**Bodycote plc**
**Audited results for the year ended 31 December 2014**

## Financial highlights

| | **2014** | 2013 | *% change* |
|---|---|---|---|
| Revenue | **£609.1m** | £619.6m | *(1.7)* |
| Headline operating profit[1] | **£111.1m** | £107.4m | *3.4* |
| Return on sales[2] | **18.2%** | 17.3% | |
| Operating profit | **£107.0m** | £102.1m | *4.8* |
| Headline profit before taxation[1] | **£107.8m** | £103.7m | *4.0* |
| Profit before taxation | **£103.7m** | £98.4m | *5.4* |
| Headline operating cash flow[3] | **£100.0m** | £108.9m | |
| Operating cash flow[4] | **£96.8m** | £104.6m | |
| Net cash | **£35.7m** | £15.0m | |
| Basic headline earnings per share[5] | **43.8p** | 41.2p | *6.3* |
| Basic earnings per share | **41.7p** | 38.5p | *8.3* |
| Ordinary dividend per share | **14.4p** | 13.5p | *6.7* |
| Special dividend per share | **20.0p** | 10.0p | *100* |
| Return on capital employed[6] | **20.7%** | 19.9% | |

## Highlights

- Encouraging revenue growth, 4% at constant exchange rates
- Further increase in headline operating profit (9% at constant exchange rates)
- Headline margin up 90 basis points
- Return on capital employed increased 80 basis points to 20.7%
- Net cash of £35.7m
- Final ordinary dividend of 9.8p, 14.4p for the year, up 7%
- Special dividend of 20.0p

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

"The Group delivered another good performance in 2014. Revenue, at constant exchange rates, was ahead 4% and we achieved further improvement in margin and return on capital employed, in addition to strong cash generation.

As we begin 2015 a number of macro-economic uncertainties persist. Nevertheless, at this early stage in the year, the Board believes that the strength of the Group's Specialist Technologies and management's continued focus on business improvement, particularly in the Classical Heat Treatment business, should enable further progress in 2015."

Definitions:
[1] Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £3.9m (2013: £4.5m), reorganisation costs of £nil (2013: £0.8m) and acquisition costs of £0.2m (2013: £nil).
[2] Return on sales is defined as headline operating profit as a percentage of revenue.
[3] Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £3.0m (2013: £4.3m) and acquisition costs of £0.2m (2013: £nil).
[4] Operating cash flow is defined as cash generated by operations of £150.6m (2013: £161.9m) less net capital expenditure of £53.8m (2013: £57.3m).
[5] A detailed reconciliation is provided in note 4 to this announcement.
[6] Return on capital employed (ROCE) is defined as headline operating profit of £111.1m (2013: £107.4m) divided by the average of opening and closing capital employed of £538.0m (2013: £539.6m) as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash/(debt).

A live webcast of the analysts' meeting will be available from 9.00am at www.bodycote.com.

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## OVERVIEW

Bodycote is pleased to be able to report on another successful financial year. The Group delivered 4.0% revenue growth at constant exchange rates, although after taking account of the foreign exchange impact revenue declined 1.7%. This performance was particularly encouraging given the lacklustre macro-economic background. Bodycote outperformed the market in many of its sectors and increased its market share in the year.

Group headline margins were expanded by 90 basis points to 18.2% driven by mix improvements across the business and increases in operating efficiency, particularly in Europe. Headline margins in Aerospace, Defence & Energy (ADE) were flat at 26.8% (2013: 27.0%) in keeping with the Group's strategy of preferentially pursuing growth in this part of the business but without targeting further increases in margin. Meanwhile, Automotive & General Industrial (AGI) headline margins increased by 90 basis points to 15.6%. Much of this increase was generated in Western Europe, which has been an area of focus and increased management attention. Progress has been good but there is still work left to do to achieve the full potential of this part of the Group's activities.

Group headline operating profit increased by 3.4% to £111.1m (2013: £107.4m) despite the decline in reported revenues. At constant exchange rates, growth was 9.2%. Headline earnings per share grew by 6.3% to 43.8p, helped by a one-off reduction in taxes.

Net capital expenditure of £53.8m (2013: £57.3m) was 1.0 times depreciation (2013: 1.0 times), although gross capital expenditure before the benefit of asset sales was 1.1 times depreciation (2013: 1.0 times). Return on capital employed is now 20.7% (2013: 19.9%). Headline operating cash flow was £100.0m (2013: £108.9m) corresponding to a 90.0% cash conversion rate (2013: 101.4%). The company finished the year with a £35.7m net cash position (2013: £15.0m).

Bodycote's strong cash flow generation is a feature of its business model and remains a high priority. This ability to consistently generate high levels of cash has been repeatedly demonstrated over the past several years. While the Group's top priorities for the use of this cash are funding organic growth and enhancing the core dividend, the Group is continually on the lookout for value enhancing acquisitions to boost growth and increase shareholder value. If no such acquisitions are imminent and available funds exceed the immediate needs of the business, then it is our intention to make supplemental distributions to shareholders, as the Board is recommending once again this year. Free cash generation was £75.1m and has comfortably exceeded £70.0m in each of the last 3 years.

## DIVIDEND

The Board is proposing a final ordinary dividend of 9.8p, an increase of 8%, which will be paid on 1 May 2015 subject to shareholder approval at the 2015 Annual General Meeting. This brings the total ordinary dividend for 2014 to 14.4p (2013: 13.5p) costing £27.4m, which represents a year-on-year increase of 7%. Recognising the strong net cash position of the Group, the Board is again recommending a supplemental distribution, by way of a special dividend, amounting to 20.0p per share (2013: 10.0p), costing £38.1m (2013: £19.1m).

## STRATEGIC PROGRESS

The strategy of preferential investment and expansion in our Specialist Technologies that has been pursued since 2009 has again made a meaningful impact on Group financial performance. In 2014 these technologies contributed some 24% to Group revenue, which was up from 14% in 2007. The six Specialist Technologies are HIP Product Fabrication (HIP PF), Specialty Stainless Steel Processes ($S^3P$), HIP Services, Surface Technology, Low Pressure Carburising and Corr-I-Dur®. In 2014 they had a combined operating margin of over 30% (stated before central costs) and in total contributed 38% of Group headline operating profit. Depending on the technology, Bodycote occupies either a unique or a very strong position in the market. Our success with these technologies will, sooner or later, attract greater competition but notwithstanding this, the market size, future growth potential and ability to generate superior margins from these processes are all very significant. Year-on-year growth in this area of the business was 17%, at constant exchange rates.

Our strategy of expanding in the rapid growth countries saw new plants announced in Turkey, Poland, China and Mexico. However, the total number of facilities in the Group fell to 188 as several uneconomic, commodity oriented sites were closed in Europe. Usable equipment was or will be transferred to other sites in the Group, but the exit from commodity work offset the growth achieved elsewhere in the classical heat treatment side of the business and overall the increase was constrained to 1% at constant exchange rates as a result.

The results of the ongoing pursuit of operational excellence continue to be rewarding. One of the methods used to enhance margins and improve pricing and mix is the Bodycote Margin Model. This is a tool that has been developed by the Group over the last five years and the rate of adoption of the methodology is increasing, now with particular success in Germany and the Netherlands. This approach and other practices such as lean manufacturing are helping to drive the performance improvement of the Classical Heat Treatment business.

## SUMMARY & OUTLOOK

The Group delivered another good performance in 2014. Revenue, at constant exchange rates, was ahead 4% and we achieved further improvement in margin and return on capital employed, in addition to strong cash generation.

As we begin 2015 a number of macro-economic uncertainties persist. Nevertheless, at this early stage in the year, the Board believes that the strength of the Group’s Specialist Technologies and management’s continued focus on business improvement, particularly in the Classical Heat Treatment business, should enable further progress in 2015.

**BUSINESS PERFORMANCE**

| | **2014 £m** | 2013 £m |
|---|---|---|
| Revenue | **609.1** | 619.6 |
| Operating profit | **107.0** | 102.1 |
| Acquisition costs | **0.2** | - |
| Reorganisation costs | **-** | 0.8 |
| Operating profit prior to exceptional items | **107.2** | 102.9 |
| Amortisation of acquired intangible fixed assets | **3.9** | 4.5 |
| Headline operating profit | **111.1** | 107.4 |

Group revenue was £609.1m, a decrease of 1.7%, with revenues at constant exchange rates up 4.0% and foreign exchange rate movements having a negative impact of 5.7%.

Headline operating profit for the year increased by 3.4% from £107.4m to £111.1m, and headline operating margin was 18.2% (2013: 17.3%). Headline operating profit at constant exchange rates increased by £9.9m, but adverse foreign exchange rate movements reduced the reported increase by £6.2m to £3.7m.

Cash flow is analysed as follows:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Headline operating profit | **111.1** | 107.4 |
| Add back non-cash items: | | |
| Depreciation and amortisation | **51.2** | 52.9 |
| Impairment of fixed assets | **2.7** | 5.1 |
| Share-based payments | **1.9** | 3.6 |
| Profit on disposal of property, plant and equipment | **(1.4)** | (0.1) |
| Headline EBITDA[1] | **165.5** | 168.9 |
| Net capital expenditure | **(53.8)** | (57.3) |
| Net working capital movement | **(11.7)** | (2.7) |
| Headline operating cash flow | **100.0** | 108.9 |
| Cash cost of restructuring | **(3.0)** | (4.3) |
| Acquisition costs | **(0.2)** | - |
| Operating cash flow | **96.8** | 104.6 |
| Interest | **(2.7)** | (3.3) |
| Taxation | **(19.0)** | (22.5) |
| Free cash flow | **75.1** | 78.8 |

Profit growth, disciplined capital spending and working capital control have resulted in an operating cash inflow of £96.8m (2013: £104.6m). Group net cash at 31 December 2014 was £35.7m (2013: £15.0m).

Capital expenditure continued to be managed carefully. Capital spend (net of asset sales) in 2014 was £53.8m (2013: £57.3m), being 1.0 times depreciation[2] (2013: 1.0 times). There has been a continued focus on cash collection and receivable days at 31 December 2014 were 60 days (31 December 2013: 59 days). The net working capital outflow in the year is primarily a result of increases in inventories and receivables, in line with trading activity, in addition to a decrease in payables, resulting from the timing of capital expenditure payments and the utilisation of environmental provisions.

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

[2] Net capital expenditure to depreciation ratio is defined as capital expenditure less proceeds from asset disposals as a proportion of depreciation and amortisation plus impairment of fixed assets.

## 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], Return on Sales[2], Headline Earnings per Share[3] and Headline Operating Cash Flow[4]. The non-financial KPIs are Accident Frequency[5] and Carbon Footprint[6].

### Financial

Return on capital employed increased by 0.8 percentage points during the year, from 19.9% to 20.7%. Headline operating profit increased by 3.4% from £107.4m to £111.1m, while average capital employed reduced by 0.3% to £538.0m.

Return on sales increased by 0.9 percentage points during the year, from 17.3% to 18.2%. Revenue decreased by 1.7% from £619.6m to £609.1m.

Headline earnings per share increased by 2.6 pence during the year, from 41.2 pence to 43.8 pence. Headline earnings increased by 6.9% from £78.0m to £83.4m, while the average number of shares in issue remained static.

Headline operating cash flow for the Group was £100.0m (2013: £108.9m). This was 90.0% of headline operating profit (2013: 101.4%).

### 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 has decreased to 1.7 in the year (2013: 1.9).

On a normalised basis, the carbon footprint decreased by 3.5% from 632.1 tonnes per £m sales to 610.2 tonnes per £m sales.

[1] Headline operating profit as a percentage of the average of opening and closing capital employed as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash/(debt).
[2] Headline operating profit as a percentage of revenue.
[3] Headline earnings per share is defined in note 4 to this announcement.
[4] Operating cash flow stated before cash flow relating to restructuring of £3.0m (2013: £4.3m) and acquisition costs of £0.2m (2013: £nil).
[5] Accident frequency is defined as the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.
[6] 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). Normalised emissions statistics restate prior year figures using current year country specific conversion factors and current year average exchange rates.

## MARKETS

### Aerospace, Defence & Energy markets

Civil aerospace revenues increased in 2014 by 4% at constant exchange rates (1% decline at actual exchange rates), reflecting a combination of new contract gains and market demand, despite significant OEM destocking in the UK. Original equipment sales improved during the year in both the USA and France. Available seat kilometres grew by 6% indicating a continued increase in aircraft flying hours, which in turn resulted in increased demand for aftermarket parts.

Sales into the defence sector, which accounted for just under 5% of Group revenues, were weak as the effect of the widespread reduction in military budgets continued. Revenues were 6% lower than in 2013 at constant exchange rates (11% decline at actual exchange rates).

Demand for the Group's services in the power generation sector softened as the year progressed, with revenues below 2013 by 4% at constant exchange rates (7% at actual exchange rates).

The performance in oil & gas was strong, helped by significantly increased requirements for the Group's HIP Product Fabrication offering for major subsea projects, along with an end to destocking by onshore oil field service providers. Overall Group revenues were up 13% (at constant exchange rates) compared to 2013 and by 7% at actual exchange rates. Sales into the oil & gas sectors accounted for 10% of Group revenue.

### Automotive & General Industrial markets

Revenues in car and light truck markets increased year-on-year by 5% at constant exchange rates (1% decline at actual exchange rates). Particularly pleasing was an increase in revenues above 4% in Western Europe, at constant exchange rates (1% decline at actual exchange rates), notwithstanding continued weak consumer demand.

Revenues from the heavy truck sector in North America grew strongly in 2014 and were ahead of the prior year by 6% at constant exchange rates (flat at actual exchange rates). In contrast, demand in Western Europe was very weak and revenues declined by 8% at constant exchange rates (15% decline at actual exchange rates).

Bodycote provides thermal processing services for a wide range of machinery and heavy equipment customers. Most sectors served by Bodycote grew well in 2014. This was particularly pleasing in Western Europe against a background of generally soft macro-economic conditions. Of the more important sectors for the Group, demand was robust in tooling, construction equipment and general machinery, whilst consumer goods was soft. Overall, revenues grew 4% at constant exchange rates (2% decline at actual exchange rates).

## BUSINESS REVIEW - AEROSPACE, DEFENCE & ENERGY

Within the Aerospace, Defence & Energy (ADE) business, 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 63 facilities in total.

### Results

Revenues for the ADE business were £263.0m in 2014 compared to £261.8m in 2013, an increase of 0.5% (5.4% at constant exchange rates). Overall, revenues from the commercial aerospace sector remained solid but there have been significantly varying levels of demand in different OEM supply chains. Some have focused on significant destocking, while others have had robust growth on the back of new engine series and airframes. Defence demand has been subdued, resulting in further modest declines in revenue. In energy there has been a mixed picture. Requirements for industrial gas turbine have softened as the year progressed, especially in North America. Onshore oil & gas revenues grew strongly as the destocking seen in 2013, following the substantial decline in US gas prices, ended. The Group recorded strong growth in subsea revenues driven by increased uptake of the Group's HIP PF technology.

Headline operating profit[1] for ADE was £70.6m (2013: £70.7m) and headline operating profit margin reduced slightly from 27.0% to 26.8%.

In 2014, the Group added capacity in a number of facilities, including a new large furnace for aerospace aluminium heat treatments in California, USA, upgraded vacuum heat treatment capability in France and additional high pressure HIP capacity in Massachusetts, USA. In the coming year it is expected that capital expenditure will be slightly above depreciation as further capacity and capability are added to support continuing growth in the Group's high value activities.

Net capital expenditure in 2014 was £18.4m (2013: £20.4m) which represents 0.9 times depreciation (2013: 1.1 times).

Average capital employed in ADE in 2014 was £236.3m (2013: £235.4m). The Group continues to invest in high-return projects in the ADE business. Return on capital employed in 2014 was 26.6% (2013: 26.1%).

[1] Headline operating profit is reconciled to operating profit in note 1 to this announcement. Bodycote plants do not exclusively supply to customers of a given market sector.

### Achievements in 2014

The ADE divisions made further progress during the year in gaining new agreements with a range of customers and for a variety of end uses. The HIP division made excellent progress with its HIP PF offering and revenues advanced strongly at constant exchange rates. It should be noted, however, that unusually for Bodycote, HIP PF tends to be used in large capital projects by our customers and consequently revenue patterns can be expected to be uneven.

**Organisation and people**
Total full-time equivalent headcount at 31 December 2014 was 1,898 (2013: 1,938), a decrease of 2.1% compared to revenue growth in ADE of 0.5%.

**Looking ahead**
Order books for commercial aerospace OEMs remain strong, but notable destocking at certain OEMs and their supply chains is expected to continue during 2015. If the oil price remains at current levels we expect demand from this sector to weaken as the year progresses. Defence markets are expected to remain soft. Despite this, Bodycote expects to be able to continue to capitalise on its world leading position in ADE and again outperform the market.

## BUSINESS REVIEW - AUTOMOTIVE & GENERAL INDUSTRIAL

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 125 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.

**Results**
AGI business revenues were £346.1m in 2014, compared to £357.8m in 2013, a decrease of 3.3% (3.1% increase at constant exchange rates).

In 2014 sales into car & light truck have been good in all geographies, with revenues increasing by 6.0% at constant exchange rates. Revenues to heavy truck increased by 4.2% (at constant exchange rates) in North America as demand recovered well but weak economic conditions in Europe saw revenues to the sector decline by 7.6% (at constant exchange rates). General industrial markets have shown good growth in most sectors in both North America and Western Europe, with overall revenue growth of 3.4% (at constant exchange rates). Robust sales growth was seen in agricultural equipment, construction machinery and tooling, the latter typically being a leading indicator of industrial production.

In the emerging markets, AGI revenues increased by 2.8% (at constant exchange rates). Notable was strong heavy truck growth in China as a result of specific contracts won by the Group.

Headline operating profit[1] in AGI was £54.1m compared to £52.7m in 2013. Headline operating margin increased to 15.6% (2013: 14.7%) reflecting improved mix and strong cost control, particularly in areas of demand weakness. Revenues from the Group's Specialist Technologies, and especially its S$^3$P technology, grew strongly at high margins.

Net capital expenditure in 2014 was £31.1m (2013: £34.2m), which represents 0.9 times depreciation (2013: 1.0 times).

In 2015 we expect that capital expenditure will be just above depreciation as we accelerate capacity expansion in the rapid growth countries and for our Specialist Technologies. Return on capital employed in 2014 was 16.0% (2013: 15.1%). The increase reflects continuing focus on improving capital returns by increasingly targeting higher added-value activities. On average, capital employed in 2014 was £301.8m (2013: £304.2m).

[1] Headline operating profit is reconciled to operating profit in note 1 to this announcement. Bodycote plants do not exclusively supply to customers of a given market sector.

**Achievements in 2014**

The Group continued to win business across all geographies. In both North America and Europe our ability to support automotive manufacturers as they move to newer technologies in pursuit of better fuel efficiency continues to provide Bodycote with market share growth. New outsourcing contracts and contributions from our AGI focused Specialist Technologies of $S^3P$, Low Pressure Carburising and Corr-I-Dur® resulted in growth at constant exchange rates in all regions. Overall, revenues grew by 3.1% at constant exchange rates. AGI continued to see the benefits of mix improvement and market focus. Together with an emphasis on improved efficiency these factors have been crucial in the achievement of ongoing margin enhancements in this business.

**Organisation and people**

At 31 December 2014, the number of full-time equivalent employees in AGI was 3,567 compared to 3,585 at the end of 2013 and 1,677 less than its peak in July 2008. AGI revenues of £346.1m compare to £339.6m in 2008 (at 2014 exchange rates), an increase of 1.9%.

**Looking ahead**

The AGI businesses will continue to build on the success of enhancing 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 Specialist Technologies provides additional momentum. In addition the Group will continue with its strategy of adding to its existing footprint in the rapid growth countries.

## FINANCIAL OVERVIEW

| | **2014 £m** | 2013 £m |
|---|---|---|
| Revenue | **609.1** | 619.6 |
| Headline operating profit | **111.1** | 107.4 |
| Amortisation of acquired intangible fixed assets | **(3.9)** | (4.5) |
| Operating profit prior to exceptional items | **107.2** | 102.9 |
| Acquisition costs | **(0.2)** | - |
| Reorganisation costs | **-** | (0.8) |
| Operating profit | **107.0** | 102.1 |
| Net finance charge | **(3.3)** | (3.7) |
| Profit before taxation | **103.7** | 98.4 |
| Taxation | **(24.4)** | (25.3) |
| Profit for the year | **79.3** | 73.1 |

Group revenue was £609.1m, a decrease of 1.7%, with revenues at constant exchange rates up 4.0% and foreign exchange rate movements having a negative impact of 5.7%.

Headline operating profit for the year increased by 3.4% from £107.4m to £111.1m and headline operating margin was 18.2% (2013: 17.3%). Headline operating profit at constant exchange rates increased by £9.9m, but adverse foreign exchange rate movements reduced the reported increase by £6.2m to £3.7m.

The amortisation of acquired intangible assets arises from acquisitions in the current and prior years. The charge has decreased to £3.9m (2013: £4.5m).

Operating profit was £107.0m (2013: £102.1m) after charging £3.9m (2013: £4.5m) in respect of the amortisation of acquired intangible assets and £0.2m (2013: £nil) of acquisition costs. During 2013 reorganisation costs of £0.8m were also charged to the income statement.

Headline operating cash flow[1] for the Group was £100.0m (2013: £108.9m). This was 90.0% of headline operating profit (2013: 101.4%). Net capital expenditure was 1.0 times depreciation (2013: 1.0 times) as the Group continued to focus on increasing the utilisation of existing equipment. There was a working capital outflow in the year mainly due to a decrease in the level of payables, resulting from the timing of capital expenditure payments and the utilisation of environmental provisions, and an increase in the levels of inventories and receivables, in line with trading activity.

After deducting interest and tax, the Group recorded positive free cash flow[1] of £75.1m (2013: £78.8m).

[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 £0.2m (2013: £0.8m). Acquisition costs of £0.2m (2013: £nil) have been incurred and no reorganisation costs were expensed in the year (2013: £0.8m).

Restructuring provisions outstanding at 31 December 2014 totalled £9.4m (2013: £8.6m). Of the remaining costs, £5.2m is expected to be spent in 2015 and £4.2m in 2016 and later. All expenditure after the end of 2015 relates to ongoing environmental remediation, primarily in the USA.

**PROFIT BEFORE TAXATION**

Headline profit before taxation was £107.8m (2013: £103.7m). Profit before taxation was £103.7m (2013: £98.4m). These amounts are reconciled as follows:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Headline operating profit | **111.1** | 107.4 |
| Net finance charge | **(3.3)** | (3.7) |
| Headline profit before taxation | **107.8** | 103.7 |
| Amortisation of acquired intangible fixed assets | **(3.9)** | (4.5) |
| Profit before taxation prior to exceptional items | **103.9** | 99.2 |
| Acquisition costs | **(0.2)** | - |
| Reorganisation costs | **-** | (0.8) |
| Profit before taxation | **103.7** | 98.4 |

**FINANCE CHARGE**

The net finance charge was £3.3m compared to £3.7m in 2013. The decrease primarily results from lower average net debt in 2014 than in 2013, offset by higher financing costs due to facility arrangement fees related to the extension of the Revolving Credit Facility completed in July 2014.

| | **2014 £m** | 2013 £m |
|---|---|---|
| Net interest payable | **0.2** | 0.6 |
| Financing costs | **1.6** | 1.5 |
| Bank and other charges | **0.9** | 1.0 |
| Pension finance charge | **0.6** | 0.6 |
| Net finance charge | **3.3** | 3.7 |

**TAXATION**

The taxation charge was £24.4m for the year (2013: £25.3m).

The effective taxation rate of 23.5% (2013: 25.7%) resulted from the blending of differing tax rates in each of the countries in which the Group operates. The reduction in the taxation rate is primarily due to a one-off benefit in the year following the settlement of historical overseas tax matters.

The headline taxation rate for 2014 was 22.7% (2013: 24.7%), being stated before accounting for exceptional items and amortisation of goodwill and acquired intangibles, which are generally not allowable for tax purposes.

**EARNINGS PER SHARE**

Basic headline earnings per share increased to 43.8p from 41.2p. Basic earnings per share for the year increased to 41.7p from 38.5p.

**DIVIDEND**

The Board has recommended a final ordinary dividend of 9.8p (2013: 9.1p) bringing the total ordinary dividend to 14.4p per share (2013: 13.5p). The Board has also recommended a supplemental distribution, by way of a special dividend, amounting to 20.0p per share (2013:10.0p). If approved by shareholders, the final ordinary dividend of 9.8p per share for 2014 and the supplemental distribution of 20.0p per share for 2014 will be paid on 1 May 2015 to all shareholders on the register at the close of business on 27 March 2015.

**CAPITAL STRUCTURE**

The Group's balance sheet at 31 December 2014 is summarised below:

| | **Assets £m** | **Liabilities £m** | **Net Assets £m** |
|---|---|---|---|
| Property, plant and equipment | 434.6 | - | 434.6 |
| Goodwill and intangible assets | 172.1 | - | 172.1 |
| Current assets and liabilities | 151.1 | (159.6) | (8.5) |
| Other non-current assets and liabilities | 1.6 | (14.1) | (12.5) |
| Retirement benefit obligations | - | (17.0) | (17.0) |
| Deferred tax | 27.2 | (60.7) | (33.5) |
| Total before net cash | 786.6 | (251.4) | 535.2 |
| Net cash | 38.5 | (2.8) | 35.7 |
| **Net assets as at 31 December 2014** | **825.1** | **(254.2)** | **570.9** |
| Net assets as at 31 December 2013 | 808.6 | (261.2) | 547.4 |

Net assets increased by £23.5m (4.3%) to £570.9m (2013: £547.4m). At constant exchange rates, net assets increased by £42.6m (7.8%). The major movements compared to 31 December 2013 were an increase in net cash of £20.7m and a decrease in payables of £12.8m, together with a decrease in property, plant and equipment of £10.0m.

The decrease in property, plant and equipment was due predominantly to additions of £55.3m offset by depreciation of £50.3m, asset impairments of £2.7m and foreign exchange movements of £10.7m.

Trade and other payables decreased by £12.8m due to the impact of foreign exchange and the timing of capital expenditure payments.

Retirement benefit obligations decreased by £1.5m during the year, largely as a result of the increase in the value of scheme assets exceeding the increase in liabilities, the latter being principally due to reduced bond yields.

## NET CASH

Group net cash at 31 December 2014 was £35.7m (2013: £15.0m). The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of funding.

## CASH FLOW

The net increase in cash and cash equivalents was £21.3m (2013: £13.7m), made up of net cash from operating activities of £131.6m (2013: £139.4m), less investing activities of £54.8m (2013: £58.2m) and less cash used in financing activities of £55.5m (2013: £67.5m).

The decrease in net cash flow from operating activities from £139.4m to £131.6m was driven primarily by the decrease in headline EBITDA[1] from £168.9m to £165.5m and the £9.6m decrease in payables.

Net cash outflows from investing activities decreased from £58.2m to £54.8m, primarily as a result of greater proceeds on disposal of property, plant and equipment in 2014 compared to the prior year. The level of net capital expenditure in 2014 was £53.8m (2013: £57.3m), consistent with plans to maintain and improve the capacity and capability of the Group, whilst keeping expenditure levels close to depreciation.

Net cash outflows used in financing activities decreased from £67.5m to £55.5m, due primarily to the reduction in loan repayments, from £36.6m in 2013 to £0.5m in 2014, offset by the increase in dividend payments, from £24.0m in 2013 to £45.2m in 2014.

There has been a continued focus on cash collection, although receivable days at 31 December 2014 increased by one to 60 days (2013: 59 days).

Net interest payments for the year were £2.7m (2013: £3.3m). Tax payments were £19.0m (2013: £22.5m).

[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 £53.8m (2013: £57.3m). The multiple of net capital expenditure to depreciation was 1.0 times (2013: 1.0 times), which reflects the Group's continued careful management of its capital expenditure programme. Major capital projects that were in progress during 2014 included expansion of our production facilities in Mexico, completion of the Kunshan facility in China, and expansion of our $S^3P$ capacity. The Group also continued to invest in the implementation of a new ERP system. As a consequence of the timing of these key projects, the value of assets under construction has increased by £9.9m, from £32.1m in 2013 to £42.0m in 2014.

## BORROWING FACILITIES

The Group is financed by a mix of cash flows from operations, short-term borrowings, longer term loans and finance leases. The Group's funding policy aims to ensure continuity of finance at reasonable cost, based on committed and uncommitted facilities and loans from several sources over a spread of maturities. The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of longer term funding.

On 2 July 2014, the £125m and €125m revolving credit facilities were replaced by a single committed revolving credit facility for £230m, maturing on 3 July 2019. The amendment and maturity profile extension gave rise to a reduction in both the drawn margin and undrawn commitment fees.

The total undrawn committed facility funding available to the Group at 31 December 2014 was £230.0m (2013: £229.0m). The Group also has access to a US$10m committed letter of credit facility maturing in August 2016.

At 31 December 2014, the Group had the following committed facilities:

| Facility | Expiry Date | Facility £m | Loan and Letter of Credit Utilisation £m | **Facility Headroom £m** |
|---|---|---|---|---|
| £230m Revolving Credit | 3 July 2019 | 230.0 | - | **230.0** |
| $10m Letter of Credit | 31 August 2016 | 6.4 | 1.7 | **4.7** |
| | | 236.4 | 1.7 | **234.7** |

**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. Due to the net cash position at 31 December 2014 the gearing ratio is 0% (2013: 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 cash resources, 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 2014 were as follows:

- £230m Revolving Credit Facility maturing 3 July 2019
- $10m Letter of Credit Facility maturing 31 August 2016

The December 2014 weighted average life of the committed facilities was 4.4 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 has been prepared solely to provide information to shareholders to assess how the directors have performed their duty to promote the success of the company.

The 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 2014

| | 2014 £m | 2013 £m | Note |
|---|---|---|---|
| **Revenue** | **609.1** | 619.6 | |
| Cost of sales and overheads | **(501.9)** | (516.7) | |
| **Operating profit prior to exceptional items** | **107.2** | 102.9 | |
| Acquisition costs | **(0.2)** | - | |
| Reorganisation costs | **-** | (0.8) | |
| **Operating profit** | **107.0** | 102.1 | 2 |
| Investment revenue | **0.1** | 0.1 | |
| Finance costs | **(3.4)** | (3.8) | |
| **Profit before taxation** | **103.7** | 98.4 | |
| Taxation | **(24.4)** | (25.3) | 3 |
| **Profit for the year** | **79.3** | 73.1 | |
| Attributable to: | | | |
| Equity holders of the parent | **79.4** | 73.0 | |
| Non-controlling interests | **(0.1)** | 0.1 | |
| | **79.3** | 73.1 | |
| **Earnings per share** | | | 4 |
| | **Pence** | Pence | |
| Basic | **41.7** | 38.5 | |
| Diluted | **41.7** | 38.5 | |

All activities have arisen from continuing operations.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2014

| | 2014 £m | 2013 £m |
|---|---|---|
| **Profit for the year** | **79.3** | 73.1 |
| **Items that will not be reclassified to profit or loss:** | | |
| Actuarial gains / (losses) on defined benefit pension schemes | **0.5** | (0.3) |
| Tax on items not reclassified | **1.0** | (0.1) |
| **Total items that will not be reclassified to profit or loss** | **1.5** | (0.4) |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Exchange losses on translation of foreign operations | **(7.0)** | (3.1) |
| Movements on hedges of net investments | **-** | (1.3) |
| **Total items that may be reclassified subsequently to profit or loss** | **(7.0)** | (4.4) |
| **Other comprehensive expense for the year** | **(5.5)** | (4.8) |
| **Total comprehensive income for the year** | **73.8** | 68.3 |
| Attributable to: | | |
| Equity holders of the parent | **73.9** | 68.3 |
| Non-controlling interests | **(0.1)** | - |
| | **73.8** | 68.3 |

# CONSOLIDATED BALANCE SHEET
# AT 31 DECEMBER 2014

| | 2014 £m | 2013 £m | Note |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | **138.4** | 135.7 | |
| Other intangible assets | **33.7** | 32.2 | |
| Property, plant and equipment | **434.6** | 444.6 | |
| Other investments | **-** | 1.7 | |
| Deferred tax assets | **27.2** | 29.4 | |
| Trade and other receivables | **1.6** | 1.7 | |
| | **635.5** | 645.3 | |
| **Current assets** | | | |
| Inventories | **20.9** | 18.7 | |
| Current tax assets | **20.3** | 16.5 | |
| Trade and other receivables | **109.0** | 108.9 | |
| Cash and bank balances | **38.5** | 16.9 | |
| Assets held for sale | **0.9** | 2.3 | |
| | **189.6** | 163.3 | |
| **Total assets** | **825.1** | 808.6 | |
| **Current liabilities** | | | |
| Trade and other payables | **119.3** | 132.1 | |
| Current tax liabilities | **33.4** | 27.1 | |
| Obligations under finance leases | **0.1** | 0.1 | |
| Borrowings | **2.5** | 1.6 | |
| Provisions | **6.9** | 6.9 | 5 |
| | **162.2** | 167.8 | |
| **Net current assets/(liabilities)** | **27.4** | (4.5) | |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | **17.0** | 18.5 | |
| Deferred tax liabilities | **60.7** | 61.6 | |
| Obligations under finance leases | **0.2** | 0.2 | |
| Provisions | **10.4** | 9.5 | 5 |
| Other payables | **3.7** | 3.6 | |
| | **92.0** | 93.4 | |
| **Total liabilities** | **254.2** | 261.2 | |
| **Net assets** | **570.9** | 547.4 | |
| **Equity** | | | |
| Share capital | **33.1** | 33.1 | |
| Share premium account | **177.1** | 177.1 | |
| Own shares | **(7.1)** | (5.5) | |
| Other reserves | **136.6** | 140.1 | |
| Hedging and translation reserves | **(3.0)** | 4.7 | |
| Retained earnings | **233.7** | 197.3 | |
| **Equity attributable to equity holders of the parent** | **570.4** | 546.8 | |
| **Non-controlling interests** | **0.5** | 0.6 | |
| **Total equity** | **570.9** | 547.4 | |

## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2014

| | 2014 £m | 2013 £m | Note |
|---|---|---|---|
| **Net cash from operating activities** | **131.6** | 139.4 | 6 |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | **(55.3)** | (56.2) | |
| Proceeds on disposal of property, plant and equipment and intangible assets | **5.6** | 1.9 | |
| Purchases of intangible fixed assets | **(4.1)** | (3.0) | |
| Acquisition of businesses | **(2.7)** | - | |
| Purchase of sundry investments | **(0.1)** | (0.9) | |
| Disposal of investments | **1.8** | - | |
| **Net cash used in investing activities** | **(54.8)** | (58.2) | |
| **Financing activities** | | | |
| Interest received | **0.1** | 0.1 | |
| Interest paid | **(2.8)** | (3.4) | |
| Dividends paid | **(45.2)** | (24.0) | |
| Repayments of bank loans | **(0.5)** | (36.6) | |
| Payments of obligations under finance leases | **(0.1)** | (0.1) | |
| Own shares purchased / settlement of share options | **(7.0)** | (3.5) | |
| **Net cash used in financing activities** | **(55.5)** | (67.5) | |
| **Net increase in cash and cash equivalents** | **21.3** | 13.7 | |
| **Cash and cash equivalents at beginning of year** | **15.3** | 1.6 | |
| Effect of foreign exchange rate changes | **(0.6)** | - | |
| **Cash and cash equivalents at end of year** | **36.0** | 15.3 | 6 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2014

| | 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 2013 | 33.1 | 177.1 | (11.3) | 141.6 | 10.5 | 151.7 | 502.7 | 1.4 | 504.1 |
| Net profit for the year | - | - | - | - | - | 73.0 | 73.0 | 0.1 | 73.1 |
| Exchange differences on translation of overseas operations | - | - | - | - | (3.0) | - | (3.0) | (0.1) | (3.1) |
| Movements on hedges of net investments | - | - | - | - | (1.3) | - | (1.3) | - | (1.3) |
| Actuarial losses on defined benefit pension schemes net of deferred tax | - | - | - | - | - | (0.4) | (0.4) | - | (0.4) |
| **Total comprehensive income for the year** | - | - | - | - | (4.3) | 72.6 | 68.3 | - | 68.3 |
| Acquired in the year / settlement of share options | - | - | 5.8 | (5.1) | - | (4.2) | (3.5) | - | (3.5) |
| Share-based payments | - | - | - | 3.6 | - | - | 3.6 | - | 3.6 |
| Deferred tax on share-based payment transactions | - | - | - | - | - | (0.3) | (0.3) | - | (0.3) |
| Dividends paid | - | - | - | - | - | (24.0) | (24.0) | - | (24.0) |
| Disposed with subsidiary | - | - | - | - | (1.5) | 1.5 | - | - | - |
| Purchase of non-controlling interests | - | - | - | - | - | - | - | (0.8) | (0.8) |
| **31 December 2013** | **33.1** | **177.1** | **(5.5)** | **140.1** | **4.7** | **197.3** | **546.8** | **0.6** | **547.4** |
| Net profit for the year | **-** | **-** | **-** | **-** | **-** | **79.4** | **79.4** | **(0.1)** | **79.3** |
| Exchange differences on translation of overseas operations | **-** | **-** | **-** | **-** | **(7.0)** | **-** | **(7.0)** | **-** | **(7.0)** |
| Actuarial gains on defined benefit pension schemes net of deferred tax | **-** | **-** | **-** | **-** | **-** | **1.5** | **1.5** | **-** | **1.5** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **(7.0)** | **80.9** | **73.9** | **(0.1)** | **73.8** |
| Acquired in the year / settlement of share options | **-** | **-** | **(1.6)** | **(5.4)** | **-** | **-** | **(7.0)** | **-** | **(7.0)** |
| Share-based payments | **-** | **-** | **-** | **1.9** | **-** | **-** | **1.9** | **-** | **1.9** |
| Dividends paid | **-** | **-** | **-** | **-** | **-** | **(45.2)** | **(45.2)** | **-** | **(45.2)** |
| Disposal / dissolution of subsidiary | **-** | **-** | **-** | **-** | **(0.7)** | **0.7** | **-** | **-** | **-** |
| **31 December 2014** | **33.1** | **177.1** | **(7.1)** | **136.6** | **(3.0)** | **233.7** | **570.4** | **0.5** | **570.9** |

Included in other reserves is the capital redemption reserve of £129.8m (2013: £129.8m) and the share-based payments reserve of £5.9m (2013: £9.2m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2014 1,212,547 (2013: 2,035,618) 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 2014

### 1 Business and geographical segments

The Group has 188 locations across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

In accordance with IFRS 8 'Operating Segments', the segmentation of Group activity reflects the way the Group is managed by the chief operating decision maker, being the Group Chief Executive, who on a monthly basis reviews the operating performance of six operating segments, split between the Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI) business areas, as follows:

- ADE – Western Europe;
- ADE – North America;
- ADE – Emerging markets;
- AGI – Western Europe;
- AGI – North America; and
- AGI – Emerging markets.

The split of operating segments by geography reflects the divisional reporting structure of the Group.

In accordance with the aggregation criteria of IFRS 8, the operating segments are aggregated into the Group's two key business areas, ADE and AGI, the split being driven by customer behaviour and requirements. Customers in the ADE segment tend to operate and purchase more globally and have long supply chains, whilst customers in the AGI segment tend to purchase more locally and have shorter supply chains.

Bodycote plants do not exclusively supply services to customers of a given market sector. Allocation of plants between ADE and AGI is therefore derived by reference to the preponderance of markets served.

| **Group** | **ADE 2014 £m** | **AGI 2014 £m** | **Central costs and eliminations 2014 £m** | **Consolidated 2014 £m** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | **263.0** | **346.1** | **-** | **609.1** |
| **Result** | | | | |
| Headline operating profit prior to share-based payments and unallocated central costs | **70.7** | **55.1** | **-** | **125.8** |
| Share-based payments | **(0.1)** | **(1.0)** | **(1.1)** | **(2.2)** |
| Unallocated central costs | **-** | **-** | **(12.5)** | **(12.5)** |
| Headline operating profit / (loss) | **70.6** | **54.1** | **(13.6)** | **111.1** |
| Amortisation of acquired intangible fixed assets | **(1.3)** | **(2.6)** | **-** | **(3.9)** |
| Operating profit / (loss) prior to exceptional items | **69.3** | **51.5** | **(13.6)** | **107.2** |
| Acquisition costs | **-** | **(0.2)** | **-** | **(0.2)** |
| Segment result | **69.3** | **51.3** | **(13.6)** | **107.0** |
| Investment revenue | | | | **0.1** |
| Finance costs | | | | **(3.4)** |
| Profit before taxation | | | | **103.7** |
| Taxation | | | | **(24.4)** |
| Profit for the year | | | | **79.3** |

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 2014 £m** | **North America 2014 £m** | **Emerging markets 2014 £m** | **Total ADE 2014 £m** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | **129.7** | **130.8** | **2.5** | **263.0** |
| **Result** | | | | |
| Headline operating profit prior to share-based payments | **30.4** | **39.8** | **0.5** | **70.7** |
| Share-based payments | **(0.1)** | **-** | **-** | **(0.1)** |
| Headline operating profit | **30.3** | **39.8** | **0.5** | **70.6** |
| Amortisation of acquired intangible fixed assets | **(0.3)** | **(1.0)** | **-** | **(1.3)** |
| Segment result | **30.0** | **38.8** | **0.5** | **69.3** |

| **Automotive & General Industrial** | **Western Europe 2014 £m** | **North America 2014 £m** | **Emerging markets 2014 £m** | **Total AGI 2014 £m** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | **220.1** | **84.6** | **41.4** | **346.1** |
| **Result** | | | | |
| Headline operating profit prior to share-based payments | **37.6** | **15.5** | **2.0** | **55.1** |
| Share-based payments | **(1.0)** | **-** | **-** | **(1.0)** |
| Headline operating profit | **36.6** | **15.5** | **2.0** | **54.1** |
| Amortisation of acquired intangible fixed assets | **(0.2)** | **(2.2)** | **(0.2)** | **(2.6)** |
| Operating profit prior to exceptional items | **36.4** | **13.3** | **1.8** | **51.5** |
| Acquisition costs | **(0.2)** | **-** | **-** | **(0.2)** |
| Segment result | **36.2** | **13.3** | **1.8** | **51.3** |

| **Group** | ADE 2013 £m | AGI 2013 £m | Central costs and eliminations 2013 £m | Consolidated 2013 £m |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | 261.8 | 357.8 | - | 619.6 |
| **Result** | | | | |
| Headline operating profit prior to share-based payments and unallocated central costs | 71.9 | 54.2 | - | 126.1 |
| Share-based payments | (1.2) | (1.5) | (1.7) | (4.4) |
| Unallocated central costs | - | - | (14.3) | (14.3) |
| Headline operating profit / (loss) | 70.7 | 52.7 | (16.0) | 107.4 |
| Amortisation of acquired intangible fixed assets | (1.3) | (3.2) | - | (4.5) |
| Operating profit / (loss) prior to exceptional items | 69.4 | 49.5 | (16.0) | 102.9 |
| Reorganisation costs | - | - | (0.8) | (0.8) |
| Segment result | 69.4 | 49.5 | (16.8) | 102.1 |
| Investment revenue | | | | 0.1 |
| Finance costs | | | | (3.8) |
| Profit before taxation | | | | 98.4 |
| Taxation | | | | (25.3) |
| Profit for the year | | | | 73.1 |

**1 Business and geographical segments** (continued)

| **Aerospace, Defence & Energy** | Western Europe 2013 £m | North America 2013 £m | Emerging markets 2013 £m | Total ADE 2013 £m |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | 121.0 | 137.9 | 2.9 | 261.8 |
| **Result** | | | | |
| Headline operating profit prior to share-based payments | 32.1 | 39.6 | 0.2 | 71.9 |
| Share-based payments | (0.3) | (0.9) | - | (1.2) |
| Headline operating profit | 31.8 | 38.7 | 0.2 | 70.7 |
| Amortisation of acquired intangible fixed assets | (0.3) | (1.0) | - | (1.3) |
| Segment result | 31.5 | 37.7 | 0.2 | 69.4 |

| **Automotive & General Industrial** | Western Europe 2013 £m | North America 2013 £m | Emerging markets 2013 £m | Total AGI 2013 £m |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total revenue | 226.9 | 85.9 | 45.0 | 357.8 |
| **Result** | | | | |
| Headline operating profit prior to share-based payments | 36.1 | 15.6 | 2.5 | 54.2 |
| Share-based payments | (1.0) | (0.5) | - | (1.5) |
| Headline operating profit | 35.1 | 15.1 | 2.5 | 52.7 |
| Amortisation of acquired intangible fixed assets | (0.2) | (2.8) | (0.2) | (3.2) |
| Segment result | 34.9 | 12.3 | 2.3 | 49.5 |

**Other information**

| **Group** | **ADE 2014 £m** | **AGI 2014 £m** | **Central costs and eliminations 2014 £m** | **Consolidated 2014 £m** |
|---|---|---|---|---|
| Gross capital additions | **18.9** | **36.2** | **4.3** | **59.4** |
| Depreciation and amortisation | **20.1** | **34.0** | **1.0** | **55.1** |
| **Balance sheet** | | | | |
| Assets: | | | | |
| Segment assets | **308.1** | **434.7** | **82.3** | **825.1** |
| Liabilities: | | | | |
| Segment liabilities | **(68.2)** | **(122.8)** | **(63.2)** | **(254.2)** |
| | **239.9** | **311.9** | **19.1** | **570.9** |
| Allocation of head office net assets | **8.3** | **10.8** | **(19.1)** | **-** |
| Adjusted segment net assets | **248.2** | **322.7** | **-** | **570.9** |

**1 Business and geographical segments** (continued)

| **Aerospace, Defence & Energy** | **Western Europe 2014 £m** | **North America 2014 £m** | **Emerging markets 2014 £m** | **Total ADE 2014 £m** |
|---|---|---|---|---|
| Gross capital additions | **9.2** | **9.5** | **0.2** | **18.9** |
| Depreciation and amortisation | **9.5** | **10.3** | **0.3** | **20.1** |
| **Balance sheet** | | | | |
| Assets: | | | | |
| Segment assets | **140.3** | **164.7** | **3.1** | **308.1** |
| Liabilities: | | | | |
| Segment liabilities | **(35.5)** | **(31.0)** | **(1.7)** | **(68.2)** |
| Segment net assets | **104.8** | **133.7** | **1.4** | **239.9** |

| **Automotive & General Industrial** | **Western Europe 2014 £m** | **North America 2014 £m** | **Emerging markets 2014 £m** | **Total AGI 2014 £m** |
|---|---|---|---|---|
| Gross capital additions | **18.8** | **6.9** | **10.5** | **36.2** |
| Depreciation and amortisation | **21.6** | **7.9** | **4.5** | **34.0** |
| **Balance sheet** | | | | |
| Assets: | | | | |
| Segment assets | **248.2** | **118.9** | **67.6** | **434.7** |
| Liabilities: | | | | |
| Segment liabilities | **(93.1)** | **(15.6)** | **(14.1)** | **(122.8)** |
| Segment net assets | **155.1** | **103.3** | **53.5** | **311.9** |

| **Group** | ADE 2013 £m | AGI 2013 £m | Central costs and eliminations 2013 £m | Consolidated 2013 £m |
|---|---|---|---|---|
| Gross capital additions | 21.1 | 35.4 | 2.7 | 59.2 |
| Depreciation and amortisation | 20.6 | 36.1 | 0.7 | 57.4 |
| **Balance sheet** | | | | |
| Assets: | | | | |
| Segment assets | 312.5 | 440.2 | 54.2 | 806.9 |
| Other investments | - | - | 1.7 | 1.7 |
| Consolidated total assets | 312.5 | 440.2 | 55.9 | 808.6 |
| Liabilities: | | | | |
| Segment liabilities | (63.6) | (130.2) | (67.4) | (261.2) |
| | 248.9 | 310.0 | (11.5) | 547.4 |
| Allocation of head office net liabilities | (5.1) | (6.4) | 11.5 | - |
| Adjusted segment net assets | 243.8 | 303.6 | - | 547.4 |

**1 Business and geographical segments** (continued)

| **Aerospace, Defence & Energy** | Western Europe 2013 £m | North America 2013 £m | Emerging markets 2013 £m | Total ADE 2013 £m |
|---|---|---|---|---|
| Gross capital additions | 7.4 | 13.4 | 0.3 | 21.1 |
| Depreciation and amortisation | 10.0 | 10.3 | 0.3 | 20.6 |
| **Balance sheet** | | | | |
| Assets: | | | | |
| Segment assets | 148.5 | 161.2 | 2.8 | 312.5 |
| Liabilities: | | | | |
| Segment liabilities | (34.7) | (27.2) | (1.7) | (63.6) |
| Segment net assets | 113.8 | 134.0 | 1.1 | 248.9 |

| **Automotive & General Industrial** | Western Europe 2013 £m | North America 2013 £m | Emerging markets 2013 £m | Total AGI 2013 £m |
|---|---|---|---|---|
| Gross capital additions | 17.3 | 9.9 | 8.2 | 35.4 |
| Depreciation and amortisation | 22.8 | 8.1 | 5.2 | 36.1 |
| **Balance sheet** | | | | |
| Assets: | | | | |
| Segment assets | 263.2 | 114.1 | 62.9 | 440.2 |
| Liabilities: | | | | |
| Segment liabilities | (99.1) | (18.6) | (12.5) | (130.2) |
| Segment net assets | 164.1 | 95.5 | 50.4 | 310.0 |

**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** | |
|---|---|---|---|---|
| | **2014 £m** | 2013 £m | **2014 £m** | 2013 £m |
| USA | **206.7** | 216.1 | **244.9** | 237.4 |
| France | **91.4** | 93.8 | **63.1** | 68.5 |
| UK | **59.5** | 64.2 | **71.2** | 71.5 |
| Germany | **65.5** | 63.9 | **59.9** | 65.1 |
| Sweden | **51.4** | 42.0 | **37.6** | 43.8 |
| Netherlands | **26.1** | 26.7 | **22.9** | 20.2 |
| Others | **108.5** | 112.9 | **107.1** | 107.7 |
| | **609.1** | 619.6 | **606.7** | 614.2 |

## 2 Operating profit

| | **2014 £m** | 2013 £m |
|---|---|---|
| Revenue | **609.1** | 619.6 |
| Cost of sales | **(382.0)** | (386.2) |
| Gross profit | **227.1** | 233.4 |
| Other operating income | **5.4** | 3.5 |
| Distribution costs | **(17.9)** | (18.0) |
| Administration expenses[1] | **(102.1)** | (109.6) |
| Other operating expenses | **(1.4)** | (1.9) |
| Headline operating profit | **111.1** | 107.4 |
| Amortisation of acquired intangible fixed assets[1] | **(3.9)** | (4.5) |
| Operating profit prior to exceptional items | **107.2** | 102.9 |
| Exceptional items[1] | **(0.2)** | (0.8) |
| Operating profit | **107.0** | 102.1 |

[1] Administration expenses total £106.2m (2013: £114.9m).

Exceptional items comprise:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Acquisition costs | **0.2** | - |
| Reorganisation costs | **-** | 0.8 |
| | **0.2** | 0.8 |

## 3 Taxation

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Current taxation – charge for the year | **30.4** | 19.7 |
| Current taxation – adjustments in respect of previous years | **(7.1)** | (0.2) |
| Deferred tax | **1.1** | 5.8 |
| | **24.4** | 25.3 |

UK corporation tax is calculated at 21.50% (2013: 23.25%) 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:

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Profit before taxation | **103.7** | 98.4 |
| Tax at the UK corporation tax rate of 21.50% (2013: 23.25%) | **22.3** | 22.9 |
| Tax effect of income / expenses that are not deductible in determining taxable profit | **(2.1)** | (6.1) |
| Deferred tax assets recognised | **0.9** | 0.9 |
| Tax effect of other adjustments in respect of previous years: | | |
| Current tax | **(7.1)** | (0.1) |
| Deferred tax | **-** | (0.2) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **10.4** | 7.9 |
| Tax expense for the year | **24.4** | 25.3 |

Tax on items taken directly to equity is a credit of £1.0m (2013: charge of £0.4m).

Tax on exceptional items and amortisation of acquired intangible fixed assets is £0.1m (2013: £0.2m).

## 4 Earnings per share

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

| **Earnings** | **2014 £m** | 2013 £m |
|---|---|---|
| Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent | **79.4** | 73.0 |

| **Number of shares** | **Number** | Number |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **190,243,625** | 189,406,006 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **-** | - |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **190,243,625** | 189,406,006 |

| | **Pence** | Pence |
|---|---|---|
| **Earnings per share:** | | |
| Basic | **41.7** | 38.5 |
| Diluted | **41.7** | 38.5 |

| **Headline earnings** | **£m** | £m |
|---|---|---|
| Net profit attributable to equity holders of the parent | **79.4** | 73.0 |
| Add back: | | |
| Amortisation of acquired intangible fixed assets (net of tax) | **3.8** | 4.4 |
| Acquisition costs (net of tax) | **0.2** | - |
| Reorganisation costs (net of tax) | **-** | 0.6 |
| **Headline earnings** | **83.4** | 78.0 |

| **Earnings per share from headline earnings:** | **Pence** | Pence |
|---|---|---|
| Basic | **43.8** | 41.2 |
| Diluted | **43.8** | 41.2 |

**5 Provisions**

| | Restructuring £m | Restructuring Environmental £m | Environmental £m | Total £m |
|---|---|---|---|---|
| At 1 January 2014 | 2.6 | 6.0 | 7.8 | **16.4** |
| Increase in provision | 3.1 | 0.6 | 1.4 | **5.1** |
| Release of provision | (0.1) | - | (0.8) | **(0.9)** |
| Utilisation of provision | (2.2) | (0.8) | (0.7) | **(3.7)** |
| Exchange difference | (0.1) | 0.3 | 0.2 | **0.4** |
| **At 31 December 2014** | **3.3** | **6.1** | **7.9** | **17.3** |

| | |
|---|---|
| Included in current liabilities | **6.9** |
| Included in non-current liabilities | **10.4** |
| | **17.3** |

The restructuring provision relates to the remaining costs associated with the closure of a number of Heat Treatment sites and with the establishment of an accounting Shared Service Centre in Prague.

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.

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

Whilst the Group’s use of chlorinated solvents and other hazardous chemicals continues to reduce, the Group remains exposed to contingent liabilities in respect of environmental remediation liabilities. In particular, the Group could be subjected to regulatory or legislative requirements to remediate sites in the future. However, it is not possible at this time to determine whether and to what extent any liabilities exist, other than for those recognised above. Therefore no provision is recognised in relation to these items.

## 6 Notes to the cash flow statement

| | 2014 £m | 2013 £m |
|---|---|---|
| Profit for the year | **79.3** | 73.1 |
| Adjustments for: | | |
| Investment revenue | **(0.1)** | (0.1) |
| Finance costs | **3.4** | 3.8 |
| Taxation | **24.4** | 25.3 |
| Depreciation of property, plant and equipment | **50.3** | 51.9 |
| Amortisation of intangible assets | **4.8** | 5.5 |
| Profit on disposal of property, plant and equipment | **(1.4)** | (0.1) |
| Share-based payments | **1.9** | 3.6 |
| Impairment of fixed assets | **2.7** | 5.1 |
| EBITDA[1] | **165.3** | 168.1 |
| Increase in inventories | **(3.4)** | (0.3) |
| (Increase) / decrease in receivables | **(2.2)** | 0.2 |
| Decrease in payables | **(9.6)** | (4.3) |
| Increase / (decrease) in provisions | **0.5** | (1.8) |
| Cash generated by operations | **150.6** | 161.9 |
| Income taxes paid | **(19.0)** | (22.5) |
| Net cash from operating activities | **131.6** | 139.4 |

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

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash and cash equivalents comprise: | | |
| Cash and bank balances | **38.5** | 16.9 |
| Bank overdrafts (included in borrowings) | **(2.5)** | (1.6) |
| | **36.0** | 15.3 |

## 7 Basis of preparation

The financial information has been based on the Company's financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. Whilst the financial information contained in this preliminary announcement has been 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 2015. The financial information has been prepared under the same accounting policies as the 2013 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 2014 or 2013, but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 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 s.498 (2) or (3) Companies Act 2006.