Bodycote plc
Audited results for the year ended 31 December 2012

Financial Highlights

	2012	2011	*% change*
Revenue	**£587.8m**	£570.7m	*3.0*
Headline operating profit[1]	**£97.9m**	£85.5m	*14.4*
Operating profit	**£93.4m**	£80.4m	*16.2*
Headline profit before taxation[1]	**£94.3m**	£80.9m	*16.6*
Profit before taxation	**£89.8m**	£75.8m	*18.5*
Headline operating cash flow[2]	**£110.8m**	£96.0m	*15.4*
Operating cash flow[3]	**£103.0m**	£90.3m	*14.1*
Net debt / (cash)	**£34.2m**	£(0.1)m	-
Basic headline earnings per share[4]	**37.4p**	32.7p	*14.4*
Basic earnings per share	**35.8p**	30.0p	*19.3*
Dividend per share	**12.3p**	10.9p	*12.8*
Return on capital employed[5]	**19.5%**	16.9%	*2.6ppt*

Highlights

- Headline margin improved from 15.0% to 16.6% despite European headwinds
- Headline operating profit up 14.4%
- Revenue growth of 3.0% (6.4% at constant currency)
- Continued strong cash generation, headline operating cash conversion[6] of 113%
- North American network enhanced by £85m of acquisitions
- Dividend increased by 12.8% to 12.3p per share

Commenting, Stephen Harris, Chief Executive said:

"2012 has been another year of good progress. Growth in our global Aerospace and Energy business outweighed the decline in Automotive and General Industrial markets in Europe. Improving business mix and the part-year benefit of acquisitions have enabled further improvements in performance and enhanced the Group's geographic balance.

2013 has started slowly and we are mindful of the near term macroeconomic environment. Nevertheless, at this early stage in the year the Board expects modest progress in 2013.

Looking further ahead, the improvements made to the business in recent years give the Board confidence that Bodycote will continue to deliver good profits and cash through the business cycle."

1 Headline operating profit and headline profit before taxation exclude acquisition costs of £2.5m (2011: £nil), reorganisation costs of £2.4m (2011: £nil), profit on disposal of investment of £2.4m (2011: £nil), amortisation of acquired intangibles of £2.0m (2011: £0.9m) and impairment charges of £nil (2011: £4.2m).
2 Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £5.3m (2011: £5.7m) and cash flow relating to acquisition costs of £2.5m (2011: £nil).
3 Operating cash flow is defined as cash generated by operations of £150.7m (2011: £134.8m) less net capital expenditure of £47.7m (2011: £44.5m).
4 A detailed reconciliation is provided in note 4 to this announcement.
5 Return on capital employed (ROCE) is defined as headline operating profit of £97.9m (2011: £85.5m) divided by the monthly average capital employed of £501.1m (2011: £505.2m). Capital employed is defined as net assets adjusted for net debt / (cash).
6 Headline operating cash conversion is defined as headline operating cash flow divided by headline operating profit.

A live webcast of the analysts’ meeting will be available from 10.00am at www.bodycote.com.

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OVERVIEW

Bodycote delivered another strong performance in what was a difficult economic environment. Sales growth of £17.1m included a contribution of £22.4m from acquisitions but was impacted by £19.6m of foreign exchange translation headwind. Notwithstanding the difficult trading environment Bodycote continued to demonstrate its pricing power and ability to improve the mix of business resulting in headline margins[1] increasing to 16.6%.

The Aerospace, Defence and Energy business took full advantage of the strong markets and delivered sales growth of 11.5%, of which 4.2% came from acquisitions, with margins expanding to 26.7% (2011: 21.9%). Progress was particularly pleasing in the Automotive and General Industrial segments. Even though revenues declined by 2.9%, notwithstanding adding 3.8% from acquisitions, margins remained constant at 13.3% providing continued evidence of the improved resilience of Bodycote's profitability.

Return on capital employed increased to 19.5% (2011: 16.9%) on the back of the higher level of profits and carefully managed net capital expenditure of £47.7m, which was 0.9 times depreciation (2011: 0.9 times). Capital expenditure was lower than expected due primarily to longer than anticipated approval and regulatory processes. Capital expenditure was targeted at expansion of aerospace capacity and greenfield sites in emerging economies together with a focus on specific technologies such as Specialty Stainless Steel Processes® (S^3P), HIP Product Fabrication, Corr-i-Dur® and Low Pressure Carburising.

Headline operating cash conversion was once again very strong at 113% demonstrating the Group's commitment to cash generation as a primary focus. Net debt finished the year at £34.2m after spending £84.7m on acquisitions during the year. On 18 February 2013, the Group's €125m revolving credit facility was refinanced to 1 March 2018.

[1] Headline margin is defined as headline operating profit as a proportion of revenue. Headline operating profit is reconciled in the Business Performance section of this announcement.

DIVIDEND

The Board is proposing a final dividend of 8.3p, an increase of 13.7%, which will be paid to shareholders on 7 May 2013 subject to approval at the AGM. This brings the total dividend for 2012 to 12.3p (2011: 10.9p) costing £23.4m, which is a year on year increase of 12.8%.

STRATEGIC PROGRESS

2012 marked a year of excellent strategic progress for Bodycote. Our initiatives aimed at improving market focus and increasing efficiencies through deployment of enhanced business processes all worked together to help drive profitable growth. Indeed the expansion of Group margins and growth in ROCE underscores the quality of earnings and resilience of the business.

While there are many examples of the successful deployment of Bodycote's strategy, activities in Brazil and in Eastern Europe disappointed in 2012. In Brazil the currency rose strongly, disrupting Brazil's position in the global supply chain. In Eastern Europe sales dropped, mainly due to manufacturers choosing to sustain their facilities in France and Germany, bearing the brunt of cutbacks in parallel plants in Eastern Europe.

In contrast, the growth in S^3P® was very pleasing, overcoming many of the capacity constraints that had hampered this business following its strong growth in 2011. Late in the year capacity was increased in the HIP Product Fabrication business and the benefits should be seen in 2013.

A number of businesses were acquired in 2012. North America has been under-represented in Bodycote with the business heavily weighted towards Western Europe. Acquisitions in North America were high on the priority list as a result.

In April the heat treatment division of Curtiss-Wright was acquired, adding eight sites to the Group's footprint in North America. One major attraction of this business is its high degree of aerospace and energy work. Three of the acquired sites are located in the Wichita, Kansas aerospace hub, an important centre that previously did not have a Bodycote presence. The remaining sites dovetail very well into the pre-existing North American network.

In October seven sites were acquired from Bluewater Thermal Processing LLC. Six of these sites constituted the business formerly known as Carolina Commercial Heat Treating, which has a strong competitive position in the so called 'right to work' states of the South Eastern USA. This region, spanning from North Carolina down to Georgia and across to Tennessee, has enjoyed higher than average growth in the USA having been the target for significant inward investment for some time. It is not only benefiting from the arrival of many new foreign companies, but also from businesses that are relocating away from the union dominated north. The fledgling aerospace supply chain that is being established in the region provides a further attraction for Bodycote.

Other acquisitions included a small business comprising three sites in Michigan and Indiana, which was acquired from a private owner on 31 December 2012. They bring to the Group some of the best practitioners of Low Pressure Carburising and sophisticated vacuum heat treating technology in the world and are a welcome addition to the Group.

As we enter 2013 all of the businesses acquired are performing in line with expectations.

SUMMARY & OUTLOOK

2012 has been another year of good progress. Growth in our global Aerospace and Energy business outweighed the decline in Automotive and General Industrial markets in Europe. Improving business mix and the part-year benefit of acquisitions have enabled further improvements in performance and enhanced the Group's geographic balance.

2013 has started slowly and we are mindful of the near term macroeconomic environment. Nevertheless, at this early stage in the year the Board expects modest progress in 2013.

Looking further ahead, the improvements made to the business in recent years give the Board confidence that Bodycote will continue to deliver good profits and cash through the business cycle.

BUSINESS PERFORMANCE

	2012 **£m**	2011 £m
Revenue	**587.8**	570.7
Operating profit	**93.4**	80.4
Add back/(subtract):		
Impairment of goodwill and acquired intangible fixed assets	**-**	4.2
Acquisition costs	**2.5**	-
Reorganisation costs	**2.4**	-
Profit on disposal of investment	**(2.4)**	-
Amortisation of acquired intangible fixed assets	**2.0**	0.9
Headline operating profit	**97.9**	85.5

Group revenue was £587.8m, an increase of 3.0%, of which acquisitions accounted for 3.9%, organic growth contributed 2.5% and foreign exchange rate movements had a negative impact of 3.4%.

Headline operating profit was £97.9m, an increase of 14.4%, of which acquisitions accounted for 6.0%, organic growth contributed 11.0% and foreign exchange rate movements had a negative impact of 2.6%. Headline operating margin increased from 15.0% to 16.6%.

Cash flow is analysed as follows:

	2012 **£m**	2011 £m
Headline operating profit	**97.9**	85.5
Add back non-cash items:		
Depreciation and amortisation	**50.5**	50.2
Impairment of fixed assets	**0.7**	0.5
Share-based payments	**3.9**	5.4
Loss on disposal of property, plant and equipment	**0.1**	0.7
Headline EBITDA[1]	**153.1**	142.3
Net capital expenditure	**(47.7)**	(44.5)
Net working capital movement	**5.4**	(1.8)
Headline operating cash flow	**110.8**	96.0
Cash cost of restructuring	**(5.3)**	(5.7)
Acquisition costs	**(2.5)**	-
Operating cash flow	**103.0**	90.3
Interest	**(2.5)**	(4.5)
Taxation	**(19.3)**	(15.3)
Free cash flow	**81.2**	70.5

[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 £103.0m (2011: £90.3m). This has allowed £84.7m of acquisitions to be funded, while Group net debt at 31 December 2012 remains modest at £34.2m (2011: net cash £0.1m).

Capital expenditure has continued to be managed carefully. Capital spend (net of asset sales) in 2012 was £47.7m, being 0.9 times depreciation (2011: 0.9 times). There has been a continued focus on cash collection and receivable days at 31 December 2012 are 58 days (31 December 2011: 59 days). Receivables are little changed in the year and a modest increase in inventories (£1.8m) has been more than offset by an increase in payables of £6.4m.

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 Accident Frequency[4] and Carbon Footprint[5].

Financial

Return on capital employed increased by 2.6 percentage points during the year, from 16.9% to 19.5%. Headline operating profit increased by 14.4% from £85.5m to £97.9m, while average capital employed reduced by 0.8% to £501.1m.

Return on sales increased by 1.6 percentage points during the year, from 15.0% to 16.6%. Revenue increased by 3.0% from £570.7m to £587.8m.

Headline earnings per share increased by 4.7 pence during the year, from 32.7 pence to 37.4 pence. Headline earnings increased by 15% from £60.8m to £70.0m, while the average number of shares in issue remained static.

Non-Financial

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 1.5 (2011: 1.7).

Excluding acquisitions the carbon footprint decreased by 3.5% from 629.1 tonnes per £m sales to 606.9 tonnes per £m sales. Including acquisitions the carbon footprint increased by 0.6% to 632.8 tonnes per £m sales.

Definitions:
1 Headline operating profit as a percentage of the monthly average capital employed. Capital employed is defined as net assets adjusted for net debt / (cash).
2 Headline operating profit as a percentage of revenue.
3 Headline Earnings Per Share is defined in note 4 to this announcement.
4 Accident frequency – the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total hours worked.
5 Carbon footprint is defined as tonnes of CO_2 equivalent emissions, divided by £m revenue. CO_2 equivalent emissions are calculated by taking electricity and gas usage in kilowatt hours and multiplying by country specific conversion factors provided by DEFRA (Department for Environment, Food & Rural Affairs).

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 64 facilities in total.

Whilst the AGI marketplace has many multinational customers which tend to operate on a regionally-focused 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 129 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 2012 by 17.5% (18.7% at constant exchange rates, of which 13.5% was organic and 5.2% from acquisitions), due to a combination of new contract gains, market share improvement and market demand.

Original equipment sales improved as both Boeing and Airbus continued to increase production rates. Available seat kilometres grew by 3.9% indicating an increase in aircraft flying hours, which in turn drove an increase in demand for aftermarket parts. Sales growth in North America covered most sectors of the aerospace industry but in Europe was primarily due to the supply chain for narrow body aircraft. Sales for engines for wide body aircraft have, as yet, been more muted.

Sales into the defence sector, which account for around 5% of Group sales, were robust with little or no evidence of the downturn reported in the industry finding its way to the platforms that Bodycote serves. Most of the Group's revenues come from the installed equipment base, with a heavy emphasis on applications for US homeland defence.

Power generation sales increased by 3.5% in 2012 (6.3% at constant exchange rates, of which 3.3% was organic and 3.0% from acquisitions) compared to 2011 and would have been higher but for capacity constraints in our US HIP business. Additional capability is due on-stream towards the end of 2013. Once again demand was stronger in North America than in Europe.

Sales to oil & gas customers increased by 21.8% (22.3% at constant exchange rates, of which 15.4% was organic and 6.9% from acquisitions). Much of this growth came from gains in subsea applications and market share wins. Requirements for gas fracking in North America have subsided as the year progressed and this has been exacerbated by inventory correction at the oilfield services companies. The switch from gas fracking to oil provided some mitigation as rigs were made ready for production in a new location.

Automotive & General Industrial markets
In automotive, in the face of reduced demand in all geographies except North America, the Group built on the gains achieved in 2010 and 2011 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 can offer. Sales to the car and light truck sector declined by 7.1% and to heavy truck by 15.1%.

General industrial revenue performance was mixed by sector and geography. Sales decreased in the year by 0.5%.

In North America automotive revenues improved strongly and for the year as a whole were ahead of 2011 by 25.9% (25.0% at constant exchange rates, of which 5.8% was organic and 19.2% from acquisitions). Car and light truck related sales increased by 23.1% and heavy truck increased by 40.1%. General industrial sales also advanced well and revenues were ahead 25.0% compared to 2011 (23.9% at constant currencies of which 6.5% was organic and 17.4% from acquisitions).

In Western Europe sales were significantly impacted both by reduced demand and currency translation effects due to the weakness of the Euro versus Sterling. Automotive revenues were down 14.5% in 2012 (9.5% in constant currencies, there were no acquisitions). Car and light truck fared better (down 11.8%, 6.0% in constant currencies) than heavy truck, which was lower by 22.6% (19.9% in constant currencies). General industrial sales were much less affected but were, nevertheless, down compared to 2011 by 6.3% (but only 0.6% in constant currencies, there were no acquisitions).

The Group’s business in emerging markets had a disappointing year, with sales lower year on year by 13.1% (6.5% at constant currencies, there were no acquisitions). In Eastern Europe weak demand from Germany and France saw our customers reducing their output in Poland and the Czech Republic rather than cutback in their home countries. Asia, notably China for Bodycote, witnessed a short term slow-down in manufacturing activity and Bodycote’s business in Brazil was impacted by a significant reduction in industrial activity in 2012.

BUSINESS REVIEW - AEROSPACE, DEFENCE & ENERGY

RESULTS

Revenues for the Aerospace, Defence & Energy (ADE) business were £260.4m in 2012 compared to £233.5m in 2011, an increase of 11.5% (12.6% in constant currencies made up of 8.4% organic growth and 4.2% from acquisitions). Organic revenue growth in the year reflects further strong demand from aerospace customers in all geographies and market share gains, particularly for subsea oil & gas requirements. Revenues for onshore oil & gas began the year strongly but slowed in the second half, as gas fracking requirements fell.

Headline operating profit[1] for ADE was £69.6m (2011: £51.1m). The headline operating profit margin improved from 21.9% to 26.7% as a result of improved mix of business and higher capacity utilisation.

In 2012, the Group has added capacity in a number of aerospace focused facilities, notably in California to ensure customer demand is met. The acquisition of three aerospace facilities in Wichita, Kansas at the end of the first quarter also added capacity to the Group's network. In the coming year it is expected that capital expenditure will again be slightly above depreciation as further capacity and capability are added to support continuing growth in aerospace demand.

Net capital expenditure in 2012 was £21.1m (2011: £15.2m) which represents 1.1 times depreciation (2011: 0.8 times).

Capital employed in ADE in 2012 was £233.6m (2011: £219.2m). The small increase is primarily due to investment in new capacity to meet continued sales growth in the aerospace markets. Return on capital employed in 2012 was 29.8% (2011: 23.3%).

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

ACHIEVEMENTS IN 2012

ADE made considerable progress during the year in gaining new agreements with a range of customers and for a variety of end uses. In heat treatment this included additional business with aero engine OEMs both for new build and repair and with the supply chain for aircraft structural components. The Group's unrivalled capabilities across heat treatment, metal joining and hot isostatic pressing are a key selling point. Bodycote's new presence in the Wichita, Kansas market has seen Bodycote gain new business with several customers there, while the greenfield site in Empalme, Mexico has entered into a number of new contracts. In HIP, new customers, who are key suppliers to the oil majors in the subsea oil & gas market, have been serviced for the first time in 2012.

ORGANISATION AND PEOPLE

Overall full time equivalent headcount at 31 December 2012 was 2,123 (2011: 1,983), an increase of 7% compared to revenue growth in ADE of 11.5%. At 31 December 2012 the headcount included 132 full time equivalents from the acquisition completed in 2012.

LOOKING AHEAD

Order books for commercial aerospace OEMs remain strong, although the increase in aircraft build rates in the higher volume platforms is now slowing and there is some short term softness in oil & gas demand. Notwithstanding the slower pace of market growth that is anticipated in the near term, Bodycote expects to be able to capitalise on its world leading position and once again outperform the market.

BUSINESS REVIEW - AUTOMOTIVE & GENERAL INDUSTRIAL

RESULTS

Automotive & General Industrial (AGI) business revenues were £327.4m in 2012, compared to £337.2m in 2011, a decrease of 2.9% (but an increase of 2.2% in constant currencies, made up of an organic decline of 1.6% and an increase from acquisitions of 3.8%).

In 2012 there was a clear difference in demand for the Group's services across the different geographies. North America followed a strong 2011 with a robust 2012 in both automotive and general industrial markets and revenues continued to be enhanced by market share gains. North American revenues grew by 10.5% excluding acquisitions and in constant currencies. In Europe and the emerging markets Group revenues declined by 3.4% (in constant currencies) driven by the weaker macroeconomic conditions particularly in the Eurozone.

Headline operating profit[1] in AGI was £43.6m compared to £44.7m in 2011. Despite the reduction in revenues, headline margins remained stable at 13.3% reflecting an improved mix in the business and a prompt reaction in managing costs in geographies where demand levels weakened.

Net capital expenditure in 2012 was £23.0m (2011: £27.0m), which represents 0.8 times depreciation (2011: 0.9 times). In 2013 we expect that capital expenditure will be just above depreciation as we add capacity in China, Mexico and for selected technologies such as S^{3}P®, Corr-i-Dur® and Low Pressure Carburising. Return on capital employed in 2012 was 16.3% (2011: 15.6%). The increase reflects continuing focus on improving capital returns by increasingly targeting higher added-value activities. On average, capital employed in 2012 was £267.5m (2011: £286.2m).

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

ACHIEVEMENTS IN 2012

The Group has continued to win business across all geographies. In North America our ability to support automotive manufacturers as they move to newer technologies in pursuit of better fuel efficiency has provided Bodycote with market share growth. New outsourcing contracts in Europe and contributions from differentiated technologies such as S^{3}P® meant that the revenue declines stemming from the weak economic environment were moderated and margins held up well.

AGI continued to see the benefits of restructuring and market focus. The emphasis on improved efficiency has been a key factor in the achievement of 20% margins in North America and the maintenance of margins in the low teens in Europe in the face of declining revenues.

ORGANISATION AND PEOPLE

At December 2012, the number of full time equivalent employees in AGI was 3,595 (including 415 from acquisitions completed in 2012) compared to 3,423 at the end of 2011 and 1,606 less than its peak in July 2008. AGI revenues of £327.4m compare to £352.7m in 2008 (at 2012 exchange rates) a decrease of 7.2%.

LOOKING AHEAD

The AGI divisions will continue to build on their success of enhancing their margins through capturing high value work. The focus on improving customer service helps drive this effort while the prioritisation of existing capacity in favour of higher value work and investing in selected technologies such as S^{3}P®, Corr-i-Dur® and Low Pressure Carburising provides additional momentum. In addition the Group will continue with its strategy of adding to its existing footprint in emerging markets, with an emphasis on China and Mexico in the near term.

FINANCIAL OVERVIEW

	2012 £m	2011 £m
Revenue	**587.8**	570.7
Headline operating profit	**97.9**	85.5
Amortisation of acquired intangible fixed assets	**(2.0)**	(0.9)
Acquisition costs	**(2.5)**	-
Reorganisation costs	**(2.4)**	-
Profit on disposal of investment	**2.4**	-
Impairment charge	**-**	(4.2)
Operating profit	**93.4**	80.4
Net finance charge	**(3.6)**	(4.6)
Profit before taxation	**89.8**	75.8
Taxation	**(22.8)**	(19.8)
Profit for the year	**67.0**	56.0

Group revenue was £587.8m, an increase of 3.0%, of which acquisitions accounted for 3.9%, organic growth contributed 2.5% and foreign exchange rate movements had a negative impact of 3.4%.

Headline operating profit for the year increased by 14.4% from £85.5m to £97.9m, and headline operating margin was 16.6% (2011: 15.0%). Acquisitions in the year increased headline operating profit by £5.1m. The impact of foreign currency movements in the year was a reduction in headline operating profit of £2.2m. Operating profit was £93.4m (2011: £80.4m) after charging £2.0m (2011: £0.9m) in respect of the amortisation of acquired intangible assets, £2.5m of acquisition costs (2011: £nil) and £nil (2011: £4.2m) in respect of the impairment of goodwill and other intangible assets. A profit on disposal of the Group's investment in Ionbond of £2.4m (2011: £nil) and reorganisation costs of £2.4m (2011: £nil) were also recognised.

Headline operating cash flow[1] for the Group was £110.8m (2011: £96.0m). This was 113.2% of headline operating profit (2011: 112.3%). Net capital expenditure was again below depreciation at 0.9 times (2011: 0.9 times) as the Group continued to focus on increasing the utilisation of existing equipment. Working capital reduced in the year, with increases in the level of inventory more than offset by an increase in the level of payables.

After deducting interest and tax, the Group recorded positive free cash flow[1] of £81.2m (2011: £70.5m).

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

EXCEPTIONAL COSTS

Total exceptional costs charged to the income statement amounted to £4.5m (2011: £5.1m). The amortisation of acquired intangible assets arises from acquisitions in both the current and prior years and the level of the charge has increased to £2.0m (2011: £0.9m). £2.5m of acquisition costs were expensed in the year (2011: £nil). A profit on disposal of investment of £2.4m (2011: £nil) has been recognised and reorganisation and redundancy costs of £2.4m (2011: £nil) have been incurred in relation to the establishment of an accounting Shared Service Centre in Prague.

The 2011 charge of £4.2m for impairment of goodwill and other intangible assets related to the Group's South American operations. No goodwill remains on the Group's balance sheet in respect of this business. The Board has concluded that no impairment charge is required in 2012.

Restructuring provisions outstanding at 31 December 2012 total £11.5m. Of the remaining costs, £6.2m is expected to be spent in 2013 and £5.3m in 2014 and later. All expenditure after the end of 2013 will relate to ongoing environmental remediation, primarily in the USA.

PROFIT BEFORE TAX

Headline profit before tax was £94.3m (2011: £80.9m). Profit before tax was £89.8m (2011: £75.8m), and these amounts are reconciled as follows:

	2012 £m	2011 £m
Headline operating profit	**97.9**	85.5
Net finance charge	**(3.6)**	(4.6)
Headline profit before tax	**94.3**	80.9
Amortisation of acquired intangible fixed assets	**(2.0)**	(0.9)
Acquisition costs	**(2.5)**	-
Reorganisation costs	**(2.4)**	-
Profit on disposal of investment	**2.4**	-
Impairment charge	**-**	(4.2)
Profit before tax	**89.8**	75.8

FINANCE CHARGE

The net finance charge was £3.6m compared to £4.6m in 2011 (see details below) resulting from lower net interest rates (£0.1m) and lower average net debt (£0.6m). Facility fees (£0.3m) and financing costs (£0.6m) were lower than last year. Bank charges were similar, but pension and other finance charges were higher by £0.6m.

	2012 £m	2011 £m
Net interest payable	**0.5**	1.2
Financing costs	**1.1**	2.0
Bank and other charges	**0.8**	0.7
Pension finance charge	**1.2**	0.7
Net finance charge	**3.6**	4.6

TAXATION

The tax charge was £22.8m for the year (2011: £19.8m).

The effective tax rate of 25.4% (2011: 26.1%) resulted from the blending of differing tax rates in each of the countries in which the Group operates.

The headline tax rate for 2012 was 25.7% (2011: 24.6%), being stated before accounting exceptionals, including amortisation of goodwill and acquired intangibles (which are generally not allowable for tax purposes).

Subject to any future tax legislation changes, due to the Group making most of its profits in countries other than the UK, the headline tax rate is expected to remain around current levels which is higher than the current UK statutory tax rate of 24%, and which is due to fall to 21% from 2014.

EARNINGS PER SHARE

Basic headline earnings per share (as defined in note 4) increased to 37.4p from 32.7p. Basic earnings per share for the year increased to 35.8p from 30.0p.

DIVIDEND

The Board has recommended a final dividend of 8.3p (2011: 7.3p) bringing the total dividend to 12.3p per share (2011: 10.9p). If approved by shareholders, the final dividend of 8.3p per share for 2012 will be paid on 7 May 2013 to all shareholders on the register on 12 April 2013.

CAPITAL STRUCTURE

The Group's balance sheet at 31 December 2012 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	448.7	-	448.7
Goodwill and intangible assets	166.8	-	166.8
Current assets and liabilities	130.6	(155.6)	(25.0)
Other non-current assets and liabilities	3.2	(13.5)	(10.3)
Retirement benefit obligations	-	(18.5)	(18.5)
Deferred tax	33.3	(56.4)	(23.1)
Total before net debt	782.6	(244.0)	538.6
Net debt	10.0	(44.2)	(34.2)
Net assets as at 31 December 2012	**792.6**	**(288.2)**	**504.4**
Net assets as at 31 December 2011	758.7	(276.1)	482.6

Net assets increased by £21.8m (4.5%) to £504.4m (2011: £482.6m). In constant currencies, net assets increased by £45.3m (9.4%). The major movements compared to 31 December 2011 were an increase in goodwill and intangible assets of £55.3m primarily as a result of acquisitions completed during the year, an increase in net debt of £34.3m, an increase in retirement benefit obligations of £5.0m, an increase in property, plant and equipment of £4.8m, together with an increase in other net current liabilities of £6.2m and a decrease in net deferred tax liabilities of £4.1m.

The increase in property, plant and equipment was due to net capital expenditure of £47.7m, depreciation of £48.7m, and additions through the acquisition of businesses of £22.0m, offset by the effect of disposals and foreign exchange variances.

Net deferred tax liabilities decreased by £4.1m due to an increase in deferred tax assets resulting from a charge to equity in respect of share-based payments and retirement benefit obligations, an adverse movement in foreign exchange rates and a net reduction in liabilities due to corporate tax rate changes in various jurisdictions. Restructuring provisions were reduced by £4.0m, as Group restructuring activities proceeded as planned.

Retirement benefit obligations increased by £5.0m during the year, largely as a result of a fall in corporate bond yields reducing the discount rate from 4.75% to 4.5% in the UK, which is the most significant liability.

NET DEBT / (CASH)

Group net debt at 31 December 2012 was £34.2m (2011: net cash £0.1m). During the year, additional loans of £27.5m were drawn under committed facilities after funding £84.7m of acquisitions. 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 £7.6m (2011: £7.7m), made up of net cash from operating activities of £131.2m (2011: £119.8m), less investing activities of £130.6m (2011: £45.9m) and less cash used in financing activities of £8.2m (2011: £81.6m).

The increase in net cash flow from operating activities from £119.8m to £131.2m is driven primarily by the increase in headline EBITDA[1] from £142.3m to £153.1m. Working capital decreased as tight control of working capital led to a small increase in the level of inventory being offset by an increase in trade payables. Net current tax liabilities also increased by £4.1m in line with the profitability of the Group. The continuing utilisation of environmental and restructuring provisions offset the working capital reduction by £2.8m. The net effect was a decrease in the level of working capital of £2.1m (2011: increase of £6.3m).

Net cash outflows from investing activities increased from £45.9m to £130.6m, primarily due to acquisitions in the year as disclosed in note 6 to this announcement. The level of net capital expenditure in 2012 at £47.7m (2011: £44.5m), although higher than in the prior year, remained below historical levels, reflecting continued tight management control.

Net cash outflows used in financing activities decreased from £81.6m to £8.2m. 2012 saw the repayment of loans of £2.3m (2011: £59.3m) and new bank loans raised of £28.8m (2011: £0.4m), together with payment of dividends totalling £21.3m (2011: £17.4m).

There has been a continued focus on cash collection with receivable days at 31 December 2012 reducing to 58 days (2011: 59 days).

Net interest payments for the year were £2.5m (2011: £4.5m). Tax payments were £19.3m (2011: £15.3m) reflecting the increase in Group 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 £47.7m (2011: £44.5m). The multiple of net capital expenditure to depreciation was 0.9 times (2011: 0.9 times), which reflects the Group's continued careful management of its capital expenditure programme. As at 31 December 2012 the Group had capital expenditure creditors of £13.9m (2011: £13.1m). Major capital projects that were in progress during 2012 include continued investment in our HIP and S^3P® processes and additions to heat treatment capacity to support the aerospace sector.

BORROWING FACILITIES

Total funding available to Bodycote under its committed facilities at 31 December 2012 was £232.6m (2011: £236.4m), expiring between July 2013 and August 2016.

There have been no new committed facilities arranged during 2012, although the €125m revolving credit facility, due to mature on 31 July 2013, has been refinanced during February 2013. The replacement facility is for the same amount and is available from 1 March 2013 maturing 1 March 2018. The new facility has a higher margin than the 2006 arranged facility it replaced.

At 31 December 2012, the Group had the following committed facilities:

Facility	Expiry Date	Facility £m	Loan and Letter of Credit Utilisation £m	**Facility Headroom £m**
€125m Revolving Credit	31 July 2013	101.4	33.5	**67.9**
£125m Revolving Credit	31 August 2016	125.0	-	**125.0**
		226.4	33.5	**192.9**
$10m Letter of Credit	31 August 2016	6.2	4.9	**1.3**
		232.6	38.4	**194.2**

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. 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 2012 has increased to 7% (2011: 0%).

GOING CONCERN

In determining the basis of preparation for the Annual Report, the Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. This includes an overview of the Group's financial position, 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.

Committed facilities as at 31 December 2012 were as follows:

- €125m Revolving Credit Facility maturing 31 July 2013
- £125m Revolving Credit Facility maturing 31 August 2016
- $10m Letter of Credit Facility maturing 31 August 2016

On 18 February 2013, the €125m Revolving Credit Facility maturing on 31 July 2013 was refinanced for the same amount, extending the maturity to 1 March 2018, increasing the weighted average life of the committed facilities at that date to 4.2 years.

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 statements.

CAUTIONARY STATEMENT

This review contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 £m	2011 £m	Note
Revenue	**587.8**	570.7	
Cost of sales and overheads	**(489.9)**	(485.2)	
Operating profit prior to exceptional items	**97.9**	85.5	
Amortisation of acquired intangible fixed assets	**(2.0)**	(0.9)	
Impairment charge	**-**	(4.2)	
Profit on disposal of investment	**2.4**	-	
Acquisition costs	**(2.5)**	-	
Reorganisation costs	**(2.4)**	-	
Operating profit	**93.4**	80.4	2
Investment revenue	**0.2**	0.2	
Finance costs	**(3.8)**	(4.8)	
Profit before taxation	**89.8**	75.8	
Taxation	**(22.8)**	(19.8)	3
Profit for the year	**67.0**	56.0	
Attributable to:			
Equity holders of the parent	**66.9**	55.8	
Non-controlling interests	**0.1**	0.2	
	67.0	56.0	
Earnings per share			4
	Pence	Pence	
Basic	**35.8**	30.0	
Diluted	**35.8**	29.4	

All activities have arisen from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 £m	2011 £m
Profit for the year	**67.0**	56.0
Exchange losses on translation of foreign operations	**(14.2)**	(12.3)
Movements on hedges of net investments	**-**	0.4
Actuarial losses on defined benefit pension schemes	**(5.3)**	(2.0)
Tax on items taken directly to equity	**1.4**	0.5
Other comprehensive expense for the year	**(18.1)**	(13.4)
Total comprehensive income for the year	**48.9**	42.6
Attributable to:		
Equity holders of the parent	**48.8**	42.8
Non-controlling interests	**0.1**	(0.2)
	48.9	42.6

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2012

	2012 £m	2011 £m	Note
Non-current assets			
Goodwill	**131.8**	102.6	
Other intangible assets	**35.0**	8.9	
Property, plant and equipment	**448.7**	443.9	
Other investments	**1.6**	0.8	
Deferred tax assets	**33.3**	52.3	
Trade and other receivables	**1.6**	1.9	
	652.0	610.4	
Current assets			
Inventories	**18.4**	16.7	
Current tax assets	**0.6**	2.4	
Trade and other receivables	**109.5**	105.8	
Cash and bank balances	**10.0**	18.1	
Assets held for sale	**2.1**	5.3	
	140.6	148.3	
Total assets	**792.6**	758.7	
Current liabilities			
Trade and other payables	**132.9**	126.9	
Current tax liabilities	**13.7**	11.4	
Obligations under finance leases	**0.2**	0.2	
Borrowings	**43.4**	10.8	
Derivative financial instruments	**0.1**	0.1	
Provisions	**8.9**	10.6	5
	199.2	160.0	
Net current liabilities	**(58.6)**	(11.7)	
Non-current liabilities			
Borrowings	**0.3**	6.5	
Retirement benefit obligations	**18.5**	13.5	
Deferred tax liabilities	**56.4**	79.5	
Obligations under finance leases	**0.3**	0.5	
Derivative financial instruments	**-**	0.2	
Provisions	**9.4**	11.4	5
Other payables	**4.1**	4.5	
	89.0	116.1	
Total liabilities	**288.2**	276.1	
Net assets	**504.4**	482.6	
Equity			
Share capital	**33.1**	33.0	
Share premium account	**177.1**	176.9	
Own shares	**(11.3)**	(6.7)	
Other reserves	**141.6**	143.1	
Hedging and translation reserves	**10.5**	24.7	
Retained earnings	**152.0**	110.3	
Equity attributable to equity holders of the parent	**503.0**	481.3	
Non-controlling interests	**1.4**	1.3	
Total equity	**504.4**	482.6	

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 £m	2011 £m	Note
Net cash from operating activities	**131.2**	119.8	7
Investing activities			
Purchases of property, plant and equipment	**(48.8)**	(43.6)	
Proceeds on disposal of property, plant and equipment and intangible assets	**4.7**	1.5	
Purchases of intangible fixed assets	**(3.6)**	(2.4)	
Acquisition of businesses	**(84.7)**	(0.5)	
Purchase of sundry investments	**(0.9)**	(0.9)	
Disposal of subsidiary	**2.7**	-	
Net cash used in investing activities	**(130.6)**	(45.9)	
Financing activities			
Interest received	**0.3**	0.6	
Interest paid	**(2.8)**	(5.1)	
Dividends paid	**(21.3)**	(17.4)	
Dividends paid to a non-controlling shareholder	**-**	(0.1)	
Repayments of bank loans	**(2.3)**	(59.3)	
Payments of obligations under finance leases	**(0.2)**	(0.4)	
New bank loans raised	**28.8**	0.4	
Proceeds on issue of ordinary share capital	**0.3**	0.8	
Own shares purchased / settlement of share options	**(11.0)**	(1.1)	
Net cash used in financing activities	**(8.2)**	(81.6)	
Net decrease in cash and cash equivalents	**(7.6)**	(7.7)	
Cash and cash equivalents at beginning of year	**9.5**	17.6	
Effect of foreign exchange rate changes	**(0.3)**	(0.4)	
Cash and cash equivalents at end of year	**1.6**	9.5	7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
1 January 2011	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**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**66.9**	**66.9**	**0.1**	**67.0**
Exchange differences on translation of overseas operations	**-**	**-**	**-**	**-**	**(14.2)**	**-**	**(14.2)**	**-**	**(14.2)**
Realisation of revaluation surplus	**-**	**-**	**-**	**(0.4)**	**-**	**0.4**	**-**	**-**	**-**
Actuarial losses on defined benefit pension schemes net of deferred tax	**-**	**-**	**-**	**-**	**-**	**(3.9)**	**(3.9)**	**-**	**(3.9)**
Total comprehensive income for the year	**-**	**-**	**-**	**(0.4)**	**(14.2)**	**63.4**	**48.8**	**0.1**	**48.9**
Issue of share capital	**0.1**	**0.2**	**-**	**-**	**-**	**-**	**0.3**	**-**	**0.3**
Acquired in the year / settlement of share options	**-**	**-**	**(4.6)**	**(5.0)**	**-**	**(1.4)**	**(11.0)**	**-**	**(11.0)**
Share-based payments	**-**	**-**	**-**	**3.9**	**-**	**-**	**3.9**	**-**	**3.9**
Deferred tax on share based payment transactions	**-**	**-**	**-**	**-**	**-**	**1.0**	**1.0**	**-**	**1.0**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(21.3)**	**(21.3)**	**-**	**(21.3)**
31 December 2012	**33.1**	**177.1**	**(11.3)**	**141.6**	**10.5**	**152.0**	**503.0**	**1.4**	**504.4**

Included in other reserves is the capital redemption reserve arising on redemption of the Group's B shares of £129.4m (2011: £129.4m) and the share-based payments reserve of £10.9m (2011: £11.9m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2012 4,373,136 (2011: 5,089,830) 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 2012

1 Business and Geographical Segments

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

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

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

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

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

Group	ADE 2012 £m	AGI 2012 £m	Head Office and eliminations 2012 £m	Consolidated 2012 £m
Revenue				
Total revenue	260.4	327.4	-	587.8
Result				
Headline operating profit prior to share-based payments and unallocated corporate expenses	71.4	45.1	-	116.5
Share-based payments	(1.8)	(1.5)	(2.1)	(5.4)
Unallocated corporate expenses	-	-	(13.2)	(13.2)
Headline operating profit / (loss)	69.6	43.6	(15.3)	97.9
Amortisation of acquired intangible fixed assets	(1.1)	(0.9)	-	(2.0)
Profit on disposal of investment	-	-	2.4	2.4
Acquisition costs	(0.8)	(1.7)	-	(2.5)
Reorganisation costs	-	-	(2.4)	(2.4)
Segment result	67.7	41.0	(15.3)	93.4
Investment revenue				0.2
Finance costs				(3.8)
Profit before taxation				89.8
Taxation				(22.8)
Profit for the year				67.0

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

1 Business and Geographical Segments (continued)

Aerospace, Defence & Energy	**Western Europe 2012 £m**	**North America 2012 £m**	**Emerging markets 2012 £m**	**Total ADE 2012 £m**
Revenue				
Total revenue	**118.3**	**140.4**	**1.7**	**260.4**
Result				
Headline operating profit / (loss) prior to share-based payments	**27.9**	**43.7**	**(0.2)**	**71.4**
Share-based payments	**(0.5)**	**(1.3)**	**-**	**(1.8)**
Headline operating profit / (loss)	**27.4**	**42.4**	**(0.2)**	**69.6**
Amortisation of acquired intangible fixed assets	**(0.3)**	**(0.8)**	**-**	**(1.1)**
Acquisition costs	**-**	**(0.8)**	**-**	**(0.8)**
Segment result	**27.1**	**40.8**	**(0.2)**	**67.7**

Automotive & General Industrial	**Western Europe 2012 £m**	**North America 2012 £m**	**Emerging markets 2012 £m**	**Total AGI 2012 £m**
Revenue				
Total revenue	**219.2**	**61.8**	**46.4**	**327.4**
Result				
Headline operating profit prior to share-based payments	**30.3**	**13.1**	**1.7**	**45.1**
Share-based payments	**(1.0)**	**(0.5)**	**-**	**(1.5)**
Headline operating profit	**29.3**	**12.6**	**1.7**	**43.6**
Amortisation of acquired intangible fixed assets	**(0.2)**	**(0.5)**	**(0.2)**	**(0.9)**
Acquisition costs	**-**	**(1.7)**	**-**	**(1.7)**
Segment result	**29.1**	**10.4**	**1.5**	**41.0**

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

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)
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

Other Information

Group	**ADE 2012 £m**	**AGI 2012 £m**	**Head Office and eliminations 2012 £m**	**Consolidated 2012 £m**
Capital additions	**22.9**	**25.8**	**3.7**	**52.4**
Depreciation and amortisation	**19.6**	**31.4**	**1.9**	**52.9**
Balance Sheet				
Assets:				
Segment assets	**313.4**	**449.6**	**28.0**	**791.0**
Other investments	**-**	**-**	**1.6**	**1.6**
Consolidated total assets	**313.4**	**449.6**	**29.6**	**792.6**
Liabilities:				
Segment liabilities	**(68.7)**	**(126.9)**	**(92.6)**	**(288.2)**
	244.7	**322.7**	**(63.0)**	**504.4**
Allocation of head office net liabilities	**(27.2)**	**(35.8)**	**63.0**	**-**
Adjusted segment net assets	**217.5**	**286.9**	**-**	**504.4**

1 Business and Geographical Segments (continued)

Aerospace, Defence & Energy	**Western Europe 2012 £m**	**North America 2012 £m**	**Emerging markets 2012 £m**	**Total ADE 2012 £m**
Capital additions	**6.5**	**16.4**	**-**	**22.9**
Depreciation and amortisation	**10.0**	**9.4**	**0.2**	**19.6**
Balance Sheet				
Assets:				
Segment assets	**150.2**	**160.5**	**2.7**	**313.4**
Liabilities:				
Segment liabilities	**(36.1)**	**(31.4)**	**(1.2)**	**(68.7)**
Segment net assets	**114.1**	**129.1**	**1.5**	**244.7**

Automotive & General Industrial	**Western Europe 2012 £m**	**North America 2012 £m**	**Emerging markets 2012 £m**	**Total AGI 2012 £m**
Capital additions	**16.8**	**4.9**	**4.1**	**25.8**
Depreciation and amortisation	**22.3**	**4.0**	**5.1**	**31.4**
Balance Sheet				
Assets:				
Segment assets	**273.0**	**112.1**	**64.5**	**449.6**
Liabilities:				
Segment liabilities	**(96.7)**	**(17.3)**	**(12.9)**	**(126.9)**
Segment net assets	**176.3**	**94.8**	**51.6**	**322.7**

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	32.2	757.9
Other investments	-	-	0.8	0.8
Consolidated total assets	314.0	411.7	33.0	758.7
Liabilities:				
Segment liabilities	(67.3)	(128.0)	(80.8)	(276.1)
	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

Geographical information

The Group's revenue from external customers and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by country are detailed below:

	Revenue from external customers		**Non-current assets**	
	2012 £m	2011 £m	**2012 £m**	2011 £m
USA	**194.2**	156.3	**233.3**	153.4
France	**90.1**	91.9	**70.1**	74.6
UK	**63.9**	59.4	**72.7**	74.1
Germany	**60.5**	67.7	**64.7**	70.2
Sweden	**42.1**	47.3	**44.3**	43.2
Netherlands	**24.1**	25.7	**20.8**	21.4
Others	**112.9**	122.4	**111.2**	119.3
	587.8	570.7	**617.1**	556.2

2 Operating profit

	2012 £m	2011 £m
Revenue	**587.8**	570.7
Cost of sales	**(368.7)**	(361.1)
Gross profit	**219.1**	209.6
Other operating income	**5.2**	4.5
Distribution costs	**(17.6)**	(17.9)
Administration expenses*	**(103.8)**	(109.5)
Other operating expenses	**(5.0)**	(1.2)
Exceptional items:		
Amortisation of acquired intangible fixed assets*	**(2.0)**	(0.9)
Impairment charge*	**-**	(4.2)
Profit on disposal of investment*	**2.4**	-
Acquisition costs*	**(2.5)**	-
Reorganisation costs*	**(2.4)**	-
Operating profit	**93.4**	80.4

*Administration expenses total £108.3m (2011: £114.6m).

Exceptional items comprise:

	2012 £m	2011 £m
Amortisation of acquired intangible fixed assets	**2.0**	0.9
Impairment of goodwill	**-**	3.7
Impairment of acquired intangible fixed assets	**-**	0.5
Profit on disposal of investment	**(2.4)**	-
Acquisition costs	**2.5**	-
Reorganisation costs	**2.4**	-
	4.5	5.1

3 Taxation

	2012 £m	2011 £m
Current taxation – charge for the year	**23.8**	18.0
Current taxation – adjustments in respect of previous years	**(0.5)**	(4.7)
Deferred tax	**(0.5)**	6.5
	22.8	19.8

UK corporation tax is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2012 £m	2011 £m
Profit before tax	**89.8**	75.8
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	**22.0**	20.1
Tax effect of expenses that are not deductible in determining taxable profit	**0.3**	2.1
Deferred tax assets recognised	**(2.8)**	(1.7)
Tax effect of other adjustments in respect of previous years:		
Current tax	**(0.5)**	(4.7)
Deferred tax	**(1.7)**	0.7
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5.5**	3.3
Tax expense for the year	**22.8**	19.8

Tax on items taken directly to equity is a credit of £2.4m (2011: £2.2m).

4 Earnings per share

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

Earnings	2012 £m	2011 £m
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**66.9**	55.8

Number of shares	2012 Number	2011 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**186,981,962**	185,838,882
Effect of dilutive potential ordinary shares:		
Share options	**19,307**	3,780,964
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**187,001,269**	189,619,846

	2012 Pence	2011 Pence
Earnings per share:		
Basic	**35.8**	30.0
Diluted	**35.8**	29.4

Headline earnings	2012 £m	2011 £m
Net profit attributable to equity holders of the parent	**66.9**	55.8
Add back:		
Amortisation of acquired intangible fixed assets (net of tax)	**1.9**	0.8
Impairment charge	**-**	4.2
Profit on disposal of investment (net of tax)	**(2.2)**	-
Acquisition costs (net of tax)	**1.6**	-
Reorganisation costs (net of tax)	**1.8**	-
Headline earnings	**70.0**	60.8

Earnings per share from headline earnings:	2012 Pence	2011 Pence
Basic	**37.4**	32.7
Diluted	**37.4**	32.1

5 Provisions

	Restructuring £m	Restructuring Environmental £m	Environmental £m	Total £m
At 1 January 2012	6.2	9.3	6.5	**22.0**
Increase in provision	4.5	-	1.2	**5.7**
Release of provision	(1.7)	(0.9)	-	**(2.6)**
Utilisation of provision	(4.4)	(0.9)	(0.6)	**(5.9)**
Exchange difference	(0.2)	(0.4)	(0.3)	**(0.9)**
At 31 December 2012	**4.4**	**7.1**	**6.8**	**18.3**

Included in current liabilities	**8.9**
Included in non-current liabilities	**9.4**
	18.3

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 and is separated into Restructuring Environmental and Environmental to separately identify environmental provisions relating to the restructuring programme from those arising in the ordinary course of business.

The increase in restructuring provisions is due to the ongoing implementation of the global restructuring initiatives. In addition £2.4m of reorganisation and redundancy costs have been recognised in relation to the establishment of an accounting Shared Service Centre in Prague.

The majority of cash outflows in respect of these liabilities are expected to occur within 5 years.

6 Acquisition of businesses and subsidiaries

The Group made a number of acquisitions in the year, the most significant of which were as follows:

On 31 March 2012 the Group acquired the trade and assets of the heat treatment business of Curtiss-Wright Corporation for a cash consideration of £32.4m. The acquisition was made to provide additional capacity and a broader customer base in key regions of North America. The acquisition gives the Group a major presence in the strategically important aerospace industry hub in Wichita, Kansas; Louisiana provides access to the oil & gas market, and the northern plants fit well with the Group's automotive and general industrial network, enhancing service to existing customers and extending the geographic coverage.

On 16 October 2012 the Group acquired the trade and assets of Carolina Commercial Heat Treating, together with an additional facility in Southern Indiana, for a cash consideration of £41.4m. This acquisition was completed to develop a footprint in the south eastern USA, which continues to be amongst the highest recipients of inward investment in North America, with many domestic and overseas corporations establishing businesses and supply chains in the area.

All transactions have been accounted for by the purchase method of accounting and are summarised below.

	Heat Treatment business of Curtiss-Wright Corporation £m	**Trade & assets of Carolina Commercial Heat Treating LLC £m**	**Other £m**	**Total Group £m**
Fair value of net assets acquired:				
Intangible fixed assets	10.4	13.8	3.5	**27.7**
Property, plant and equipment	8.5	9.8	3.7	**22.0**
Deferred tax asset	-	0.2	-	**0.2**
Inventories	-	0.1	0.1	**0.2**
Trade and other receivables	3.7	3.0	1.1	**7.8**
Trade and other payables	(0.6)	(1.6)	(0.5)	**(2.7)**
	22.0	25.3	7.9	**55.2**
Goodwill	10.4	16.1	3.0	**29.5**
Total consideration	32.4	41.4	10.9	**84.7**
Satisfied by:				
Cash consideration	32.4	41.4	10.9	**84.7**
Net cash outflow arising on acquisition:				
Cash consideration	32.4	41.4	10.9	**84.7**

The carrying value of inventories, trade and other receivables and trade and other payables approximates their fair value. Fair values of the acquired identifiable tangible and intangible assets are provisional, pending completion of the final valuations.

The gross contractual value of trade and other receivables was £8.0m. The best estimate at the acquisition dates of the contractual cash flows not expected to be collected was £0.2m.

The goodwill arising on the acquisitions is attributable to the anticipated profitability of the Group's services in new markets and the anticipated future operating synergies from the combination with the Group of each of the acquired businesses.

Acquisition-related costs (reported in exceptional items) amounted to £2.5m.

The acquired businesses contributed £22.4m revenue and £5.1m to the Group's operating profit for the period between their dates of acquisition and the balance sheet date.

If the acquisition of all the businesses had been completed on the first day of the financial year, Group revenue for the year would have been £620.9m and Group operating profit would have been £98.7m.

7 Notes to the cash flow statement

	2012 £m	2011 £m
Profit for the year	**67.0**	56.0
Adjustments for:		
Investment revenue	**(0.2)**	(0.2)
Finance costs	**3.8**	4.8
Taxation	**22.8**	19.8
Depreciation of property, plant and equipment	**48.7**	48.2
Amortisation of intangible assets	**4.2**	2.9
Loss on disposal of property, plant and equipment	**0.1**	0.7
Share-based payments	**3.9**	5.4
Impairment / (reversal of impairment) of fixed assets	**0.7**	(0.1)
Impairment charge	**-**	4.2
Negative goodwill released to income	**-**	(0.6)
Gain on disposal of business	**(2.4)**	-
EBITDA*	**148.6**	141.1
Increase in inventories	**(1.8)**	(2.8)
Decrease / (increase) in receivables	**0.3**	(7.9)
Increase in payables	**6.4**	8.9
Decrease in provisions	**(2.8)**	(4.5)
Cash generated by operations	**150.7**	134.8
Cash (outflow) / inflow from settlement of derivative financial instruments	**(0.2)**	0.3
Income taxes paid	**(19.3)**	(15.3)
Net cash from operating activities	**131.2**	119.8

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

	2012 £m	2011 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**10.0**	18.1
Bank overdrafts (included in borrowings)	**(8.4)**	(8.6)
	1.6	9.5

8 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 2013. The financial information has been prepared under the same accounting policies as the 2011 financial statements.

9 Non Statutory Financial Statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2012 or 2011, but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies and those for 2012 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.