Bodycote

PRESS RELEASE

BODYCOTE PLC

PRELIMINARY RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2008

EMBARGOED UNTIL 0700 HOURS 25 FEBRUARY 2009

Financial highlights

- Revenue from continuing operations increased by 18.6% to £551.8m (2007: £465.2m)
- Headline operating profit [1] rose 1.3% to £71.2m (2007: £70.3m)
- Operating loss (post exceptional charges of £122.9m) from continuing operations of £51.7m (2007: profit £63.1m)
- Basic headline earnings per share[2] from continuing operations increased 5.4% to 17.5p (2007: 16.6p)
- Basic earnings per share from continuing and discontinued operations increased 190.4% to 48.2p (2007: 16.6p)
- Full year total proposed dividend 8.3 pence per share (2007: 8.0p), up 3.8%

Operational highlights

- Disposal of Testing business for £420m
- 40 pence per share (£129m) return of cash to shareholders, £21m additional contribution to UK pension fund, Group balance sheet significantly strengthened
- Stephen Harris appointed as Chief Executive

Restructuring programme

- Major restructuring and reshaping programme launched
    - £35m cash cost to deliver annualised cost savings of £18m
- 31 facilities to be consolidated or closed
- Total restructuring cost in 2008 of £77.6m with anticipated £8m expected to follow
- Goodwill impairment of £31.9m

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

Following the sale of the Testing activities Bodycote is a focused business with a strong balance sheet. While automotive markets have softened, demand from aerospace, power generation and oil & gas markets remain steady.

In response to the difficult economic and trading environment, the business is being restructured to ensure it remains strong throughout the downturn and is well positioned to benefit when trading conditions improve. The focus of the restructuring is to both drive down the cost base of the business while at the same time reshaping it to concentrate on those areas that present strong growth opportunities for the future.

Despite the uncertain economic environment, we remain confident in the medium and long term prospects for the Group.

[1] a detailed reconciliation is provided in the Group Business Review Financial Results 2008 section
[2] a detailed reconciliation is provided in Note 4 to this announcement

Overview

2008 was a year of transformation for Bodycote, both in terms of the business and also the Board of Directors.

The Group revenue from continuing operations increased by 18.6% to £551.8m and headline operating profit from continuing operations was up 1.3% to £71.2m. Headline profit before tax for the Group was £67.6m compared to £67.8m in 2007.

In anticipation of a prolonged economic downturn, the Board has initiated a major re-organisation of the remaining Thermal Processing activities to achieve a slimmer fixed cost base and focus on higher value added services. This has resulted in exceptional charges of £122.9m and consequently there was an operating loss for the year of £51.7m compared to an operating profit of £63.1m in 2007.

As a result of an in-depth strategic review early in 2008, the Board decided to focus the Group on its core Thermal Processing operations and dispose of the Testing business, which was originally acquired in 1990 and expanded considerably in recent years. The ensuing auction process was highly competitive and resulted in a cash sale of the Testing business for a price of £419.7m, giving rise to a pre-tax exceptional profit of £199.3m. The Board considered carefully the appropriate use of proceeds in light of the deteriorating economic climate. As a result Bodycote returned £128.8m of the proceeds to shareholders in December 2008 through a return of capital and concurrent share capital reorganisation, made an additional contribution to the UK pension scheme of £21.0m and significantly strengthened the Group's balance sheet. The value realised from the sale of the Testing business (which accounted for 30% of annualised Group headline profit at the time of the sale) approximated the market value of the whole of Bodycote at the point of completion.

Following the sale of the Testing business, more than 7,000 employees continue to provide high quality services from over 190 locations in 27 countries, serving several tens of thousands of customers. In 2008 the Thermal Processing business delivered 77% of Group sales compared to 73% in 2007 and saw its sales increase by 18.6%. The Group operates in two principal business areas: Heat Treatment and Hot Isostatic Pressing (HIP). During 2008 Bodycote has continued to execute its strategy of developing its presence in emerging markets and increasing the proportion of high added value services in developed economies. The disposal of Testing for a consideration of £419.7m brought net cash proceeds, after expenses and tax, of £378.2m and an exceptional profit after tax of £177.4m. In order to accelerate the move away from lower added value work and to reduce the Group's cost base in light of the global macro economic downturn, the Board also initiated a significant restructuring of the continuing Thermal Processing business. Headline operating profit of the continuing business was £71.2m, but after allowing for exceptional costs of restructuring and asset impairment there was a statutory operating loss for continuing operations of £51.7m. More information and a reconciliation are provided below.

Macro-economic environment

Most of the countries in which Bodycote operates started to experience significant reductions in demand in the second half of 2008 and, although not specific to Bodycote, the Group has not been immune to falling production rates. In anticipation of the downturn in demand, cost reduction programmes aimed at matching costs with revenues are being implemented. Bodycote's greatest cost is people and a Group wide reduction in the number of temporary and short-term workers is ongoing. Further far reaching restructuring actions are underway, which are expected to result in annualised cost savings of approximately £18m, some of which accrued in 2008, about half will be a benefit in 2009 and the full impact will be felt in 2010. Pay rates tend to be settled in the early part of the year and in 2008 the pay awards averaged 3.5%. This is expected to be significantly lower in 2009. Headcount in Thermal Processing peaked in 2008 at 7,736. By year-end this figure had fallen to 7,001. Energy prices have remained near record highs during the year with different countries experiencing varying levels of movement in unit costs. Overall, energy costs increased by one percent of sales, year on year. As a service provider Bodycote is ultimately subject to changes in production throughputs and market demand for its products. The sectors that the Group serves which have been particularly challenging in 2008 are automotive, heavy truck, construction and automotive related tooling. Aerospace, power generation and oil & gas demand have remained steady.

Long term strategy and business objectives

The Group is now focused on Thermal Processing. The objective of the Group is to provide superior shareholder returns through the provision of thermal processing services, on a global basis, that are highly valued by the Group's customers. Bodycote aims to achieve this in safe working conditions and with minimal environmental impact.

Bodycote measures its performance in this regard using financial and non-financial indicators (shown in the table of Key Performance Indicators below).

Key Performance Indicators for Thermal Processing	2008	2007*
Financial		
Return on capital employed (1)	10.2%	10.9%
Return on sales (2)	12.9%	15.1%
Non financial		
ISO 14001 registered facilities	137	131
Accident frequency (3)	2.0	2.4

Definitions

(1) Headline operating profit** as a percentage of average capital employed from continuing operations. Capital employed includes tangible and intangible assets including all previously amortised or impaired historic goodwill and all non-interest bearing assets and liabilities.

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

(3) Accident frequency - the number of accidents x 200,000 (approximating 100 man years), divided by the total hours worked.

* As restated for Thermal Processing only.

** Headline operating profit, as referred to in this Group Business Review, is defined and reconciled in the Financial Results for 2008 section.

Return on capital employed and return on sales were both negatively impacted by the downturn in demand in the second half of the year. As a result, a major restructuring of the Thermal Processing business has begun and will continue throughout 2009. In addition to improving efficiency through the closure and consolidation of a number of the Group's facilities, a key focus is the management of people costs.

Bodycote continues to progress towards the target of ensuring that all of the Group's facilities meet the environmental standard ISO 14001. Significant improvements in work related accident rates are being achieved by a combination of training, systems and cultural change. Bodycote remains committed to achieving the highest standards of safety for its people and having zero accidents remains the goal.

Acquisitions completed since the interim results

Since the interim announcement, the Group has completed the bolt-on acquisition of Bertelmann GmbH in Leverkusen, Germany, at a cost of £2.5m. Bertelmann is a long-standing provider of heat treatment services with a capability that is geared towards the wind energy market.

Financial Results for 2008

	Revenue		Headline operating profit		Margin	
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	%	%
Heat Treatment	499.9	421.7	60.0	61.6	12.0	14.6
HIP	51.9	43.5	15.3	15.4	29.5	35.4
Thermal Processing	**551.8**	**465.2**	**75.3**	**77.0**	**13.6**	**16.6**
Head office costs	-	-	(4.1)	(6.7)	-	-
Continuing operations	551.8	465.2	71.2	70.3	12.9	15.1
Discontinued operations	164.9	175.3	20.5	21.0	12.4	12.0
Group Total	**716.7**	**640.5**	**91.7**	**91.3**	**12.8**	**14.3**

Headline operating profit is calculated as follows:	2008	2007
	£m	£m
Headline operating profit from continuing operations	71.2	70.3
Amortisation of acquired intangible fixed assets	(1.3)	(0.8)
Impairment of goodwill	(31.9)	(3.5)
Major facility closure costs	(77.6)	(3.4)
Impairment of loan due from associate	(12.1)	-
Change to pension scheme rules	-	2.6
Bid response costs	-	(2.1)
Operating (loss)/profit from continuing operations	(51.7)	63.1

The continuing Thermal Processing business and the discontinued Testing business saw solid organic growth until September of 4.6% and 6.4% respectively. Reduced demand from automotive and general engineering customers in the second half resulted in organic growth for Thermal Processing being restricted to 0.5% for the year as a whole, with a reduction of 0.1% in Heat Treatment and growth of 6.2% in HIP. Acquisitions added 5.9% to Thermal Processing revenues. The weakness of sterling against most currencies enhanced revenues of the continuing business by 12.2%.

Demand has remained steady in aerospace, power generation and oil & gas but has weakened markedly in the final quarter of the year in automotive and heavy truck, particularly in France, Germany and Sweden. North America has been soft all year in these sectors. Nevertheless outsourcing opportunities remain considerable in all territories and accounted for approximately 20% of Group sales.

Headline operating profit for continuing operations increased by 1.3% to £71.2m in 2008, with the impact of exchange rates on the translation of overseas profits accounting for £6.5m (9.3% favourable).

Headline operating margins in the continuing business declined from 15.1% to 12.9% due to the impact of weaker demand in the second half.

During the year the Group acquired three new businesses in the continuing Thermal Processing business at a cost of £16.5m, out of a total of £29.3m spent on acquisitions for the Group as a whole. The Thermal Processing acquisitions in the UK and Germany increase the Group's presence in thermal spray coatings for aerospace and oil & gas customers and in heat treatment for large wind turbine components.

Review of continuing operations – Thermal Processing

Thermal Processing reported sales of £551.8m, an increase of 18.6%. This comprised 0.5% organic, 5.9% acquired and 12.2% in respect of favourable foreign exchange translation impact.

<u>Heat Treatment</u>

Heat Treatment saw a growth of 18.5% in revenues to £499.9m representing 90.6% of the continuing group (2007: 90.6%). Margins were impacted by the economic slowdown and higher energy costs and eased to 12.0% (2007: 14.6%).

With its emphasis on aerospace and power generation, the UK business again saw solid organic growth of 3.6% in 2008. Results from the Nordic region were varied, with the Swedish business impacted by slowing truck and general engineering demand, while Finland was buoyed by continuing strength, particularly for wind energy. The Nordic region in total recorded an organic decline of 1.4%.

Despite the significant downturn in automotive demand in the second half, the Central European countries were still able to post modest organic growth of 0.4%. Eastern Europe was also impacted by slowing automotive demand towards the end of the year, but the region reported organic growth of 7.4% for the year as a whole. Conversely, France and Belgium have been severely impacted with organic sales down 4.6%.

North America saw the effect of the global slowdown earlier than Europe. In the US, organic sales were marginally ahead year on year although this was offset by a reduction in the heavily automotive-oriented Canadian business. North American sales, in total, finished the year 15.8% ahead. As with other automotive focused markets, the Group's South American business saw a year on year decline in organic sales of 4.0%.

The Group continued to make progress with its developing Asia business. Sales in 2008 doubled in China and trebled in India, the latter assisted by the opening of a new greenfield location near Pune.

HIP

With demand continuing to be solid for aerospace, power generation and powder metallurgy (for heavy engineering near-net shapes), organic growth in the European HIP business was satisfactory at 7.9%. Sales increased to £27.3m (2007: £21.7m) including the benefit of the acquisition of TCS in France. Organic growth in North America was 4.4% despite the modest negative effect from the Boeing strike during the second half.

Margins were reduced from 35.4% to 29.5%, however following notable capacity increases in North America and Europe (the latter via acquisition of TCS in France) and for which the sales ramp-up is expected to take a least two years.

Restructuring

In light of the global economic downturn, weak demand in the automotive, heavy truck and construction sectors and uncertainty as to the duration of these market conditions, a wide ranging review of the Group's Thermal Processing business has been undertaken. As a result, the Group has decided to consolidate or close 31 locations (13 in the Americas, 17 in Europe and one in Asia) and to permanently close departments in a number of other facilities. Actions in North America, which entered the downturn sooner, are well underway and are expected to be largely completed in the first half of 2009. In the UK, changes are modest and will be completed during the first quarter of 2009. In mainland Europe some actions will be completed very quickly but in some jurisdictions regulatory requirements mean that the restructuring will not be completed until the end of 2009. The total cost of the reorganisation is expected to be approximately £85m, of which £77.6m has been charged in 2008 and the balance will be charged in 2009 in compliance with IFRS. Of the amount charged in 2008, £42.7m relates to non-cash asset write downs, whilst cash costs are expected to be £34.9m split approximately equally between redundancy payments, site closure costs and environmental remediation. Environmental remediation is expected to be incurred over approximately five years. The restructuring programme will generate annualised cost savings of approximately £18m once it is completed and headcount will have been reduced by at least 10%.

Goodwill

Each year the Group conducts an assessment of the carrying value of goodwill. With demand currently lower than previously anticipated, the timing of any upturn uncertain and as a consequence of the plan to close or consolidate 31 locations, the Board has concluded that an impairment of £31.9m in the value of the Group's goodwill is appropriate.

Associated company - SSCP Coatings Sarl (SSCP)

SSCP is a highly leveraged private equity controlled business. In view of the relative ranking of Bodycote's shareholder loans to SSCP and the reduced saleability of such businesses in today's market, a 100% impairment provision of £12.1m has been made in 2008 against the unsecured element of these loans. Bodycote currently owns 24.4% of the share capital of SSCP.

Review of discontinued operations - Testing

During the 42 weeks to 17 October 2008 (date of sale) Testing recorded sales of £164.9m representing an increase from 2007 on a comparable basis of 12.7%. Of this, 0.5% was organic, 5.4% was due to acquisitions and 6.8% as a result of favourable exchange movements. Up to the point of sale Testing represented 26.8% of total Group revenues and 23.0% for the full year. Headline operating profit was £20.5m for the period to 17 October 2008 (2007: full year £21.0m) and operating profit for the period was £19.9m (2007: full year £15.7m). Headline operating margins increased to 12.4% (2007: 12.0%).

Sale of Testing business

On 28 August 2008 Bodycote announced that it had entered into a conditional sale of its Testing business to CDR Tabasco Limited for a cash consideration of £419.7m on a cash free debt free basis and a vendor loan note in respect of the future sale proceeds of approximately 65 acres of land in Mississauga, Canada. The transaction was completed in accordance with the conditional sale agreement on 17 October 2008.

The net proceeds of the sale after taxation amounted to £378.2m. Of the sale proceeds £21.0m has been contributed to the Bodycote final salary pension plan, of which £19m was a statutory requirement and £228.4m has been utilised to reduce Group net debt. The remaining £129.5m was returned to shareholders by way of a special distribution of 40 pence per ordinary share on 16 December 2008 of which £128.8m was paid in December 2008 and the remainder will be paid in April 2009.

The after tax gain on sale of £177.4m is reflected in the Group Consolidated Income Statement along with £11.4m profit after tax resulting from trading during the year until the completion of the sale under discontinued operations.

Dividend

The Board has recommended a final dividend of 5.35p bringing the total dividend to 8.3p per share, an increase of 3.8%. In addition, a special distribution of 40p per ordinary share was paid in December 2008. The final dividend of 5.35p per share will be paid, subject to approval by shareholders, on 8 May 2009 to all shareholders on the register at close of business on 3 April 2009.

Balance Sheet

Net assets increased by 0.1% to £496.9m (2007: £496.6m) and net assets per share (weighted average) were up by 2.6% to £1.60 (2007: £1.56). The main changes in the balance sheet arose from the sale of the Testing business, which led to a decrease in net assets (excluding net debt) of £133.2m to £561.6m and a decrease in net debt of £133.5m to £64.7m.

Net Debt

Group net debt was £64.7m (2007: £198.2m). Had the exchange rates prevailing at 31 December 2007 been applied, the amount would have been net cash of £10.0m. During the year, additional loans of £86.9m were drawn down under committed facilities and gross cash increased by £220.7m to £258.4m. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding.

Capital expenditure

Net capital expenditure for the year was £74.9m compared to £66.9m in 2007. The multiple of net capital expenditure to depreciation was 1.3 times (2007: 1.3 times), primarily reflecting the Group's investment in greenfield sites in emerging markets and the expansion of HIP capacity. Given current macro-economic conditions, expenditure in 2009 is expected to be below depreciation. Notable projects in emerging markets with expenditure in 2008 included the construction of heat treatment plants in Silao (Mexico), Bangkok (Thailand) and Rangangaon (India). In addition, a new heat treatment plant in Tampere (Finland) and a new large HIP unit in Surahammar (Sweden) are being built.

Current Trading and Prospects

Following the sale of the Testing activities Bodycote is a focused business with a strong balance sheet. While automotive markets have softened, demand from aerospace, power generation and oil & gas markets remain steady.

In response to the difficult economic and trading environment, the business is being restructured to ensure it remains strong throughout the downturn and is well positioned to benefit when trading conditions improve. The focus of the restructuring is to both drive down the cost base of the business while at the same time reshaping it to concentrate on those areas that present strong growth opportunities for the future.

Despite the uncertain economic environment, we remain confident in the medium and long term prospects for the Group.

Consolidated Income Statement
for the year ended 31 December 2008

	2008 £m	2007 £m
Revenue		
Existing operations	541.4	456.1
Acquisitions	10.4	9.1
Revenue – continuing operations	551.8	465.2
Operating (loss)/ profit		
Existing operations	(54.7)	61.8
Acquisitions	3.0	1.2
Share of results of associates	-	0.1
Operating (loss)/profit – continuing operations	(51.7)	63.1
Operating profit prior to exceptional items	71.2	70.3
Amortisation of acquired intangible fixed assets	(1.3)	(0.8)
Impairment of goodwill	(31.9)	(3.5)
Major facility closure costs	(77.6)	(3.4)
Impairment of loan due from associate	(12.1)	-
Change to pension scheme rules	-	2.6
Bid response costs	-	(2.1)
Operating (loss)/profit – continuing operations	(51.7)	63.1
Investment revenue	4.9	2.9
Finance costs	(8.5)	(5.4)
(Loss)/profit before taxation	(55.3)	60.6
Taxation	17.2	(13.6)
(Loss)/profit for the year – continuing operations	(38.1)	47.0
Discontinued operations		
Profit for the year – discontinued operations	188.8	6.8
Profit for the year	150.7	53.8
Attributable to:		
Equity holders of the parent	149.8	52.8
Minority interests	0.9	1.0
	150.7	53.8
Earnings/(loss) per share	**Pence**	**Pence**
From continuing operations:		
Basic	(12.5)	14.5
Diluted	(12.5)	14.4
From continuing and discontinued operations:		
Basic	48.2	16.6
Diluted	48.1	16.6

Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2008

	2008 £m	2007 £m
Exchange differences on translation of foreign operations	14.2	12.5
Actuarial (losses)/gains on defined benefit pension schemes	(11.4)	4.7
Tax on items taken directly to equity	2.2	(3.1)
Net income recognised directly in equity	5.0	14.1
Profit for the year	150.7	53.8
Total recognised income/(expense) for the year	155.7	67.9
Attributable to:		
Equity holders of the parent	154.8	66.9
Minority interests	0.9	1.0
	155.7	67.9

Consolidated Balance Sheet
at 31 December 2008

	2008 £m	2007 £m
Non-current assets		
Goodwill	141.6	213.0
Other intangible assets	12.8	14.3
Property, plant and equipment	533.3	508.9
Interests in associates	8.2	0.6
Finance lease receivables	0.7	1.0
Deferred tax asset	52.5	29.7
Derivative financial instruments	-	0.1
Trade and other receivables	3.0	13.3
	752.1	780.9
Current assets		
Inventories	14.0	19.8
Finance lease receivables	0.4	0.4
Derivative financial instruments	1.8	-
Trade and other receivables	128.4	159.3
Cash and cash equivalents	258.4	37.7
Assets classified as held for sale	3.6	1.8
	406.6	219.0
Total assets	1,158.7	999.9
Current liabilities		
Trade and other payables	118.9	124.5
Dividends payable	9.4	8.8
Current tax liabilities	33.6	13.0
Obligations under finance leases	1.2	1.7
Borrowings	16.3	9.0
Derivative financial instruments	26.3	5.2
Provisions	27.2	5.7
	232.9	167.9
Net current assets	173.7	51.1
Non-current liabilities		
Borrowings	302.9	221.8
Retirement benefit obligations	14.9	23.9
Deferred tax liabilities	78.3	74.3
Obligations under finance leases	2.7	3.4
Derivative financial instruments	5.2	3.0
Provisions	15.5	2.2
Other payables	9.4	6.8
	428.9	335.4
Total liabilities	661.8	503.3
Net assets	496.9	496.6

Consolidated Balance Sheet (continued)
at 31 December 2008

	2008 £m	2007 £m
Equity		
Share capital	32.4	32.4
Share premium account	175.7	305.0
Own shares	(10.9)	(11.0)
Other reserves	137.3	6.0
Hedging and translation reserves	31.1	16.9
Retained earnings	126.4	140.7
Equity attributable to equity holders of the parent	492.0	490.0
Minority interest	4.9	6.6
Total equity	496.9	496.6

Consolidated Cash Flow Statement
for the year ended 31 December 2008

	2008 £m	2007 £m
Net cash from operating activities	102.5	108.0
Investing activities		
Purchases of property, plant and equipment	(77.1)	(72.5)
Proceeds on disposal of property, plant and equipment and intangible assets	4.6	6.6
Purchases of intangible fixed assets	(2.4)	(1.0)
Acquisition of investment in an associate	(5.6)	(0.2)
Acquisition of subsidiaries	(29.3)	(32.7)
Disposal of subsidiaries	400.1	-
Lump sum contribution to pension scheme	(21.0)	-
Net cash received from/(used in) investing activities	269.3	(99.8)
Financing activities		
Interest received	12.5	3.4
Interest paid	(20.5)	(12.5)
Dividends paid	(154.3)	(22.6)
Dividends paid to a minority shareholder	(0.1)	(0.1)
Repayments of bank loans	(6.0)	(187.1)
Payments of obligations under finance leases	(2.6)	(1.9)
New bank loans raised	8.0	216.4
New obligations under finance leases	0.3	0.6
Proceeds on issue of ordinary share capital	0.2	3.1
Own shares purchased/settlement of share options	0.1	(8.6)
Net cash used in financing activities	(162.4)	(9.3)
Net increase/(decrease) in cash and cash equivalents	209.4	(1.1)
Cash and cash equivalents at beginning of year	34.3	33.4
Effect of foreign exchange rate changes	5.8	2.0
Cash and cash equivalents at end of year	249.5	34.3

Reconciliation of profit for the year to net cash from operating activities

	2008 £m	2007 £m
Profit for the year	150.7	53.8
Adjustments for:		
Investment revenues – continuing and discontinued	(5.7)	(3.3)
Finance costs – continuing and discontinued	15.7	13.6
Taxation – continuing and discontinued	6.8	14.7
Depreciation of property, plant and equipment	57.8	49.3
Amortisation of intangible assets	2.9	2.3
Loss/(gain) on disposal of property, plant and equipment	0.1	(0.1)
Income from associates	-	(0.1)
Share-based payments	2.6	2.5
Impairment of intangible assets acquired through business combinations	-	0.4
Impairment of goodwill	31.9	7.2
Major facility closure costs	42.7	5.4
Impairment of loan due from associate	12.1	-
Gain on disposal of discontinued operations	(199.3)	-
Change to pension scheme rules	-	(4.1)
Bid response costs	-	2.1
EBITDA[1]	118.3	143.7
Decrease/(increase) in inventories	1.5	(3.7)
Decrease/(increase) in receivables	2.3	(8.4)
Decrease in payables	(16.8)	(2.9)
Increase/(decrease) in provisions	30.6	(5.4)
Cash generated by operations	135.9	123.3
Cash (outflow)/inflow from settlement of derivative financial instruments	(12.9)	0.7
Income taxes paid	(20.5)	(16.0)
Net cash from operating activities	102.5	108.0

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

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

1. Operating (loss)/ profit

	2008			2007		
	Existing operations	Acquisitions	Continuing operations	Existing operations	Acquisitions	Continuing operations
	£m	£m	£m	£m	£m	£m
Revenue	541.4	10.4	551.8	456.1	9.1	465.2
Cost of sales	(371.0)	(6.0)	(377.0)	(301.7)	(5.6)	(307.3)
Gross profit	170.4	4.4	174.8	154.4	3.5	157.9
Other operating income	6.0	-	6.0	4.5	0.2	4.7
Distribution costs	(20.0)	(0.3)	(20.3)	(15.4)	(0.7)	(16.1)
Other administration expenses*	(88.2)	(1.0)	(89.2)	(74.5)	(1.8)	(76.3)
Other operating expenses	-	(0.1)	(0.1)	-	-	-
Amortisation/impairment of acquired intangible fixed assets*	(1.3)	-	(1.3)	(0.8)	-	(0.8)
Impairment of goodwill*	(31.9)	-	(31.9)	(3.5)	-	(3.5)
Major facility closure costs*	(77.6)	-	(77.6)	(3.4)	-	(3.4)
Impairment of loan due from associate*	(12.1)	-	(12.1)	-	-	-
Change to pension scheme rules*	-	-	-	2.6	-	2.6
Bid response costs*	-	-	-	(2.1)	-	(2.1)
Operating (loss)/profit before income from associates	(54.7)	3.0	(51.7)	61.8	1.2	63.0
Income from associates after interest and tax			-			0.1
Operating (loss)/profit			(51.7)			63.1

* Administration expenses (total £212.1m, 2007: £83.5m)

Exceptional items comprise:	2008 £m	2007 £m
Amortisation of acquired intangible fixed assets	1.3	0.8
Impairment of goodwill	31.9	3.5
Major facility closure costs	77.6	3.4
Impairment of loan due from associate	12.1	-
Change to pension scheme rules	-	(2.6)
Bid response costs	-	2.1
	122.9	7.2

2. Business and geographical segments

	Heat Treatment 2008 £m	Hot Isostatic Pressing 2008 £m	Head Office and eliminations 2008 £m	Consolidated 2008 £m	Discontinued operations (Testing) 2008 £m	Total Group 2008 £m
Revenue						
Total revenue	499.9	51.9	-	551.8	164.9	716.7
Result						
Segment result prior to exceptional items and share of associates' profit after tax	60.0	15.3	-	75.3	20.5	95.8
Unallocated corporate expenses	-	-	(4.1)	(4.1)	-	(4.1)
Headline operating profit	60.0	15.3	(4.1)	71.2	20.5	91.7
Amortisation /impairment of acquired intangible assets and impairment of goodwill	(33.2)	-	-	(33.2)	(0.6)	(33.8)
Major facility closure costs	(77.1)	(0.5)	-	(77.6)	-	(77.6)
Impairment of loan due from associate	-	-	(12.1)	(12.1)	-	(12.1)
Disposal of Testing business	-	-	-	-	199.3	199.3
Segment result	(50.3)	14.8	(16.2)	(51.7)	219.2	167.5
Investment revenue				4.9		
Finance costs				(8.5)		
Loss before tax				(55.3)		
Tax				17.2		
Profit for the period from discontinued operations				188.8		
Profit for the year				150.7		

Following the disposal of the Testing business, which was formerly disclosed as two segments, the Directors concluded that presentation as a single segment within discontinued operations is most appropriate. The prior year comparatives have been re-presented accordingly.

Inter-segment sales are not material in either year.

2. Business and geographical segments (continued)

	Heat Treatment	Hot Isostatic Pressing	Head Office and eliminations	Consolidated	Discontinued operations (Testing)	Total Group
	2007	2007	2007	2007	2007	2007
	£m	£m	£m	£m	£m	£m
Revenue						
Total revenue	421.7	43.5	-	465.2	175.3	640.5
Result						
Segment result prior to exceptional items and share of associates' profit after tax	61.6	15.3	-	76.9	21.0	97.9
Share of associates' operating profit	-	0.1	-	0.1	-	0.1
Unallocated corporate expenses	-	-	(6.7)	(6.7)	-	(6.7)
Headline operating profit	61.6	15.4	(6.7)	70.3	21.0	91.3
Amortisation /impairment of acquired intangible assets and impairment of goodwill	(4.3)	-	-	(4.3)	(4.8)	(9.1)
Major facility closure costs	(3.4)	-	-	(3.4)	(2.0)	(5.4)
Changes to pension scheme rules	2.0	0.2	0.4	2.6	1.5	4.1
Bid response costs	-	-	(2.1)	(2.1)	-	(2.1)
Segment result	55.9	15.6	(8.4)	63.1	15.7	78.8
Investment revenue				2.9		
Finance costs				(5.4)		
Profit before tax				60.6		
Tax				(13.6)		
Profit for the year from discontinued operations				6.8		
Profit for the year				53.8		

2. Business and geographical segments (continued)

Other information

	Heat Treatment 2008 £m	Hot Isostatic Pressing 2008 £m	Discontinued Operations (Testing) 2008 £m	Head Office and eliminations 2008 £m	Consolidated 2008 £m
Capital additions	58.1	7.7	11.7	2.0	79.5
Depreciation and amortisation	43.7	6.1	10.6	0.2	60.6
Impairment losses recognised in income	72.6	0.4	-	12.1	85.1
Balance sheet					
Assets:					
Segment assets	816.6	106.7	-	227.2	1,150.5
Interests in associates	8.2	-	-	-	8.2
Consolidated total assets	824.8	106.7	-	227.2	1,158.7
Liabilities:					
Segment liabilities	235.3	29.2	-	397.3	661.8
Segment net assets	589.5	77.5	-	(170.1)	496.9

	Heat Treatment 2007 £m	Hot Isostatic Pressing 2007 £m	Discontinued Operations (Testing) 2007 £m	Head Office and eliminations 2007 £m	Consolidated 2007 £m
Capital additions	44.2	12.6	16.2	0.5	73.5
Depreciation and amortisation	36.0	4.3	11.1	0.2	51.6
Impairment losses recognised in income	3.8	-	4.5	-	8.3
Balance sheet					
Assets:					
Segment assets	941.4	100.2	235.3	(277.6)	999.3
Interests in associates	0.6	-	-	-	0.6
Consolidated total assets	942.0	100.2	235.3	(277.6)	999.9
Liabilities:					
Segment liabilities	522.9	48.2	165.4	(233.2)	503.3
Segment net assets	419.1	52.0	69.9	(44.4)	496.6

2. Business and geographical segments (continued)

By geographical market

	Revenue	
	2008	2007
	£m	£m
Europe, Middle East and Africa	379.4	317.4
Americas	168.8	146.6
Asia Pacific	3.6	1.2
	551.8	465.2

Revenue from the Group's discontinued operations was derived principally from Europe, Middle East and Africa £100.2m (2007: £104.6m), Americas £62.3m (2007: £68.8m) and Asia Pacific £2.4m (2007: £1.9m).

	Carrying amount of segment assets/liabilities		Additions to property, plant and equipment and intangible assets	
	2008	2007	2008	2007
	£m	£m	£m	£m
Europe, Middle East and Africa	366.1	395.1	53.6	45.4
Americas	131.1	101.0	19.0	24.0
Asia Pacific	(0.3)	0.5	6.9	4.1
	496.9	496.6	79.5	73.5

3. Taxation

	Continuing operations		Discontinued operations			Total
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m
Current taxation – charge for the year	12.9	14.2	23.6	2.8	36.5	17.0
Current taxation – adjustments in respect of previous years	0.2	0.4	0.3	3.0	0.5	3.4
Deferred tax	(30.3)	(1.0)	0.1	(4.7)	(30.2)	(5.7)
	(17.2)	13.6	24.0	1.1	6.8	14.7

UK corporation tax is calculated at 28.5% (2007: 30.0%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Of the total charge/(credit) to current tax, approximately £2.0m (2007: £5.8m) related to profits arising in the Testing business, which was disposed of during the year. A tax charge of £21.9m arose on the disposal of the various subsidiaries which comprised the business.

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

	2008	2007
	£m	£m
(Loss)/profit before tax:		
Continuing operations	(55.3)	60.6
Discontinued operations	212.8	7.9
	157.5	68.5
Tax at the UK corporation tax rate of 28.5% (2007: 30.0%)	44.9	20.6
Tax effect of expenses that are not deductible in determining taxable profit	20.2	0.7
Tax effect of non-taxable disposal proceeds	(39.2)	-
Deferred tax assets not recognised	1.7	(0.2)
Tax settlements in respect of prior years	(8.6)	(1.6)
Tax effect of other adjustments in respect of previous periods	(2.2)	(2.6)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(10.0)	(2.2)
Tax expense for the year	6.8	14.7

The tax credit on items taken directly to equity is £2.2m (2007: charge £3.1m)

4. Earnings/(loss) per share

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

	2008	2007
	£m	£m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	149.8	52.8
Number of shares		
	Number	**Number**
Weighted average number of ordinary shares for the purposes of basic earnings per share	310,936,573	317,934,910
Effect of dilutive potential ordinary shares:		
Share options	239,456	732,862
Weighted average number of ordinary shares for the purposes of diluted earnings per share	311,176,029	318,667,772

From continuing operations	**2008**	**2007**
	£m	**£m**
Earnings/(loss)		
Net profit attributable to equity holders of the parent	149.8	52.8
Adjustments to exclude profit for the year from discontinued operations	(188.8)	(6.8)
(Loss)/earnings from continuing operations for the purpose of basic (loss)/ earnings per share excluding discontinued operations	(39.0)	46.0

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

Earnings per share from continuing and discontinued operations:		
	Pence	**Pence**
Basic	48.2	16.6
Diluted	48.1	16.6

Earnings per share from discontinued operations:	**Pence**	**Pence**
Basic	60.7	2.1
Diluted	60.7	2.1

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

(Loss)/earnings per share from continuing operations:	Pence	Pence
Basic	(12.5)	14.5
Diluted	(12.5)	14.4

Headline earnings	2008 £m	2007 £m
Net profit attributable to equity holders of the parent	149.8	52.8
Add back:		
Impairment of goodwill	31.4	3.5
Amortisation of acquired intangible fixed assets	1.2	0.8
Impairment of loan due from associate	8.7	-
Major facility closure costs	52.0	2.3
Change to pension scheme rules	-	(1.9)
Bid response costs	-	2.1
Profit for the year – discontinued operations	(188.8)	(6.8)
Headline earnings	54.3	52.8

Earnings per share from headline earnings:	Pence	Pence
Basic	17.5	16.6
Diluted	17.4	16.6

5. Basis of preparation

The financial information has been based on the company's financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU.

Whilst the financial information contained in this preliminary announcement has been computed in accordance with International Financial Reporting Standards, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRS in April 2009.

The financial information has been prepared under the same accounting policies as the 2007 financial statements.

6. Non-statutory financial statements

The financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 December 2008 or 2007 but is derived from those financial statements. Statutory financial statements for 2007 have been delivered to the Registrar of Companies. Those for 2008 will be delivered following the company's annual general meeting, which will be convened on 27 April 2009. The auditors have reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain any statements under Section 237(2) or (3) of the Companies Act 1985.

This report was approved by the Board of Directors on 25 February 2009.