
(Loss) / profit for the year	**(51.1)**	150.7
Total recognised income and expense for the year	**(58.3)**	155.7
Attributable to:		
Equity holders of the parent	**(57.3)**	154.8
Minority interests	**(1.0)**	0.9
	(58.3)	155.7

Consolidated Statement of Changes in Equity
for the year ended 31 December 2009

	Share capital £m	Share premium £m	Own shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Minority interests £m	Total equity £m
1 January 2008	32.4	305.0	(11.0)	6.0	16.9	140.7	490.0	6.6	496.6
Premium arising on issue of equity shares (net of expenses)	-	0.3	-	-	-	-	0.3	-	0.3
Return of capital to shareholders and redemption of B shares	-	(129.6)	-	128.7	-	-	(0.9)	-	(0.9)
Acquired in the year / settlement of share options	-	-	0.1	-	-	-	0.1	-	0.1
Share-based payments	-	-	-	2.6	-	-	2.6	-	2.6
Exchange differences on translation of overseas operations	-	-	-	-	183.3	-	183.3	0.8	184.1
Movement on hedges of net investments	-	-	-	-	(169.1)	-	(169.1)	-	(169.1)
Dividends paid	-	-	-	-	-	(154.9)	(154.9)	(0.1)	(155.0)
Net profit for the year	-	-	-	-	-	149.8	149.8	0.9	150.7
Purchase of minority interest	-	-	-	-	-	-	-	0.5	0.5
Sale of minority interest	-	-	-	-	-	-	-	(3.8)	(3.8)
Other items taken directly to equity	-	-	-	-	-	(9.2)	(9.2)	-	(9.2)
31 December 2008	**32.4**	**175.7**	**(10.9)**	**137.3**	**31.1**	**126.4**	**492.0**	**4.9**	**496.9**
Premium arising on issue of equity shares	**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)**
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**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(15.4)**	**(15.4)**	**(0.1)**	**(15.5)**
Net loss for the year	**-**	**-**	**-**	**-**	**-**	**(50.1)**	**(50.1)**	**(1.0)**	**(51.1)**
Purchase of minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1.3)**	**(1.3)**
Other items taken directly to equity	**-**	**-**	**-**	**-**	**-**	**(2.4)**	**(2.4)**	**-**	**(2.4)**
31 December 2009	**32.5**	**176.0**	**(7.3)**	**134.1**	**26.3**	**58.7**	**420.3**	**2.3**	**422.6**

During the prior year the Group issued £129.4m of B shares out of the share premium account. The B shares could be converted into deferred shares with a negligible value in return for a dividend of 40p per share or redeemed for 40p per share in cash. £0.2m of associated costs were charged to the share premium account.

321.9 million B shares were redeemed on 16 December 2008, including 70.3 million B shares which had been converted into deferred shares and, as a result, £128.7m was transferred from retained earnings to a capital redemption reserve. A further 1.7 million 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 (2008: £128.7m). The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2009 2,100,427 (2008: 2,490,760) 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.

1. Business and geographical segments

The Group has adopted IFRS 8 'Operating Segments' with effect from 1 January 2009. 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. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required the Group to identify two sets of segments (business and geographical), using a risks and returns approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed. As a result the comparative year has been restated to reflect the revised segmental analysis determined by the Group.

The Group's reportable segments have been determined in accordance with the reorganisation activity finalised since the Interim Report, focusing on key market sectors as opposed to service. Principally, this split 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 revised geographical divisional split of the Group being:

- Western Europe
- North America; and
- Emerging Markets

Group	ADE 2009 £m	AGI 2009 £m	Head Office and eliminations 2009 £m	Consolidated 2009 £m	Discontinued operations (Testing) 2009 £m	Total Group 2009 £m
Revenue						
Total revenue	**189.5**	**245.9**	**-**	**435.4**	**-**	**435.4**
Result						
Segment result prior to exceptional items	**24.7**	**(13.3)**	**-**	**11.4**	**-**	**11.4**
Unallocated corporate expenses	**-**	**-**	**(3.4)**	**(3.4)**	**-**	**(3.4)**
Headline operating profit / (loss)	**24.7**	**(13.3)**	**(3.4)**	**8.0**	**-**	**8.0**
Amortisation of acquired intangible fixed assets	**(0.6)**	**(0.7)**	**-**	**(1.3)**	**-**	**(1.3)**
Impairment charge	**(5.0)**	**(25.7)**	**(0.8)**	**(31.5)**	**-**	**(31.5)**
Major facility closure costs	**0.9**	**(25.9)**	**(0.4)**	**(25.4)**	**-**	**(25.4)**
Segment result	**20.0**	**(65.6)**	**(4.6)**	**(50.2)**	**-**	**(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)

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

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**	**(3.8)**	**(13.3)**
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)**	**(16.2)**	**(65.6)**

1. Business and geographical segments (continued)

Group	ADE 2008 £m	AGI 2008 £m	Head Office and eliminations 2008 £m	Consolidated 2008 £m	Discontinued operations (Testing) 2008 £m	Total Group 2008 £m
Revenue						
Total revenue	220.1	331.7	-	551.8	164.9	716.7
Result						
Segment result prior to exceptional items	45.5	29.8	-	75.3	20.5	95.8
Unallocated corporate expenses	-	-	(4.1)	(4.1)	-	(4.1)
Headline operating profit / (loss)	45.5	29.8	(4.1)	71.2	20.5	91.7
Amortisation of acquired intangible fixed assets	(0.5)	(0.8)	-	(1.3)	(0.6)	(1.9)
Impairment charge	(5.7)	(26.2)	(12.1)	(44.0)	-	(44.0)
Major facility closure costs	(19.0)	(58.6)	-	(77.6)	-	(77.6)
Disposal of Testing business	-	-	-	-	199.3	199.3
Segment result	20.3	(55.8)	(16.2)	(51.7)	219.2	167.5
Investment revenue				4.9		
Finance costs				(8.5)		
Loss before taxation				(55.3)		
Taxation				17.2		
Profit for the year from discontinued operations				188.8		
Profit for the year				150.7		

1. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2008 £m	North America 2008 £m	Emerging markets 2008 £m	Total ADE 2008 £m
Revenue				
Total revenue	110.7	109.0	0.4	220.1
Result				
Headline operating profit / (loss)	26.1	19.9	(0.5)	45.5
Amortisation of acquired intangible fixed assets	(0.3)	(0.2)	-	(0.5)
Impairment charge	(2.1)	(3.6)	-	(5.7)
Major facility closure costs	(2.5)	(16.5)	-	(19.0)
Segment result	21.2	(0.4)	(0.5)	20.3

Automotive & General Industrial	Western Europe 2008 £m	North America 2008 £m	Emerging markets 2008 £m	Total AGI 2008 £m
Revenue				
Total revenue	243.6	33.6	54.5	331.7
Result				
Headline operating profit	27.5	0.7	1.6	29.8
Amortisation of acquired intangible fixed assets	(0.1)	-	(0.7)	(0.8)
Impairment charge	(13.1)	(3.8)	(9.3)	(26.2)
Major facility closure costs	(37.3)	(17.6)	(3.7)	(58.6)
Segment result	(23.0)	(20.7)	(12.1)	(55.8)

Revenue by country

	2009 £m	2008 £m
USA	**123.0**	137.0
France	**74.9**	90.5
UK	**52.7**	68.3
Germany	**50.2**	67.3
Others	**134.6**	188.7
Total Revenue - continuing operations	**435.4**	551.8

1. Business and geographical segments (continued)

Other information

Group	ADE 2009 £m	AGI 2009 £m	Discontinued operations (Testing) 2009 £m	Head Office and eliminations 2009 £m	Consolidated 2009 £m
Capital additions	21.3	14.3	-	0.9	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	464.2	-	(24.8)	770.6
Interests in associates and other investments	-	0.5	-	-	0.5
Consolidated total assets	331.2	464.7	-	(24.8)	771.1
Liabilities:					
Segment liabilities	75.2	134.1	-	139.2	348.5
Segment net assets / (liabilities)	256.0	330.6	-	(164.0)	422.6

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
Interests in associates and 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

1. Business and geographical segments (continued)

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**	**4.7**	**14.3**
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**	**71.6**	**464.2**
Interests in associates and other investments	**0.5**	**-**	**-**	**0.5**
Consolidated total assets	**334.5**	**58.6**	**71.6**	**464.7**
Liabilities:				
Segment liabilities	**102.4**	**14.6**	**17.1**	**134.1**
Segment net assets	**232.1**	**44.0**	**54.5**	**330.6**

Group	ADE 2008 £m	AGI 2008 £m	Discontinued operations (Testing) 2008 £m	Head Office and eliminations 2008 £m	Consolidated 2008 £m
Capital additions	19.4	46.4	11.7	2.0	79.5
Depreciation and amortisation	15.6	34.2	10.6	0.2	60.6
Impairment losses recognised in income	14.1	58.9	-	12.1	85.1
Balance sheet					
Assets:					
Segment assets	403.1	541.5	-	205.9	1,150.5
Interests in associates and other investments	-	8.2	-	-	8.2
Consolidated total assets	403.1	549.7	-	205.9	1,158.7
Liabilities:					
Segment liabilities	95.2	169.4	-	397.2	661.8
Segment net assets / (liabilities)	307.9	380.3	-	(191.3)	496.9

1. Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2008 £m	North America 2008 £m	Emerging markets 2008 £m	Total ADE 2008 £m
Capital additions	11.9	7.5	-	19.4
Depreciation and amortisation	7.8	7.7	0.1	15.6
Impairment losses recognised in income	4.1	10.0	-	14.1
Balance sheet				
Assets:				
Segment assets	179.1	220.2	3.8	403.1
Interests in associates and other investments	-	-	-	-
Consolidated total assets	179.1	220.2	3.8	403.1
Liabilities:				
Segment liabilities	39.4	55.3	0.5	95.2
Segment net assets	139.7	164.9	3.3	307.9

Automotive & General Industrial	Western Europe 2008 £m	North America 2008 £m	Emerging markets 2008 £m	Total AGI 2008 £m
Capital additions	32.1	2.8	11.5	46.4
Depreciation and amortisation	26.5	3.0	4.7	34.2
Impairment losses recognised in income	35.7	11.6	11.6	58.9
Balance sheet				
Assets:				
Segment assets	417.1	48.3	76.1	541.5
Interests in associates and other investments	0.6	-	7.6	8.2
Consolidated total assets	417.7	48.3	83.7	549.7
Liabilities:				
Segment liabilities	140.7	13.3	15.4	169.4
Segment net assets	277.0	35.0	68.3	380.3

2. Operating (loss) / profit

	2009			2008		
	Existing operations £m	**Acquisitions £m**	**Continuing operations £m**	Existing operations £m	Acquisitions £m	Continuing operations £m
Revenue	**435.4**	**-**	**435.4**	541.4	10.4	551.8
Cost of sales	**(321.5)**	**-**	**(321.5)**	(371.0)	(6.0)	(377.0)
Gross profit	**113.9**	**-**	**113.9**	170.4	4.4	174.8
Other operating income	**3.7**	**-**	**3.7**	6.0	-	6.0
Distribution costs	**(18.4)**	**-**	**(18.4)**	(20.0)	(0.3)	(20.3)
Other administration expenses*	**(90.9)**	**-**	**(90.9)**	(88.2)	(1.0)	(89.2)
Other operating expenses	**(0.3)**	**-**	**(0.3)**	-	(0.1)	(0.1)
Amortisation of acquired intangible fixed assets*	**(1.3)**	**-**	**(1.3)**	(1.3)	-	(1.3)
Impairment charge*	**(31.5)**	**-**	**(31.5)**	(44.0)	-	(44.0)
Major facility closure costs*	**(25.4)**	**-**	**(25.4)**	(77.6)	-	(77.6)
Operating (loss)/profit	**(50.2)**	**-**	**(50.2)**	(54.7)	3.0	(51.7)

*Administration expenses (total £149.1m, 2008: £212.1m).

Exceptional items comprise:

	2009 £m	2008 £m
Amortisation of acquired intangible fixed assets	**1.3**	1.3
Impairment of goodwill	**29.0**	31.9
Major facility closure costs	**25.4**	77.6
Impairment of investment in / loan due from associate	**2.5**	12.1
	58.2	122.9

3. Taxation

	Continuing operations		Discontinued operations		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£m	£m	**£m**	£m	**£m**	£m
Current taxation - charge for the year	**2.0**	12.9	**-**	23.6	**2.0**	36.5
Current taxation - adjustments in respect of previous years	**1.8**	0.2	**-**	0.3	**1.8**	0.5
Deferred tax	**(7.2)**	(30.3)	**-**	0.1	**(7.2)**	(30.2)
	(3.4)	(17.2)	**-**	24.0	**(3.4)**	6.8

UK corporation tax is calculated at 28.0% (2008: 28.5%) 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, approximately £Nil (2008: £2.0m) related to profits arising in the Testing business, which was disposed of during 2008. A tax charge of £Nil (2008: £21.9m) arose on the disposal of the various subsidiaries which comprised the business

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

:	**2009**	2008
	£m	£m
(Loss) / profit before tax:		
Continuing operations	**(54.5)**	(55.3)
Discontinued operations	**-**	212.8
	(54.5)	157.5
Tax at the UK corporation tax rate of 28.0% (2008: 28.5%)	**(15.3)**	44.9
Tax effect of expenses that are not deductible in determining taxable profit	**11.8**	20.2
Tax effect of non-taxable disposal proceeds	**-**	(39.2)
Deferred tax assets not recognised	**6.3**	1.7
Tax settlements in respect of prior years	**-**	(8.6)
Tax effect of other adjustments in respect of previous years	**1.6**	(2.2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(7.8)**	(10.0)
Tax (credit) / expense for the year	**(3.4)**	6.8

The tax credit on items taken directly to equity is £0.9m (2008: £2.2m).

4. (Loss) / earnings per share

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

	2009 £m	2008 £m
(Loss) / earnings		
(Loss) / earnings for the purpose of basic (loss) / earnings per share being net (loss) / profit attributable to equity holders of the parent	**(50.1)**	149.8

	2009 Number	2008 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**185,557,762**	310,936,573
Effect of dilutive potential ordinary shares:		
Share options	**16,466**	239,456
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**185,574,228**	311,176,029

From continuing operations

	2009 £m	2008 £m
(Loss) / earnings		
Net (loss) / profit attributable to equity holders of the parent	**(50.1)**	149.8
Adjustments to exclude profit for the year from discontinued operations	**-**	(188.8)
Loss from continuing operations for the purpose of basic (loss) / earnings per share excluding discontinued operations	**(50.1)**	(39.0)

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

	2009 Pence	2008 Pence
(Loss) / earnings per share from continuing and discontinued operations:		
Basic	**(27.0)**	48.2
Diluted	**(27.0)**	48.1

	2009 Pence	2008 Pence
Earnings per share from discontinued operations:		
Basic	**-**	60.7
Diluted	**-**	60.7

4. (Loss) / earnings per share (continued)

	2009 Pence	2008 Pence
Loss per share from continuing operations:		
Basic	**(27.0)**	(12.5)
Diluted	**(27.0)**	(12.5)

	2009 £m	2008 £m
Headline earnings		
Net (loss) / profit attributable to equity holders of the parent	**(50.1)**	149.8
Add back:		
Impairment charge	**31.5**	40.1
Amortisation of acquired intangible fixed assets	**1.2**	1.2
Major facility closure costs	**18.1**	52.0
Profit for the year - discontinued operations	**-**	(188.8)
Headline earnings	**0.7**	54.3

	2009 Pence	2008 Pence
Earnings per share from headline earnings:		
Basic	**0.4**	17.5
Diluted	**0.4**	17.4

5. Provisions

	Restructuring £m	Restructuring Environmental £m	Environmental £m	Total £m
At 1 January 2009	**24.2**	**10.7**	**7.8**	**42.7**
Increase in provision	**15.7**	**0.2**	**0.2**	**16.1**
Release of provision	**(3.1)**	**-**	**-**	**(3.1)**
Utilisation of provision	**(17.8)**	**(1.4)**	**(0.2)**	**(19.4)**
Exchange difference	**(1.4)**	**-**	**(1.9)**	**(3.3)**
At 31 December 2009	**17.6**	**9.5**	**5.9**	**33.0**
Included in current liabilities				**21.3**
Included in non-current liabilities				**11.7**
				33.0

The restructuring provision relates to the remaining costs associated with the closure of various Heat Treatment sites.

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. In the current year the environmental provision has been 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.

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

6. 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 2009.

The financial information has been prepared under the same accounting policies as the 2008 financial statements.

7. Non Statutory Financial Statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008, but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 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.