**Bodycote plc**
**Audited results for the year ended 31 December 2011**

**Financial Highlights**

| | **2011** | 2010 | *% change* |
|---|---|---|---|
| Revenue ï continuing operations | **£570.7m** | £499.8m | *14.2* |
| Headline operating profit[1] - continuing operations | **£85.5m** | £52.1m | *64.1* |
| Operating profit - continuing operations | **£80.4m** | £51.2m | *57.0* |
| Headline profit before taxation[1] - continuing operations | **£80.9m** | £46.1m | *75.5* |
| Profit before taxation - continuing operations | **£75.8m** | £45.2m | *67.7* |
| Headline operating cash flow[2] - continuing operations | **£96.0m** | £77.3m | *24.2* |
| Operating cash flow[3]- continuing operations | **£90.3m** | £68.1m | *32.6* |
| Net cash/(debt) | **£0.1m** | £(51.3)m | - |
| Basic headline earnings per share[4] - continuing operations | **32.7p** | 18.3p | *78.7* |
| Basic earnings per share | **30.0p** | 14.9p | *101.3* |
| Dividend per share | **10.9p** | 8.7p | *25.3* |
| Return on capital employed[5] ï continuing operations | **16.9%** | 10.1% | *6.8* |

**Highlights**

- Revenue growth of 14.2%
- Broad-based market recovery has continued
- Significant benefit from growth initiatives
- Headline operating profit margin improved from 10.4% to 15.0%
- Continued strong cash generation, headline operating cash conversion[6] 112.3%
- Year end net cash £0.1m
- Dividend increased by 25.3% to 10.9p per share

**Commenting, Stephen Harris, Chief Executive said:**

ñBodycoteõs strategy is aimed at growing the business above and beyond the background growth rate of the global economy while delivering consistently superior value. The pace of execution of this strategy is gaining momentum and we enter 2012 in good shape.

The macroeconomic environment may continue to be challenging, but with nearly half of the Groupõs activity in areas which have long term growth drivers that are less likely to be impacted by economic headwinds we believe there is a good prospect that the business will continue to move forward in the coming year.ò

[1] Headline operating profit and headline profit before taxation exclude impairment charges of £4.2m (2010: £nil) and the amortisation of acquired intangible assets of £0.9m (2010: £0.9m).
[2] Headline operating cash flow is stated before cash flow relating to restructuring of £5.7m (2010: £9.2m).
[3] Operating cash flow is defined as cash generated by operations of £134.8m (2010: £103.9m) less net capital expenditure of £44.5m (2010: £35.8m).
[4] A detailed reconciliation is provided in note 4 to this announcement.
[5] Return on capital employed is defined as headline operating profit of £85.5m (2010: £52.1m) divided by the monthly average capital employed of £505.2m (2010: £517.9m). Capital employed is defined as net assets minus / plus net cash (debt).
[6] Headline operating cash conversion is defined as headline operating cash flow divided by headline operating profit.

A webcast of the analystsõmeeting will be available from 9.00am at www.bodycote.com.

For further information, please contact:

*Bodycote plc*
Stephen Harris, Chief Executive
David Landless, Group Finance Director
Tel No +44 (0) 1625 505300

*FTI Consulting*
Richard Mountain, Susanne Yule
Tel No +44 (0) 20 7269 7291

## OVERVIEW

Following the significant restructuring undertaken by the Group, Bodycote should be capable of delivering improved through-cycle returns. The 2011 results provide proof of this progress, despite the broad macro-economic uncertainty which we encountered throughout the year.

## TRADING OVERVIEW

Bodycote delivered a strong financial result in 2011, moving the Group closer to achieving the kind of performance to which we aspire. Sales increased 14% to £570.7m, headline operating profit[1] was £85.5m, an increase of 64%[2] and headline margins improved to 15%. Basic headline EPS grew to 32.7 pence, a major step forward from the EPS performance the Bodycote group has previously achieved.

In the early part of the year much of the growth in market demand was driven by the tail end of recovery in the early cycle markets such as automotive and a strengthening in a number of the general industrial segments. As the year progressed the expected ramp up in the later cycle markets of aerospace and energy started to feature more strongly. These ‘secular growth’ markets are now starting to move from slow recovery mode into an increasing rate of longer term underlying growth. While we have benefited from the cyclical recovery in many of our markets it is particularly pleasing to see that we continue to expand our market share and, as a consequence, are driving growth above the underlying rate of those markets.

Improved margins are being achieved in nearly every area of the Group. The improvement stems in part from higher volumes, but a significant amount comes from an improvement in mix as we focus on higher added-value opportunities. Improving efficiency continues to be a key focus for the Group; it is notable that while average headcount reduced by 1%, sales grew by 14%.

Net capital expenditure increased to £44.5m which was 0.9 times depreciation (0.8 times in 2010). Maintenance capital remained relatively unchanged at approximately 0.4 times depreciation. The increase in capital expenditure primarily reflects a higher level of expansion capital in the aerospace and energy markets, the emerging economies and specific chosen technologies.

Return on Capital Employed was 16.9% compared to 10.1% in 2010. This is an important metric for the long term performance of the Group. The Headline operating cash flow, measured after capital spending, was £96.0m representing profit-to-cash conversion of 112%. Our free cash flow[1] of £70.5m enabled the elimination of net debt by year end.

[1]Headline operating profit and free cash flow are reconciled in the Business Performance section of this announcement.
[2]Operating profit from continuing operations increased 57% to £80.4m.

## DIVIDEND

Taking into consideration the ongoing improvement in the Group’s results and its strengthened financial position the Board is recommending a final dividend of 7.3p per share payable in May 2012 following shareholder approval at the AGM. Together with the interim dividend of 3.6p per share paid in November 2011, the total dividend for the year will amount to 10.9p costing £20.7m, which represents an increase of 25.3% when compared to the 2010 amount.

## STRATEGIC PROGRESS

Bodycote has continued to develop in line with the strategic direction that we outlined at the start of 2010. Our differentiated focus on each of Automotive & General Industrial and Aerospace & Energy is delivering results. Some of the evidence of this is the increased rate of securing larger long term contracts that has been a notable feature of the business in 2011. The new agreements with Rolls-Royce and Precision Castparts Corp reflect our strategic focus on the secular growth markets of aerospace and energy.

The agreement with automotive supplier, ZF Lenksysteme, in China is a good example of our ‘hub and spoke’ expansion strategy for the emerging markets, where we develop new work at a hub location and move out to a new Greenfield facility once volumes justify. The business with this customer has been developed at our ‘hub’ site in Wuxi, China, and will now be transferred to a new greenfield site being built in Jinan, China. This will make way for further business development at Wuxi while at the same time helping the expansion of our services to other customers near the new plant in Jinan.

In general, the expansion strategy in our emerging markets has been going extremely well. Our business in China, Poland, the Czech Republic and Turkey has grown strongly as capacity has been added. The business in Romania is, as yet, still small but is doing well and has attractive prospects for the future. We converted our majority shareholding in this territory into a wholly owned venture in 2011. Revenues in the emerging markets, excluding Brazil, grew by 23%. The financial results in Brazil were the only disappointment in the year, with the losses virtually unchanged from 2010. This was largely driven by the restructuring induced dip in sales (down 27% on 2010). This programme has now been completed and operationally the Brazilian business is in good shape to deliver a high level of service to customers. We are cautiously optimistic that we can achieve substantial progress in the medium term, but experience has shown that this is likely to take longer in this territory than we have typically achieved in other parts of the Group.

Significant progress has been made on the development of the Group’s proprietary products business units.

- Speciality Stainless Steel Products (S$^3$P) continues to exceed our expectations, with demand for these specialist processes continuing to outstrip supply. Sales grew by 21%, we added 25% more capacity during the year and a further 50% capacity increase is under construction to meet the increasing opportunities we have.

- The Hot Isostatic Pressing Product Fabrication (HIP PF) business unit revenues grew by over 60%, with expansion of activity in all territories. The constraint to expansion of this business has, so far, largely been an issue of recruiting and training sales and operational resources at a sufficient rate. Much progress has been made during the year and the business now has significant strength and depth of expertise. HIP PF specific capital equipment requirements are relatively modest and expansion of this capacity is proceeding well. General HIP capacity is used both for HIP PF and HIP Services. Demand for HIP services from the aerospace and industrial gas turbine markets is buoyant and we expect further growth in this area for some considerable time. As a result of the HIP PF growth and the HIP Services growth trends, we are starting to see capacity constraints ahead. Our initial capacity pinch-point is in North America. In response to this we have agreed to invest over $20m of expansion capital to this area which will be deployed over the next eighteen months.

Opportunities to expand the business continue to surface at a high rate in our more established markets in Europe and North America. A good proportion of these are as a result of technology changes driven by environmental factors such as elimination of chrome plating or the pursuit of lighter vehicles with better fuel efficiency and lower emissions. The services and processes we offer in these areas such as Corr-I-Dur® and low pressure carburising provide our customers with a very high value proposition and consequently we are able to secure above average returns on investment.

The combination of the various elements of our strategy, in technology driven expansion, emerging markets expansion and specific secular growth market expansion, leads to a higher demand for capital investment. Returns on investment in these areas are all very attractive and we expect in the near term that the Group will invest in capital expenditure at a slightly higher level than the depreciation charge.

Bodycote is now debt free and has strong cash generation. These characteristics enable us to consider enhancing our potential for future profit growth by increased investment, both internally for organic growth and through selective acquisitions. We seek a balance between gaining immediate returns, longer term growth prospects and limitation of risk. Our acquisition focus is on achieving attractive returns on investment through 'bolt-ons' to our existing business.

**SUMMARY & OUTLOOK**

2011 has been another year of improving operational and financial performance for the Group. The performance improvement and growth in the last few years has been continuous and the Group is starting to march to a drumbeat, notwithstanding the hesitation that occurred in the global economic recovery in the second half of 2011.

Bodycote's strategy is aimed at growing the business above and beyond the background growth rate of the global economy while delivering consistently superior value. The pace of execution of this strategy is gaining momentum and we enter 2012 in good shape.

The macroeconomic environment may continue to be challenging, but with nearly half of the Group's activity in areas which have long term growth drivers that are less likely to be impacted by economic headwinds we believe there is a good prospect that the business will continue to move forward in the coming year.

**BUSINESS PERFORMANCE**

| | **2011** **£m** | 2010 £m |
|---|---|---|
| Revenue | **570.7** | 499.8 |
| Operating profit | **80.4** | 51.2 |
| Add back: | | |
| Impairment of goodwill and acquired intangible fixed assets | **4.2** | - |
| Amortisation of acquired intangible fixed assets | **0.9** | 0.9 |
| Headline operating profit | **85.5** | 52.1 |

Group revenue from continuing operations was £570.7m, an increase of £70.9m (14.2%) on 2010 (£499.8m). The increase in revenues at constant exchange rates amounted to £68.4m (13.7%).

Headline operating profit for the Group's continuing operations was £85.5m, an increase of £33.4m compared to 2010. Foreign exchange rate movements decreased profits by £0.3m. Headline operating margin from continuing operations increased from 10.4% to 15.0%.

| | **2011** **£m** | 2010 £m |
|---|---|---|
| Headline operating profit | **85.5** | 52.1 |
| Add back non-cash items: | | |
| Depreciation and amortisation | **50.2** | 47.4 |
| Impairment of fixed assets | **0.5** | - |
| Share-based payments | **5.4** | 4.2 |
| Loss on disposal of property, plant and equipment | **0.7** | 0.7 |
| Headline EBITDA[1] | **142.3** | 104.4 |
| Net capital expenditure | **(44.5)** | (35.8) |
| Net working capital movement | **(1.8)** | 8.7 |
| Headline operating cash flow | **96.0** | 77.3 |
| Cash cost of restructuring | **(5.7)** | (9.2) |
| Operating cash flow | **90.3** | 68.1 |
| Interest | **(4.5)** | (5.5) |
| Taxation | **(15.3)** | (5.4) |
| Free cash flow | **70.5** | 57.2 |

[1] Earnings before interest, tax, depreciation, amortisation, share-based payments, impairment of fixed assets, loss on disposal of property, plant and equipment and exceptional items.

Strong profit growth, disciplined capital spending and working capital control have resulted in excellent operating cash flow of £90.3m (2010: £68.1m). This has enabled debt to be paid down fully over the last two years.

Capital expenditure has continued to be managed carefully. Capital spend (net of asset sales) in 2011 was £44.5m, being 0.9 times depreciation compared to 0.8 times in 2010. There has been a continued focus on cash collection and debtor days remain at 59 at 31 December 2011 (31 December 2010: 59). The increase in sales of £70.9m compared to 2010 has resulted in an increase in debtors of £7.9m, but an increase in payables reduced the net increase in working capital down to £1.8m.

## 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

Return on capital employed increased by 6.8 percentage points during the year, from 10.1% to 16.9%. Headline operating profit increased by 64.1% from £52.1m to £85.5m, while average capital employed reduced by 2.5% to £505.2m.

Return on sales increased by 4.6 percentage points during the year, from 10.4% to 15.0%. Headline operating profit increased by 64.1% from £52.1m to £85.5m, while revenue from continuing operations increased by 14.2% from £499.8m to £570.7m.

Headline earnings per share increased by 14.4 pence during the year, from 18.3 pence to 32.7 pence. Headline earnings increased by 78.8% from £34.0m to £60.8m, while the average number of shares in issue remained static.

### Non Financial

Reducing the environmental impact of the Groupôs 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 2011, 81% of our plants had ISO 14001 accreditation ï 139 plants out of a total of 171 (2010: 140 out of 173).

Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for everyone who works at or visits our locations. The accident frequency rate was reduced to 1.7 (2010: 1.8).

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 ï 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, encompassing 61 facilities in total.

Whilst the AGI marketplace has many multinational customers which tend to operate on a regionally-focussed basis, it also has very many medium-sized and smaller businesses. 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.

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.

## MARKETS

### Aerospace, Defence & Energy markets

Aerospace and defence revenues improved in 2011 by 12.1% due to a combination of new contract gains and market demand. New build sales improved as both Boeing and Airbus increased production rates and a recovery in passenger numbers resulted in an increase in aircraft flying which led to an increase in sales to the maintenance segment.

Power generation sales were flat for the Group as a whole in 2011 compared to 2010. This sector was the last to see the impact of the 2008/9 recession and is proving the last to recover. However, revenues improved during the year in North America but were offset by the continuing softness in the requirements of European OEMs and their supply chains.

Sales from oil & gas customers increased by 27.3%. North American oil & gas production and exploration has been good and shale gas fracking activity has been strong. Oil & gas revenues have continued to be robust although there was evidence of some inventory correction in the final quarter of 2011.

### Automotive & General Industrial markets

In automotive, the Group built on the gains achieved in 2010 by offering the broad range of new and traditional processes the sector requires along with the reliability of service and supply that the extensive network of facilities allows. Sales to the car and light truck sector grew by 5.2% and to heavy truck by 30.9%.

General industrial revenues enjoyed a broad based continued recovery throughout 2011 and sales increased in the year by 17.6%.

In North America, automotive revenues improved throughout 2011 and for the year as a whole were ahead of 2010 by 9.0%. Car and light truck sales increased by 4.0% and heavy truck increased by 43.8%. General industrial revenues grew steadily throughout the year and revenues were ahead 8.8% compared to 2010.

In Western Europe sales growth in the automotive sector was strong in the first half but the rate of improvement slowed in the second half against more difficult comparables. Nevertheless revenue growth for the whole year was 15.0%, with 8.0% to the car and light truck sector and 42.4% to the heavy truck sector. Revenues in Germany and its key trading partners (Netherlands and Czech Republic) remained robust through year end although there was some softening in the final quarter in France and Sweden. General industrial sales were robust in all territories in Western Europe with revenues up by 21.4% year on year.

The Groupœ business in emerging markets fared very well again in 2011 in all territories except Brazil.  Excluding Brazil, revenues grew by 23.3%. The Brazilian business has been the subject of major restructuring, which has included reducing the workforce by a further 31% in 2011. The closure of the largest facility was completed and a new greenfield location started trading, benefiting from the Groupœ European know-how, and expanded capacity. The dislocation caused by these changes, along with the exit from low value added work, resulted in revenues falling by 27.5%. The business has a much reduced cost base and improved process capability and now has the right platform to benefit from the growth that we expect in Latin America.

## BUSINESS REVIEW - AEROSPACE, DEFENCE & ENERGY DIVISIONS

### RESULTS

Revenues for the Aerospace, Defence & Energy (ADE) divisions were £233.5m in 2011 compared to £202.1m in 2010, an increase of 15.5% (17.0% in constant currencies). This growth reflects a continuation of the strong growth in revenue to oil & gas customers and increasing activity in the aerospace sector, both for new build and maintenance requirements. Industrial gas turbine (IGT) demand remained weak in Europe but improved in North America. Sales from the Group's proprietary HIP product fabrication (HIP PF) technology grew by over 60%.

Headline operating profit[1] for ADE was £51.1m (2010: £33.9m). The headline operating profit margin improved from 16.8% to 21.9% reflecting the divisions' lower cost base and higher capacity utilisation.

During 2011, heat treatment capacity has been added in southern USA as the Group's revenues from conventional drilling for oil and hydraulic fracturing (fracking) for gas have increased. The Group's aerospace capability has been enhanced in California and the greenfield site in Empalme, Mexico was completed. In the coming year, it is expected that capital expenditure will be slightly above depreciation as we support increasing customer requirements in a number of countries stemming from strong anticipated demand in the aerospace and energy markets. Net capital expenditure in 2011 was £15.2m (2010: £9.9m) which represents 0.8 times depreciation (2010: 0.6 times depreciation).

Capital employed in ADE in 2011 was £219.2m (2010: £230.1m). The reduction reflects continuing management focus on improving return on capital. Return on capital employed in 2011 was 23.3% (2010: 14.7%).

[1]Headline operating profit is reconciled to operating profit in note 1 to this announcement

### ACHIEVEMENTS IN 2011

The heat treatment business gained additional approvals from Boeing for titanium processing and concluded several important new or extended long-term agreements. A number of major suppliers in the oil & gas sector have chosen to use our proprietary HIP PF technology for the first time. A new long term agreement for HIP Services was signed with PCC Structurals, a subsidiary of Precision Castparts Corp and the Group committed to additional large HIP capacity to support this contract and the ongoing growth in HIP Product Fabrication.

### ORGANISATION AND PEOPLE

Overall headcount at 31 December 2011 was 1,983 (2010: 1,926), an increase of 3.0% compared to revenue growth in ADE of 15.5%.

### LOOKING AHEAD

With exceptionally strong order books at the aircraft OEMs, no sign of weakness in oil prices and with the strength of our offering in heat treatment, surface technology and HIP, the ADE business is expected to build on the success seen in 2011 in the coming year. The business will be maintaining its clear focus on customer service and flexibility as it strives to stay ahead of the growing customer requirements for Bodycote's services.

## BUSINESS REVIEW - AUTOMOTIVE & GENERAL INDUSTRIAL DIVISIONS

### RESULTS

Automotive & General Industrial (AGI) revenues were £337.2m in 2011, compared to £297.7m in 2010, an increase of 13.3% (11.5% in constant currencies). This growth reflects a widespread improvement in demand along with market share gains, particularly with general industrial customers of the automotive and general industrial sectors. The rate of sales growth was good across all sectors in the first half of 2011 building on the improvements seen in 2010. In the second half, the year on year growth slowed due to the substantial strengthening in the second half of 2010 but progress remained sound. Sales of the Group's proprietary Speciality Stainless Steel Processes (S³P) grew by over 20%.

Headline operating profit[1] in AGI was £44.7m compared to £25.6m in 2010. Headline margins improved markedly, from 8.6% to 13.3% reflecting the divisions' lower cost base and higher capacity utilisation.

Net capital expenditure in 2011 was £27.0m (2010: £24.3m), which represents 0.9 times depreciation (2010: 0.8 times depreciation). Assuming no material change in demand in 2012 we expect that capital expenditure will be just above depreciation in 2012 as we take advantage of numerous incremental sales opportunities across the network. Return on capital employed in 2011 was 15.6% (2010: 8.8%). The increase reflects continuing focus on improving capital returns by increasingly targeting higher added-value activities. On average, capital employed in 2011 was £286.2m (2010: £289.4m).

[1]Headline operating profit is reconciled to operating profit in note 1 to this announcement

### ACHIEVEMENTS IN 2011

The focus in 2011 has been to build on the foundation established by the major restructuring programme of 2008 and 2009. The exit from loss making facilities and cessation of much low added value processing has seen a significant improvement in the profitability and return on capital in the AGI business. The Group has increased its capacity for S³P by 25% in 2011. New outsourcing contracts have been won in all geographies. The minority partner in the increasingly successful Romanian business was bought out.

### ORGANISATION AND PEOPLE

In July 2008, prior to the global economic downturn, the AGI business employed 5,201 people. Notwithstanding revenues in AGI increasing by 13.3%, headcount has declined, from 3,456 at the end of 2010, to 3,423 at 31 December 2011, clearly demonstrating success in keeping costs under control and driving productivity.

### LOOKING AHEAD

Expansion of the footprint in the emerging markets and a focus on technology change driven growth (particularly with processes such as Corr-I-Dur® and low pressure carburising) will continue to be the priorities for the AGI business. With restructuring completed in Brazil, we have a revitalised platform that should enable growth to start to mirror the levels of achievement that are being obtained in the rest of the emerging markets.

## FINANCIAL OVERVIEW

| | **2011** **£m** | 2010 £m |
|---|---|---|
| Revenue | **570.7** | 499.8 |
| Headline operating profit | **85.5** | 52.1 |
| Amortisation of acquired intangible fixed assets | **(0.9)** | (0.9) |
| Impairment charge | **(4.2)** | - |
| Operating profit | **80.4** | 51.2 |
| Net finance charge | **(4.6)** | (6.0) |
| Profit before taxation | **75.8** | 45.2 |
| Taxation | **(19.8)** | (11.7) |
| Profit for the year ï continuing operations | **56.0** | 33.5 |
| Loss for the year ï discontinued operations | **-** | (5.8) |
| Profit for the year | **56.0** | 27.7 |

Group revenues for 2011 increased by 14.2% from £499.8m to £570.7m. In constant currencies the annual increase was 13.7% (£68.4m).

Headline operating profit for the year increased from £52.1m to £85.5m, and headline operating margin was 15.0% (2010: 10.4%). Operating profit was £80.4m (2010: £51.2m) after charging £0.9m (2010: £0.9m) in respect of the amortisation of acquired intangible assets and £4.2m (2010: £nil) in respect of the impairment of goodwill and other intangible assets.

Headline operating cash flow[1] for the Group was £96.0m (2010: £77.3m). This was 112.3% of headline operating profit (2010: 148.4%). Capital expenditure was again below depreciation at 0.9 times (2010: 0.8 times) as the Group continued to focus on increasing the utilisation of existing equipment. Working capital increased in line with activity levels, with increases in inventory and receivables largely offset by a corresponding increase in the level of payables.

After deducting interest and tax, the Group recorded positive free cash flow of £70.5m (2010: £57.2m).

[1]Headline operating cash flow is reconciled in the Business Performance section of this announcement.

## EXCEPTIONAL COSTS

Total exceptional costs charged to the income statement amounted to £5.1m (2010: £0.9m). The amortisation of acquired intangible assets arises from acquisitions in prior years and the level of the charge remains constant at £0.9m (2010: £0.9m).

The charge for impairment of goodwill and other intangible assets of £4.2m (2010: £nil) relates to the Groupõs South American operations and reflects low current profitability in that region, as a consequence of the benefits of reorganisation taking longer to be realised than expected and the reduced size of the business following restructuring. No goodwill remains on the Groupõs balance sheet in respect of these businesses. The Board has concluded that no other impairment charge is required in 2011.

Except for the finalisation of work in France and Italy, which will be completed in 2012, restructuring actions are now complete. Net cash expenditure in 2011 as a result of the programme was £5.7m (2010: £9.2m). As the restructuring programme is now essentially complete, further savings will be modest.

Restructuring provisions outstanding at 31 December 2011 total £15.5m. Of the remaining costs, £8.8m is expected to be spent in 2012 and £6.7m in 2013 and later. All expenditure after the end of 2012 will relate to ongoing environmental remediation, primarily in the USA.

## PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Headline profit before tax for continuing operations was £80.9m (2010: £46.1m). Profit before tax for continuing operations was £75.8m (2010: £45.2m), and these amounts are reconciled as follows:

| | **2011 £m** | 2010 £m |
|---|---|---|
| Headline operating profit | **85.5** | 52.1 |
| Net finance charge | **(4.6)** | (6.0) |
| Headline profit before tax | **80.9** | 46.1 |
| Amortisation of acquired intangible fixed assets | **(0.9)** | (0.9) |
| Impairment charge | **(4.2)** | - |
| Profit before tax - continuing operations | **75.8** | 45.2 |

## FINANCE CHARGE

The net finance charge from the continuing operations of the Group was £4.6m compared to £6.0m in 2010 (see details below). Higher net interest rates were more than offset by lower average net debt during the year. Facility fees and financing costs were lower following refinancing during the year by £0.3m and pension finance charges were lower by £0.2m. Bank and other charges were also lower by £0.2m.

| | **2011 £m** | 2010 £m |
|---|---|---|
| Net interest payable | **1.2** | 1.9 |
| Financing costs | **2.0** | 2.3 |
| Bank and other charges | **0.7** | 0.9 |
| Pension finance charge | **0.7** | 0.9 |
| Net finance charge | **4.6** | 6.0 |

## TAXATION

The tax charge was £19.8m for the year (2010: £11.7m). The effective tax rate of 26.1% (2010: 25.9%) resulted from the blending of differing tax rates in each of the countries in which the Group operates.

The headline tax rate for 2011 was 24.6% (2010: 25.4%), being stated before amortisation of goodwill and acquired intangibles (which are generally not allowable for tax purposes).

Subject to any future tax legislation changes, the headline tax rate is expected to remain below the current UK statutory tax rate of 26% in the medium term.

## DISCONTINUED OPERATIONS

Bodycote has not discontinued any business streams during 2011.

## EARNINGS PER SHARE

Basic headline earnings per share from continuing operations (as defined in note 4) increased to 32.7p from 18.3p. Basic earnings per share for the year are shown in the table below:

| | **2011 Pence** | 2010 Pence |
|---|---|---|
| Basic earnings per share from: | | |
| Continuing operations | **30.0** | 18.0 |
| Discontinued operations | - | (3.1) |
| Continuing and discontinued operations | **30.0** | 14.9 |

## DIVIDEND

The Board has recommended a final dividend of 7.3p (2010: 5.75p) bringing the total dividend to 10.9p per share (2010: 8.7p). If approved by shareholders, the final dividend of 7.3p per share for 2011 will be paid on 4 May 2012 to all shareholders on the register at close of business on 10 April 2012.

## CAPITAL STRUCTURE

The Group's balance sheet at 31 December 2011 is summarised below:

| | **Assets £m** | **Liabilities £m** | **Net Assets £m** |
|---|---|---|---|
| Property, plant and equipment | 443.9 | - | 443.9 |
| Goodwill and intangible assets | 111.5 | - | 111.5 |
| Current assets and liabilities | 130.2 | (149.0) | (18.8) |
| Other non-current assets and liabilities | 2.7 | (16.1) | (13.4) |
| Retirement benefit obligations | - | (13.5) | (13.5) |
| Deferred tax | 52.3 | (79.5) | (27.2) |
| Total before net cash | 740.6 | (258.1) | 482.5 |
| Net cash | 18.1 | (18.0) | 0.1 |
| **Net assets as at 31 December 2011** | **758.7** | **(276.1)** | **482.6** |
| Net assets as at 31 December 2010 | 771.2 | (320.4) | 450.8 |

Net assets increased by £31.8m (7.1%) to £482.6m (2010: £450.8m). The major movements compared to 31 December 2010 were a significant reduction in net debt of £51.4m, a decrease in property, plant and equipment of £14.1m, a reduction of goodwill and intangible assets of £6.6m, an increase in retirement benefit obligations of £1.9m, together with a decrease in net current liabilities of £5.0m and an increase in net deferred tax liabilities of £2.4m.

The decrease in property, plant and equipment was due to net capital expenditure of £44.5m being exceeded by depreciation of £48.2m, with foreign exchange variances increasing the net reduction to £14.1m.

Net deferred tax liabilities increased by £2.4m as a result of the use of tax losses reducing deferred tax assets, and an increase in deferred tax liabilities resulting from capital investments. Restructuring provisions reduced by £4.7m, as Group restructuring activities proceeded as planned.

Retirement benefit obligations increased by £1.9m during the year, primarily as a result of a change in discount rates reflecting lower corporate bond rates.

## NET CASH / (DEBT)

Group net cash at 31 December 2011 was £0.1m (2010: net debt £51.3m). During the year, loans of £58.5m 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 decrease in cash and cash equivalents was £7.7m (2010: increase of £0.5m), made up of net cash from operating activities of £119.8m (2010: £95.6m), less investing activities of £45.9m (2010: £36.6m) and less cash used in financing activities of £81.6m (2010: £58.5m).

The increase in net cash flow from operating activities from £95.6m to £119.8m is driven primarily by the increase in headline EBITDA[1] from £104.4m to £142.3m. Working capital increased in line with activity levels with increases in inventory and receivables largely offset by a corresponding increase in the level of payables. The net effect was an increase in the level of working capital of £1.8m (2010: decrease of £8.7m).

Net cash outflows from investing activities increased from £36.6m to £45.9m, as the levels of net capital expenditure in 2011 at £44.5m (2010: £35.8m), although higher than in the prior year, remained below historical levels, reflecting continued tight management control.

Net cash outflows used in financing activities increased from £58.5m to £81.6m. 2010 saw the repayment of £34.0m of loans, while 2011 saw a further repayment of loans of £59.3m, together with payment of dividends totalling £17.4m (2010: £20.9m).

There has been a continued focus on cash collection with debtor days at 31 December 2011 remaining constant at 59 days. Net interest payments for the year were £4.5m (2010: £5.5m) and tax payments were £15.3m (2010: £5.4m) as a result of the significant increase in profits.

[1]Headline EBITDA is reconciled in the Business Performance section of this announcement.

## CAPITAL EXPENDITURE

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £44.5m (2010: £35.8m). The multiple of net capital expenditure to depreciation was 0.9 times (2010: 0.8 times), which reflects the Group's continued careful management of its capital expenditure programme. As at 31 December 2011 the Group had capital expenditure creditors of £13.1m (2010: £6.9m). Major capital projects that were in progress during 2011 include additional investment in our HIP and S$^3$P businesses, establishment of our new aerospace facility in Mexico, purchase and installation of new equipment in Poland, and expansion of our geographic footprint in China.

## BORROWING FACILITIES

During 2011, the £110m and US$20m revolving credit facilities were refinanced with a committed facility for £125m with a maturity date of 31 August 2016. The new facility has lower costs and improved terms compared to those it replaced. Total funding now available to Bodycote under its committed facilities is £236.4m (2010: £230.9m), expiring between July 2013 and August 2016.

At 31 December 2011, the Group had the following committed facilities:

| Facility | Expiry Date | Facility | Loan and Letter of Credit Utilisation | **Facility Headroom** |
|---|---|---|---|---|
| | | £m | £m | **£m** |
| ú125m Revolving Credit | 31 July 2013 | 104.9 | 6.0 | **98.9** |
| £125m Revolving Credit | 31 August 2016 | 125.0 | - | **125.0** |
| | | 229.9 | 6.0 | **223.9** |
| $10m Letter of Credit | 31 August 2016 | 6.5 | 5.1 | **1.4** |
| | | 236.4 | 11.1 | **225.3** |

## 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 Groupôs 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 2011 has fallen to zero (2010: 11%) as a result of the year end net cash position and the increased profit in the period.

## GOING CONCERN

In determining the basis of preparation for the Annual Report, the Directors have considered the Groupôs business activities, together with the factors likely to affect its future development, performance and position, as set out in this Group Review. This includes an overview of the Groupôs financial position, its cash flows, liquidity position and borrowing facilities.

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 set out below. There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future. The committed facilities as at 31 December 2011 were as follows:

Å ú125m Revolving Credit Facility maturing 31 July 2013

Å £125m Revolving Credit Facility maturing 31 August 2016

Å $10m Letter of Credit Facility maturing 31 August 2016

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 Group's ability to access further funding. The Directors also reviewed downside sensitivity analysis over the forecast period, thereby taking into account the uncertainties arising from the current economic environment. 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 information in this announcement.

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2011

| | **2011 £m** | 2010 £m | Note |
|---|---|---|---|
| **Revenue – continuing operations** | **570.7** | 499.8 | |
| Cost of sales and overheads | **(485.2)** | (447.7) | |
| **Operating profit prior to exceptional items** | **85.5** | 52.1 | |
| Amortisation of acquired intangible fixed assets | **(0.9)** | (0.9) | |
| Impairment charge | **(4.2)** | - | |
| **Operating profit – continuing operations** | **80.4** | 51.2 | 2 |
| Investment revenue | **0.2** | 0.3 | |
| Finance costs | **(4.8)** | (6.3) | |
| **Profit before taxation – continuing operations** | **75.8** | 45.2 | |
| Taxation | **(19.8)** | (11.7) | 3 |
| **Profit for the year – continuing operations** | **56.0** | 33.5 | |
| **Discontinued operations** | | | |
| Loss for the year ï discontinued operations | **-** | (5.8) | |
| **Profit for the year** | **56.0** | 27.7 | |
| Attributable to: | | | |
| Equity holders of the parent | **55.8** | 27.6 | |
| Non-controlling interests | **0.2** | 0.1 | |
| | **56.0** | 27.7 | |
| **Earnings per share** | | | 4 |
| | **Pence** | Pence | |
| From continuing operations: | | | |
| Basic | **30.0** | 18.0 | |
| Diluted | **29.4** | 18.0 | |
| From continuing and discontinued operations: | | | |
| Basic | **30.0** | 14.9 | |
| Diluted | **29.4** | 14.9 | |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2011

| | **2011 £m** | 2010 £m |
|---|---|---|
| **Profit for the year** | **56.0** | 27.7 |
| Reduction of revaluation surplus | **-** | (0.1) |
| Exchange (losses) / gains on translation of foreign operations | **(12.3)** | 10.7 |
| Movements on hedges of net investments | **0.4** | (1.0) |
| Actuarial (losses) / gains on defined benefit pension schemes | **(2.0)** | 3.7 |
| Tax on items taken directly to equity | **0.5** | (0.9) |
| **Other comprehensive (expense) / income for the year** | **(13.4)** | 12.4 |
| **Total comprehensive income for the year** | **42.6** | 40.1 |
| Attributable to: | | |
| Equity holders of the parent | **42.8** | 40.0 |
| Non-controlling interests | **(0.2)** | 0.1 |
| | **42.6** | 40.1 |

## CONSOLIDATED BALANCE SHEET
## AT 31 DECEMBER 2011

| | 2011<br>£m | 2010<br>£m | Note |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | **102.6** | 107.7 | |
| Other intangible assets | **8.9** | 10.4 | |
| Property, plant and equipment | **443.9** | 458.0 | |
| Other investments | **0.8** | 0.5 | |
| Deferred tax assets | **52.3** | 48.3 | |
| Trade and other receivables | **1.9** | 2.6 | |
| | **610.4** | 627.5 | |
| **Current assets** | | | |
| Inventories | **16.7** | 14.4 | |
| Finance lease receivables | **-** | 0.4 | |
| Current tax assets | **2.4** | - | |
| Trade and other receivables | **105.8** | 99.2 | |
| Cash and bank balances | **18.1** | 23.5 | |
| Assets held for sale | **5.3** | 6.2 | |
| | **148.3** | 143.7 | |
| **Total assets** | **758.7** | 771.2 | |
| **Current liabilities** | | | |
| Trade and other payables | **126.9** | 120.4 | |
| Current tax liabilities | **11.4** | 9.6 | |
| Obligations under finance leases | **0.2** | 0.4 | |
| Borrowings | **10.8** | 8.9 | |
| Derivative financial instruments | **0.1** | - | |
| Provisions | **10.6** | 14.0 | 5 |
| | **160.0** | 153.3 | |
| **Net current liabilities** | **(11.7)** | (9.6) | |
| **Non-current liabilities** | | | |
| Borrowings | **6.5** | 64.8 | |
| Retirement benefit obligations | **13.5** | 11.6 | |
| Deferred tax liabilities | **79.5** | 73.1 | |
| Obligations under finance leases | **0.5** | 0.7 | |
| Derivative financial instruments | **0.2** | - | |
| Provisions | **11.4** | 12.8 | 5 |
| Other payables | **4.5** | 4.1 | |
| | **116.1** | 167.1 | |
| **Total liabilities** | **276.1** | 320.4 | |
| **Net assets** | **482.6** | 450.8 | |
| **Equity** | | | |
| Share capital | **33.0** | 32.8 | |
| Share premium account | **176.9** | 176.3 | |
| Own shares | **(6.7)** | (8.0) | |
| Other reserves | **143.1** | 138.1 | |
| Hedging and translation reserves | **24.7** | 36.0 | |
| Retained earnings | **110.3** | 73.9 | |
| **Equity attributable to equity holders of the parent** | **481.3** | 449.1 | |
| **Non-controlling interests** | **1.3** | 1.7 | |
| **Total equity** | **482.6** | 450.8 | |

## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2011

| | 2011 £m | 2010 £m | Note |
|---|---|---|---|
| **Net cash from operating activities** | **119.8** | 95.6 | 6 |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | **(43.6)** | (35.2) | |
| Proceeds on disposal of property, plant and equipment and intangible assets | **1.5** | 1.4 | |
| Purchases of intangible fixed assets | **(2.4)** | (2.0) | |
| Acquisition of business / purchase of non-controlling interest / investments | **(1.4)** | (0.8) | |
| **Net cash used in investing activities** | **(45.9)** | (36.6) | |
| **Financing activities** | | | |
| Interest received | **0.6** | 0.3 | |
| Interest paid | **(5.1)** | (5.8) | |
| Dividends paid | **(17.4)** | (20.9) | |
| Dividends paid to a non-controlling shareholder | **(0.1)** | (0.1) | |
| Repayments of bank loans | **(59.3)** | (34.0) | |
| Payments of obligations under finance leases | **(0.4)** | (1.3) | |
| New bank loans raised | **0.4** | 3.2 | |
| New obligations under finance leases | **-** | 0.2 | |
| Proceeds on issue of ordinary share capital | **0.8** | 0.6 | |
| Own shares purchased / settlement of share options | **(1.1)** | (0.7) | |
| **Net cash used in financing activities** | **(81.6)** | (58.5) | |
| **Net (decrease) / increase in cash and cash equivalents** | **(7.7)** | 0.5 | |
| **Cash and cash equivalents at beginning of year** | **17.6** | 16.3 | |
| Effect of foreign exchange rate changes | **(0.4)** | 0.8 | |
| **Cash and cash equivalents at end of year** | **9.5** | 17.6 | 6 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2011

| | Share capital | Share premium account | Own Shares | Other reserves | Hedging and translation reserves | Retained earnings | Equity attributable to equity holders of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **1 January 2010** | 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** |
| Net profit for the year | **-** | **-** | **-** | **-** | **-** | **55.8** | **55.8** | **0.2** | **56.0** |
| Exchange differences on translation of overseas operations | **-** | **-** | **-** | **(0.2)** | **(11.7)** | **-** | **(11.9)** | **(0.4)** | **(12.3)** |
| Movement on hedges of net investments | **-** | **-** | **-** | **-** | **0.4** | **-** | **0.4** | **-** | **0.4** |
| Realisation of revaluation surplus | **-** | **-** | **-** | **(0.2)** | **-** | **0.2** | **-** | **-** | **-** |
| Actuarial losses on defined benefit pension schemes net of deferred tax | **-** | **-** | **-** | **-** | **-** | **(1.5)** | **(1.5)** | **-** | **(1.5)** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **(0.4)** | **(11.3)** | **54.5** | **42.8** | **(0.2)** | **42.6** |
| Issue of share capital | **0.2** | **0.6** | **-** | **-** | **-** | **-** | **0.8** | **-** | **0.8** |
| Acquired in the year / settlement of share options | **-** | **-** | **1.3** | **-** | **-** | **(2.4)** | **(1.1)** | **-** | **(1.1)** |
| Share-based payments | **-** | **-** | **-** | **5.4** | **-** | **-** | **5.4** | **-** | **5.4** |
| Deferred tax on share based payment transactions | **-** | **-** | **-** | **-** | **-** | **1.7** | **1.7** | **-** | **1.7** |
| Dividends paid | **-** | **-** | **-** | **-** | **-** | **(17.4)** | **(17.4)** | **(0.1)** | **(17.5)** |
| Purchase of non-controlling interest | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(0.1)** | **(0.1)** |
| **31 December 2011** | **33.0** | **176.9** | **(6.7)** | **143.1** | **24.7** | **110.3** | **481.3** | **1.3** | **482.6** |

Included in other reserves is the capital redemption reserve arising on redemption of the Group's B shares of £129.4m (2010: £129.4m), and the share-based payments reserve of £11.9m (2010: £6.6m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2011 5,089,830 (2010: 3,837,581) 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 2011

## 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 Groupôs 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 2011 £m | AGI 2011 £m | Head Office and Eliminations 2011 £m | Consolidated 2011 £m |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total Revenue | **233.5** | **337.2** | **-** | **570.7** |
| **Result** | | | | |
| Headline operating profit prior to share-based payments and unallocated corporate expenses | **53.2** | **47.8** | **-** | **101.0** |
| Share-based payments | **(2.1)** | **(3.1)** | **(2.0)** | **(7.2)** |
| Unallocated corporate expenses | **-** | **-** | **(8.3)** | **(8.3)** |
| Headline operating profit / (loss) | **51.1** | **44.7** | **(10.3)** | **85.5** |
| Amortisation of acquired intangible fixed assets | **(0.2)** | **(0.7)** | **-** | **(0.9)** |
| Impairment charge | **-** | **(4.2)** | **-** | **(4.2)** |
| Segment result | **50.9** | **39.8** | **(10.3)** | **80.4** |
| Investment revenue | | | | **0.2** |
| Finance costs | | | | **(4.8)** |
| Profit before taxation | | | | **75.8** |
| Taxation | | | | **(19.8)** |
| Profit for the year | | | | **56.0** |

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

The impairment charge relates to the impairment of goodwill and acquired intangible fixed assets pertaining to the Groupôs South American operations.

## 1 Business and Geographical Segments continued

| **Aerospace, Defence & Energy** | **Western Europe 2011 £m** | **North America 2011 £m** | **Emerging markets 2011 £m** | **Total ADE 2011 £m** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | **111.9** | **120.1** | **1.5** | **233.5** |
| **Result** | | | | |
| Headline operating profit prior to share-based payments | **23.6** | **29.4** | **0.2** | **53.2** |
| Share-based payments | **(1.0)** | **(1.1)** | **-** | **(2.1)** |
| Headline operating profit | **22.6** | **28.3** | **0.2** | **51.1** |
| Amortisation of acquired intangible fixed assets | **(0.2)** | **-** | **-** | **(0.2)** |
| Impairment charge | **-** | **-** | **-** | **-** |
| Segment result | **22.4** | **28.3** | **0.2** | **50.9** |

| **Automotive & General Industrial** | **Western Europe 2011 £m** | **North America 2011 £m** | **Emerging markets 2011 £m** | **Total AGI 2011 £m** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | **239.6** | **47.4** | **50.2** | **337.2** |
| **Result** | | | | |
| Headline operating profit prior to share-based payments | **36.0** | **8.3** | **3.5** | **47.8** |
| Share-based payments | **(2.5)** | **(0.5)** | **(0.1)** | **(3.1)** |
| Headline operating profit | **33.5** | **7.8** | **3.4** | **44.7** |
| Amortisation of acquired intangible fixed assets | **(0.1)** | **-** | **(0.6)** | **(0.7)** |
| Impairment charge | **-** | **-** | **(4.2)** | **(4.2)** |
| Segment result | **33.4** | **7.8** | **(1.4)** | **39.8** |

| **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 |

**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 |

**Other Information**

| **Group** | **ADE 2011 £m** | **AGI 2011 £m** | **Head Office and eliminations 2011 £m** | **Consolidated 2011 £m** |
|---|---|---|---|---|
| Capital additions | **16.1** | **27.7** | **2.2** | **46.0** |
| Depreciation and amortisation | **18.5** | **30.8** | **1.8** | **51.1** |
| Impairment losses recognised in income | **-** | **4.2** | **-** | **4.2** |
| **Balance Sheet** | | | | |
| Assets: | | | | |
| Segment assets | **314.0** | **411.7** | **29.8** | **755.5** |
| Other investments | **-** | **-** | **0.8** | **0.8** |
| Consolidated total assets | **314.0** | **411.7** | **30.6** | **756.3** |
| Liabilities: | | | | |
| Segment liabilities | **(67.3)** | **(128.0)** | **(78.4)** | **(273.7)** |
| | **246.7** | **283.7** | **(47.8)** | **482.6** |
| Allocation of head office net liabilities | **(22.2)** | **(25.6)** | **47.8** | **-** |
| Adjusted segment net assets | **224.5** | **258.1** | **-** | **482.6** |

**1 Business and Geographical Segments** continued

| **Aerospace, Defence & Energy** | **Western Europe 2011 £m** | **North America 2011 £m** | **Emerging markets 2011 £m** | **Total ADE 2011 £m** |
|---|---|---|---|---|
| Capital additions | **5.0** | **11.1** | **-** | **16.1** |
| Depreciation and amortisation | **10.5** | **7.8** | **0.2** | **18.5** |
| **Balance Sheet** | | | | |
| Assets: | | | | |
| Segment assets | **171.8** | **140.1** | **2.1** | **314.0** |
| Liabilities: | | | | |
| Segment liabilities | **(33.6)** | **(33.4)** | **(0.3)** | **(67.3)** |
| Segment net assets | **138.2** | **106.7** | **1.8** | **246.7** |

| **Automotive & General Industrial** | **Western Europe 2011 £m** | **North America 2011 £m** | **Emerging markets 2011 £m** | **Total AGI 2011 £m** |
|---|---|---|---|---|
| Capital additions | **17.7** | **3.9** | **6.1** | **27.7** |
| Depreciation and amortisation | **22.4** | **3.3** | **5.1** | **30.8** |
| Impairment losses recognised in income | **-** | **-** | **4.2** | **4.2** |
| **Balance Sheet** | | | | |
| Assets: | | | | |
| Segment assets | **292.9** | **56.0** | **62.8** | **411.7** |
| Liabilities: | | | | |
| Segment liabilities | **(96.3)** | **(15.3)** | **(16.4)** | **(128.0)** |
| Segment net assets | **196.6** | **40.7** | **46.4** | **283.7** |

| **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) |
| | 242.3 | 312.3 | (103.8) | 450.8 |
| Allocation of head office net liabilities | (45.3) | (58.5) | 103.8 | - |
| Adjusted segment net assets | 197.0 | 253.8 | - | 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 |
| 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 |

**Revenue by country**

| | **2011 £m** | 2010 £m |
|---|---|---|
| USA | **156.3** | 142.9 |
| France | **91.9** | 76.3 |
| Germany | **67.7** | 61.1 |
| UK | **59.4** | 54.7 |
| Sweden | **47.3** | 32.7 |
| Netherlands | **25.7** | 22.5 |
| Others | **122.4** | 109.6 |
| Total Revenue ï continuing operations | **570.7** | 499.8 |

It is considered by the Group that the cost of producing a geographical analysis of non ï current assets other than financial instruments, deferred tax assets and post employment benefit assets would outweigh the benefits. The Group reviews business assets by business segment rather than geographically.

**2 Operating profit**

| | **Continuing operations 2011 £m** | Continuing operations 2010 £m |
|---|---|---|
| Revenue | **570.7** | 499.8 |
| Cost of sales | **(361.1)** | (332.9) |
| Gross profit | **209.6** | 166.9 |
| Other operating income | **4.5** | 2.3 |
| Distribution costs | **(17.9)** | (17.4) |
| Administration expenses* | **(109.5)** | (99.7) |
| Other operating expenses | **(1.2)** | - |
| Amortisation of acquired intangible fixed assets* | **(0.9)** | (0.9) |
| Impairment charge* | **(4.2)** | - |
| Operating profit | **80.4** | 51.2 |

*Administration expenses total £114.6m (2010: £100.6m).

Exceptional items comprise:

| | **2011 £m** | 2010 £m |
|---|---|---|
| Amortisation of acquired intangible fixed assets | **0.9** | 0.9 |
| Impairment of goodwill | **3.7** | - |
| Impairment of acquired intangible fixed assets | **0.5** | - |
| | **5.1** | 0.9 |

## 3 Taxation

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **£m** | £m | **£m** | £m | **£m** | £m |
| Current taxation ï charge for the year | **18.0** | 8.8 | **-** | **-** | **18.0** | 8.8 |
| Current taxation ï adjustments in respect of previous years | **(4.7)** | (3.8) | **-** | 5.8 | **(4.7)** | 2.0 |
| Deferred tax | **6.5** | 6.7 | **-** | - | **6.5** | 6.7 |
| | **19.8** | 11.7 | **-** | 5.8 | **19.8** | 17.5 |

UK corporation tax is calculated at 26.5% (2010: 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 £nil (2010: £5.8m) 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:

| | **2011** | 2010 |
|---|---|---|
| | **£m** | £m |
| Profit before tax: | | |
| Continuing operations | **75.8** | 45.2 |
| Tax at the UK corporation tax rate of 26.5% (2010: 28.0%) | **20.1** | 12.7 |
| Tax effect of expenses that are not deductible in determining taxable profit | **2.1** | (3.8) |
| Deferred tax assets (recognised) / not recognised | **(1.7)** | 3.7 |
| Tax provision in respect of the disposal of the Testing division | **-** | 5.8 |
| Tax effect of other adjustments in respect of previous years | **(4.0)** | (1.8) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **3.3** | 0.9 |
| Tax expense for the year | **19.8** | 17.5 |

Tax on items taken directly to equity is a credit of £2.2m (2010: charge of £0.9m).

## 4 Earnings / (loss) per share

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

| Earnings | **2011 £m** | 2010 £m |
|---|---|---|
| Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent | **55.8** | 27.6 |

| Number of Shares | **2011 Number** | 2010 Number |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **185,838,882** | 185,543,260 |
| Effect of dilutive potential ordinary shares: Share options | **3,780,964** | 180,586 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **189,619,846** | 185,723,846 |

| From continuing operations | **2011 £m** | 2010 £m |
|---|---|---|
| **Earnings** | | |
| Net profit attributable to equity holders of the parent | **55.8** | 27.6 |
| Adjustments to exclude loss for the year from discontinued operations | **-** | 5.8 |
| Profit from continuing operations for the purpose of basic earnings per share excluding discontinued operations | **55.8** | 33.4 |

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

| | **2011 pence** | 2010 pence |
|---|---|---|
| **Earnings per share from continuing and discontinued operations:** | | |
| Basic | **30.0** | 14.9 |
| Diluted | **29.4** | 14.9 |

| | **2011 pence** | 2010 pence |
|---|---|---|
| **Loss per share from discontinued operations:** | | |
| Basic | **-** | (3.1) |
| Diluted | **-** | (3.1) |

**4 Earnings / (loss) per share** continued

| | **2011 pence** | 2010 pence |
|---|---|---|
| **Earnings per share from continuing operations:** | | |
| Basic | **30.0** | 18.0 |
| Diluted | **29.4** | 18.0 |

| **Headline earnings** | **2011 £m** | 2010 £m |
|---|---|---|
| Net profit attributable to equity holders of the parent | **55.8** | 27.6 |
| Add back: | | |
| Impairment charge | **4.2** | - |
| Amortisation of acquired intangible fixed assets (net of tax) | **0.8** | 0.8 |
| Major facility closure costs (net of tax) | **-** | (0.2) |
| Loss for the year ï discontinued operations | **-** | 5.8 |
| **Headline earnings from continuing operations** | **60.8** | 34.0 |

| **Earnings per share from headline earnings:** | **2011 pence** | 2010 pence |
|---|---|---|
| Basic | **32.7** | 18.3 |
| Diluted | **32.1** | 18.3 |

## 5 Provisions

| | Restructuring £m | Restructuring Environmental £m | Environmental £m | Total £m |
|---|---|---|---|---|
| At 1 January 2011 | **10.0** | **10.2** | **6.6** | **26.8** |
| Increase in provision | **1.2** | **-** | **0.4** | **1.6** |
| Utilisation of provision | **(4.9)** | **(0.8)** | **(0.4)** | **(6.1)** |
| Exchange difference | **(0.1)** | **(0.1)** | **(0.1)** | **(0.3)** |
| **At 31 December 2011** | **6.2** | **9.3** | **6.5** | **22.0** |

| | |
|---|---|
| Included in current liabilities | **10.6** |
| Included in non-current liabilities | **11.4** |
| | **22.0** |

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 ongoing implementation of the global restructuring initiatives. In addition income of £0.1m was recognised following the disposal of non core assets associated with the restructuring plans. The reversal of certain asset impairments of £0.6m 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

| | **2011** **£m** | 2010 £m |
|---|---|---|
| Profit for the year | **56.0** | 27.7 |
| Adjustments for: | | |
| Investment revenue | **(0.2)** | (0.3) |
| Finance costs | **4.8** | 6.3 |
| Taxation ï continuing and discontinued | **19.8** | 17.5 |
| Depreciation of property, plant and equipment | **48.2** | 46.1 |
| Amortisation of intangible assets | **2.9** | 2.2 |
| Loss on disposal of property, plant and equipment | **0.7** | 0.7 |
| Share-based payments | **5.4** | 4.2 |
| Impairment / reversal of impairment of fixed assets | **(0.1)** | - |
| Impairment charge | **4.2** | - |
| Negative goodwill released to income | **(0.6)** | - |
| Major facility closure costs | **-** | (1.6) |
| EBITDA* | **141.1** | 102.8 |
| Increase in inventories | **(2.8)** | (2.7) |
| Increase in receivables | **(7.9)** | (4.7) |
| Increase in payables | **8.9** | 15.5 |
| Decrease in provisions | **(4.5)** | (7.0) |
| Cash generated by operations | **134.8** | 103.9 |
| Cash inflow / (outflow) from settlement of derivative financial instruments | **0.3** | (2.9) |
| Income taxes paid | **(15.3)** | (5.4) |
| Net cash from operating activities | **119.8** | 95.6 |

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

| | **2011** | 2010 |
|---|---|---|
| Cash and cash equivalents comprise: | | |
| Cash and bank balances | **18.1** | 23.5 |
| Bank overdrafts (included in borrowings) | **(8.6)** | (5.9) |
| | **9.5** | 17.6 |

## 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 prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), 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 2012. The financial information has been prepared under the same accounting policies as the 2010 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 2011 or 2010, but is derived from those accounts. Statutory accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 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 and did not contain statements under S498 (2) or (3) Companies Act 2006.