



PRESS RELEASE

BODYCOTE INTERNATIONAL PLC

PRELIMINARY RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Financial highlights

- Revenue from continuing operations increased by 18.6% to £558.6 million (2005: £470.9 million)
- Headline operating profit ¹ rose 17.6% to £79.7 million (2005: £67.8 million)
- Operating profit £58.8m (2005: £61.0m)
- Headline profit before tax ² up 19.0% to £70.0 million (2005: £58.8 million)
- Profit before tax £46.6m (2005: £52.7m)
- Headline earnings per share ³ increased 18.5% to 17.3p (2005: 14.6p)
- Basic earnings per share increased 5.5% to 13.4p (2005: 12.7p)
- Return on capital employed improved to 10.8% (2005: 9.9%)
- Full year total proposed dividend 7.0 pence per share (2005: 6.4p), up 9.4%

Operational highlights

- Increasing demand in key markets - aerospace, power generation, oil and gas and health sciences markets
- 17 bolt-on acquisitions completed during 2006 for £86.3 million
- Testing revenues increased significantly; Heat Treatment expanded into new geographies
- Revenue from Strategic Partnerships and Long Term Agreements £105 million (2005: £97 million)

Commenting on the results, John Hubbard, Chief Executive said:

“2006 was another year of strong growth for Bodycote, with increasing demand in all of our most important markets and a number of new outsourcing agreements finalised from leading manufacturers.

“We have advanced our strategy of significantly expanding our testing business, with 12 new acquisitions. We are also successfully implementing the geographical expansion of the Group into developing economies, with heat treatment acquisitions in Brazil and Turkey and two new greenfield facilities in Mexico, another one in India, a thermal spray facility and laboratory in Singapore and plans for greenfield laboratories in Bahrain, Saudi Arabia, Kazakhstan and Croatia.

“Since the start of the current financial year, trading has been above the levels in the same period in 2006, with a strong performance in Europe and steady results in North America. Organic growth has been robust with 2006 acquisitions contributing as expected. Notably, we entered 2007 with annualised revenue for the Testing SBU at approximately £170m.

“We enter 2007 confident that we will deliver another successful performance.”

¹ expressed pre impairment of goodwill (£6.0m: 2005 £5.8m), amortisation of acquired intangibles (£1.0m: 2005: £0.2m), share of associates interest and tax (£0.6m: 2005 £0.8m), impairment of equity investment in associate (£8.3m: 2005 nil) and major facility closure costs (£5.0m: 2005 nil)

² expressed pre impairment of goodwill (£6.0m : 2005 £5.8m), amortisation of acquired intangibles (£1.0m: 2005 £0.2m), impairment of equity investment in associate (£8.3m: 2005 nil), major facility closure costs (£5.0m: 2005 nil) and the cost of early settlement of US \$ private placement debt (£3.1m: 2005 nil)

³ a detailed reconciliation is provided in Note 4

CHAIRMAN'S STATEMENT

Bodycote has had another year of successful trading with good growth in sales (up 18.6%) and headline* operating profits (ahead 17.6%), as well as completing 17 bolt-on acquisitions with 52 facilities. Our return on invested capital has increased to 10.8%. We are expanding into new geographies, and broadening the range of services that we have to offer our customers.

The Board is recommending a final dividend of 4.5p (2005: 4.05p), an increase of 11.1%, to be paid on 5 July 2007 to all shareholders on the register at the close of business on 8 June 2007. The total proposed dividend for 2006 is therefore up by 9.4% at 7.0p per share (2005: 6.4p) of which 2.5p per share (2005: 2.35p) was recognised in the 2006 results and is covered 2.5 times by headline **earnings.

Acquisition growth in Testing has been significant and we have consolidated and integrated systematically. We clearly appreciate that we must maintain high standards in our existing businesses and we are determined that there should be balanced and controlled growth. Consequently, there will be an increased emphasis on organic growth and garnering synergy benefits from recent acquisitions.

Thermal Processing has benefited from good organic growth and an expansion into new geographies, both through acquisition in Brazil and Turkey and investment in new facilities in China, Mexico and Singapore. This initiative will continue in 2007 as we enter India and maintain our investment in supporting newer technologies and processes.

Towards the end of the year we decided to close four plants and write-down the equity investment in our associated company, SSCP Coatings. These measures demonstrate our commitment to act decisively with the Group's best long term interests in mind but as a result statutory operating profit fell by £2.2m compared to 2005. We also saw a reversal in the second half of the currency translation gains that we had seen in the first half.

Bodycote now employs over 10,000 people and operates from 291 sites in 28 countries. In order to manage such growth it is important that we invest in our people and our systems. A significant amount of work has been done on enhancing safety systems and the training and development of our people throughout the Group. These are now an integral part of our management systems.

The current board has been unchanged since January 2003. We have decided to increase the membership from seven to nine directors, with four executives and four independent non executives under a non executive chairman. The expanded and enhanced Board will reflect the changing requirements of the business going forward and will be in line with the provisions of the Combined Code. Richard Scholes will be retiring by rotation at the AGM having served for nine years. We had selected a replacement for him as chairman of the Audit Committee but in January we were informed that he could not join the Board. As a result Mr Scholes will be proposed for re election. He will, however, step down as a director upon the later of our interim results being announced and a replacement Audit Committee Chairman being appointed. We thank him for agreeing to stay beyond his current term. The search for his replacement is well underway. Also following the 2007 AGM Hans Vogelsang has agreed to take on the role of Senior Independent Non-Executive Director. In 2008, I will have served 14 years on the Board, 6 of them as Chairman and I will be retiring at the 2008 AGM. You can be assured, however, that I remain fully committed to the continued success of Bodycote and ensuring that it has a Board with the right balance of skills and experience. A search for a successor has commenced.

After a strategic review in early 2005, we set ourselves ambitious 5 year targets. New five year targets are set annually on a rolling basis (see table on page 2 of the business review). Management incentives are geared to value creation for shareholders based on this plan and stretch targets established each year by the Board's Remuneration Committee.

Bodycote has a strong platform on which to develop the business and we are confident for the Group's prospects in 2007. We have high quality committed people and a clear understanding of our markets and the drivers for profitable growth. Our balance sheet is strong, with an appropriate level of gearing taking

into account the cyclical characteristics of some of our businesses, our need for capital expenditure and our plans for growth, both organically and by acquisition.

The Business Review which follows gives a comprehensive summary of our activities in the year and enables shareholders to appreciate more fully how we have performed in our own business environment and how we meet the challenges. I commend it to you.

J A S Wallace
27 February, 2007

* For reconciliation of headline operating profit to statutory operating profit please refer to page [] of the Group Business Review

** For reconciliation of headline earnings to basic earnings please refer to Note 4

2006 GROUP BUSINESS REVIEW

Operations

Bodycote provides Thermal Processing and Testing services to manufacturers in virtually every sector of the world economy. From 291 facilities in 28 countries, more than 10,000 employees provide high quality services to over 60,000 customers. In line with our strategy to grow the Testing Strategic Business Unit (SBU) rapidly, this business delivered 26% of Group sales compared to 18% in 2005. A continued increase in this proportion is expected in 2007. The SBU is organised into two Divisions: Materials, Engineering & Technology and Measurement (METM) and Health Sciences/Environmental (HSE). The Thermal Processing SBU delivered 74% of Group sales compared to 82% in 2005 and is organised into two Divisions: Heat Treatment and Hot Isostatic Pressing (HIP).

Competitive environment

In the western hemisphere we are the clear leader in Thermal Processing and have a unique multi-disciplinary presence in the Testing market. In both Thermal Processing and Testing, Bodycote predominantly competes with local, privately owned companies and manufacturers' captive facilities. Both supply and demand are very fragmented with hundreds of providers servicing thousands of customers. We have developed a competitive advantage over local entrepreneurs through our quality systems, extensive knowledge base, breadth of technology, flexible capacity and broad range of services. Our proven track record of supplying Thermal Processing and Testing services to many of the world's most respected manufacturers is testament to our success in outsourcing and subcontracting for manufacturers, who need to reduce costs, whilst at the same time being confident that their critical components are processed to specification. Our HIP business operates in a much smaller total market. We have about 60% of western hemisphere capacity and few manufacturers invest in this technology, principally because of its high capital cost and the cyclical nature of demand. The competitors we have vary from smaller private companies to large corporations.

Regulatory environment

As a service provider to virtually all market sectors and operating in many countries, we are subject to a multitude of quality, safety, environmental and regulatory requirements. We continuously monitor changes in laws, regulations and standards, adopting systems and policies to remain compliant. Although this effort is costly it clearly differentiates us in the market place. Customers have confidence in our quality and the sustainability of our services.

Macro-economic environment

The countries we operate in are generally experiencing positive economic conditions, with inflation largely under control. Energy prices increased to record highs during 2006. Recently we have seen some reduction in natural gas prices but they remain at historically high levels, whilst electricity prices have continued to rise and are not expected to moderate before the second half of 2007. Materials such as nickel, chrome and molybdenum used in the baskets and fixtures, have significantly increased in price but we have successfully recovered these costs. As a service provider to manufacturers we are subject to the cyclicity of our customers' demand. Currently the only significant sector we serve that is exhibiting softness is automotive in North America and some parts of Europe. However, we are being successful in offsetting its impact by winning new business in our traditional territories and expanding into new geographies. Aerospace, power generation, oil & gas and health sciences demand continues to be robust. We have, as part of our strategic plan, been increasing the contribution from our Testing business, as we believe it will give an improved return on capital employed and be less cyclical than Thermal Processing.

Long term strategy and business objectives

After a thorough review in early 2005, we adopted a strategy which incorporates three key initiatives, each aiming to enhance shareholder value and accelerate growth:

- Increase Testing to about half of Group sales
- Expand the Group into developing manufacturing geographies
- Intensify Outsourcing initiatives

We measure our performance against this strategy using the following financial and non financial indicators:

<u>Key performance indicators</u>	<u>2006</u>	<u>2005</u>	<u>Five Year Target</u>
Financial			
Return on capital employed ⁽¹⁾	10.8%	9.9%	Mid teens %
Return on sales ⁽²⁾	14.3%	14.4%	High teens %
Organic sales growth % ⁽³⁾	5.5%	5.3%	Mid to high single digit %
People costs as a percentage of sales ⁽⁴⁾			
Thermal Processing	40.7%	41.8%	40%
Testing	51.8%	50.7%	50%
Capital expenditure/depreciation ratio ⁽⁵⁾	1.2x	1.1x	0.8 – 1.3x
Non financial			
Utilisation (Heat Treatment only) ⁽⁶⁾	72%	71%	>80%
ISO 14001/17025 compliant facilities ⁽⁷⁾	184	134	All facilities
Accident frequency ⁽⁸⁾	2.2	2.1	Zero

Our most important indicator is the improvement in return on capital employed (ROCE) and further progress has been made in 2006 towards our 5 year target. The HIP division and Testing SBU both continue to be above this target and hence our primary focus for improvement is in Heat Treatment. Overall return on sales saw a modest reduction despite increases in both Heat Treatment (+0.6%) and HIP (+5.9%). As anticipated, mix changes and additional infrastructure costs have resulted in a reduction of margins in the Testing SBU. Organic sales growth was again in our target range. People costs are the Group's largest expense. Pleasingly Thermal Processing saw a reduction in these costs to 40.7% of sales and is within sight of our target of 40%. Testing, however, deteriorated slightly due to the impact of acquisitions. Capital expenditure was within our target range but was above the level of depreciation, reflecting the Group's establishment of new facilities in emerging markets and our commitment to additional HIP capacity in the US and Germany, to support growing aerospace and automotive demand. We expect to benefit from this investment in future years. The key metric to improve profitability in heat treatment is capacity utilisation and 2006 saw further progress towards our goal of >80%. Significant progress has been made during 2006 towards our target of having all the Group's facilities meet environmental standard ISO 14001 or ISO 17025 with 63% of sites now accredited. This is the third year that Bodycote has been collecting statistics on accidents in all parts of the Group. Although significant improvements have been made over three years, the ultimate target of having zero accidents has not yet been met. Further initiatives to reduce the number of accidents were put in place during 2006 and it is expected that the results of these will begin to feed through to the statistics in 2007.

Definitions

- (1) Headline* operating profit as a percentage of average capital employed. Capital employed includes tangible and intangible assets including all previously amortised/impaired goodwill and all non-interest bearing assets and liabilities.
- (2) Headline* operating profit as a percentage of revenue from continuing operations.
- (3) Year on year increase in revenue from continuing operations excluding revenue from acquisitions made within the prior twelve months.
- (4) The salary and benefit costs of all employees as a percentage of revenue from continuing operations.
- (5) Net capital expenditure divided by depreciation
- (6) Actual revenues expressed as a percentage of theoretical maximum revenue assuming that heat treatment facilities operate 24 hours per day, 365 days per year.
- (7) The number of facilities holding registrations for ISO 14001 or ISO 17025.
- (8) Accident frequency - the number of accidents x 200,000 (approximating 100 man years), divided by the total hours worked.

Financial Results for 2006

	<u>Revenue</u> ^(a)		<u>Headline operating profit*</u>		<u>Margin</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>%</u>	<u>%</u>
Heat Treatment	375.0	349.2	50.3	44.8	13.4	12.8
HIP	38.9	35.2	12.8	9.5	32.9	27.0
Thermal Processing	413.9	384.4	63.1	54.3	15.2	14.1
Testing	144.7	86.5	21.3	16.3	14.7	18.8
Head office costs	-	-	(4.7)	(2.8)	-	-
Group Total	558.6	470.9	79.7	67.8	14.3	14.4

Note

(a) Revenue from continuing operations after deducting inter-segment sales.

- Headline operating profit is derived as follows:

	<u>2006</u>	<u>2005</u>
	<u>£m</u>	<u>£m</u>
Headline operating profit	79.7	67.8
Share of associates' interest and tax	(0.6)	(0.8)
Amortisation of acquired intangibles	(1.0)	(0.2)
Goodwill impairment	(6.0)	(5.8)
Impairment of equity investment in associate	(8.3)	-
Major facility closure costs	(5.0)	-
Operating profit from continuing operations per financial statements	<u>58.8</u>	<u>61.0</u>

** A reconciliation of headline earnings is given in Note 4

Bodycote has continued to show strong growth in 2006 with sales increasing by 18.6% to £558.6m (2005: 10.4%, £470.9m). Organic sales accounted for 5.5% of this improvement (2005: 5.3%) and acquisitions for 13.1% (2005: 4.6%). Movement in exchange rates on translation of overseas sales was less than 1% this year (2005: 1.0%).

We have seen increasing demand in several key markets, most notably aerospace, power generation, oil & gas and health sciences. Outsourcing (Strategic Partnerships and Long Term Agreements) provided £8m of additional sales, resulting in a total of £105m in 2006 (2005: £97m). Some notable outsourcing agreements concluded in the year were with Land Rover, SNECMA, Honeywell, TRW, ZF, American Axle, Haering Polska, SKF, Michelin, and GM. Outsourcing sales continue to account for approximately 20% of Group sales.

Headline* operating profit increased by 17.6% to £79.7m in 2006 (2005: 22.2%, £67.8m). The impact of exchange rates on translation of overseas profits was less than 1% this year (2005: 1.1%).

Although headline* operating profit improved by £11.9m, operating profit fell by £2.2m largely due to the impact of the cost of major facility closures (£5.0m) and the write down of the Group's investment in SSCP (£8.3m).

Overall, our headline* operating margin decreased slightly from 14.4% in 2005 to 14.3% in 2006. Whilst the Heat Treatment business saw its headline* margin increase to 13.4% (2005: 12.8%) and HIP to 32.9% (2005: 27.0%), Testing saw its margin fall to 14.7% (2005: 18.8%). This is largely attributable to the recent acquisitions in the environmental and measurement solutions segments, which operate at a lower margin

than the Testing SBU average, although with a return on capital within our target range. In addition, the SBU saw substantial investment in its infrastructure to support the rapid growth.

A charge of £1.0m has been accrued in head office for a share-based long term incentive plan (LTIP) for senior managers designed to incentivise growth in profit and return on capital employed. The LTIP was approved by shareholders at the 2006 AGM. The amount charged reflects the expected fair value, spread over the three year vesting period, based on current progress towards plan targets.

As part of our plans to increase activity in Asia, we have put in place a senior management team to develop our business there. The increased expenditure, included in head office costs, was £0.5m.

During the year we acquired seventeen businesses at a cost of £86.3m. Twelve businesses were acquired by the Testing SBU, in line with our strategy to increase its size both geographically and in terms of service offering. Four of the acquired businesses were in the Thermal Processing SBU, and one was a small IS service provider (the Group already being its major customer) to strengthen our in-house IS and IT capability. Much effort has been put into developing our integration approach to allow us to bring newly acquired companies into our network quickly and maximise synergies.

Review by Strategic Business Unit (SBU)

Thermal Processing SBU

Thermal Processing delivered sales of £413.9m, an increase of 7.6%. This was split 5.2% organic, 2.7% acquired and a reduction of 0.3% in respect of foreign exchange movements. ROCE improved to 9.9% (2005: 8.4%). Margins improved to 15.2% (2005: 14.1%). We acquired four businesses representing 14 facilities at a net cost of £20.4m. Two of these acquisitions moved us into the important developing economies of Brazil and Turkey. The impact of rapid energy price rises has abated. As expected we have been able to recover almost all of the associated cost increases, although there is a time lag and therefore margins are impacted. As part of our continuous review of operations, we sold our loss making anodising plant in Espoo, Finland and our St Louis heat treatment business. A further seven heat treatment facilities have been closed, with a proportion of the work and much of the equipment transferred to other locations. Four of these, two in the USA and two in UK, are major in nature and for which a closure provision of £5.0m has been established. Asset realisations are expected to exceed cash closure costs.

Heat Treatment Division

The division delivered 7.4% growth with sales of £375.0m, which accounts for 67% of the group revenues (2005: 74%). ROCE was 8.5% (2005: 7.4%). Margins increased to 13.4% (2005: 12.8%).

The UK continued to see strong demand from power generation, aerospace and oil & gas customers resulting in 6.5% organic growth. The rationalisation of facilities (Aldridge, Walsall, Sittingbourne and Gosport) into other sites is expected to be completed in early 2007 and deliver improved customer service and financial results. The acquisition of Ceramet has facilitated the start up of a Thermal Spray/Slurry Coating facility in Singapore in support of our oil & gas and aerospace customers. This technology transfer will start production in the first half of 2007 along with a new Testing laboratory at the same location. Our Nordic group continues to perform well and organic sales growth was 5.6%. In Central Europe our facilities delivered mixed results, with improvements in the German/Dutch markets but deterioration in the Alpine countries. Organic sales growth was a creditable 5.9%, overall. Our position in the Ruhr region was enhanced by the acquisition of SGB in Solingen. Our Eastern European facilities continue to grow, but margins have been reduced as we introduce Bodycote's quality, safety and business systems to meet the expectations of western manufacturers moving into the region in search of low cost products. We expect a solid first full year in the group from the acquisition of 60% of Istas in Turkey. France/Belgium continued to show improved sales (4.0% organic growth) and margins (an increase of 2.1% points) despite modest automotive demand. We expect these challenging automotive conditions to lead to increased outsourcing opportunities in 2007. Buoyant aerospace demand is also generating outsourcing opportunities.

North America saw organic sales grow 3.4% and margins improved by 0.6% points. Efforts to turn around two automotive focused facilities (Maple Heights, Ohio and Lansing, Michigan) proved fruitless and we decided to close these. In addition, we sold our St Louis facility, which was profitable, but was in a shrinking market and required significant investment. We will continue to review our various locations in light of our strategy to provide value added services with growth potential. In that vein, our investment in low pressure carburizing capability in Livonia, Michigan (used particularly for new generation automotive transmission gears) commenced production at the end of 2006 as forecast. Our success in meeting GM quality and service expectations has led to the award of two more contracts for a similar facility in Mexico and increased capacity in Livonia, both of which will come on line in early 2008. The latter part of the year saw us enter, for the first time, South America with the acquisition of Brasimet, Brazil's largest and most respected heat treatment group (six locations). The integration programme is going very well as they already had sophisticated quality, IS and management systems similar to those in use in Bodycote. We have found the Brazilian customer base to be highly complementary to that of the rest of our international base. We will also be commercialising a materials testing laboratory which Brasimet recently established and which creates an entry point into South America for our Testing SBU.

Our greenfield facility in Wuxi, China started generating sales in December. We anticipate our first year in production will generate a modest operating profit.

HIP Division

The division achieved 11.2% organic growth on the back of strong demand from aerospace, power generation and oil & gas customers, with sales of £38.9m which amounted to 7% of the Group (2005: 7%). ROCE increased from 19.7% in 2005 to 28.0% and this balances the disappointing performance experienced when end markets were at a cyclical low in 2002/2003. Margins were 32.9% (2005: 27.0%). Additional capacity from moth-balled units has been added in Princeton, Kentucky and Haag, Germany. Aerospace led the growth in North America while power generation demand was the key driver of European growth. Densal® has been gaining new market applications in Europe and North America, but growth was modest in 2006 due to capacity constraints which will be addressed by the availability of an additional unit by mid 2007.

Testing SBU

Testing delivered sales of £144.7m, an increase of 67.3%. This was split 6.6% organic, 59.0% acquisition and 1.8% due to foreign exchange movements. ROCE eroded slightly to 20.0% although margins slipped to 14.7% (2005: 18.8%) due to a change in business mix as a result of the various acquisitions and the cost of additional infrastructure to support the much larger business. We acquired 12 Testing businesses representing 38 laboratories and a small IS service provider for a net cost of £65.9m. These acquisitions took us into several new geographies (Eire, Hong Kong and Australia) and increased our presence in fire testing and certification as well as adding a new service, Measurement Solutions. The ROCE of these businesses is in line with our expectations. Several of the acquisitions are in sectors with lower margins, although they are at an equivalent level to similar activities already in the Group. This change in mix has led to a lower blended margin in the SBU. Based on our historical performance, we anticipate that we will be able to increase the margins of the newly acquired businesses by bringing operational systems to bear and by leveraging the synergies of the Group. We expect to see the benefits in 2007. In line with our strategy to grow Testing relative to the size of Thermal Processing, the SBU now represents 26% of the Group's increased revenue (2005: 18%).

Testing is a single SBU but to provide enhanced information in this review we have split its activities into two core divisions.

Materials, Engineering & Technology and Measurement Division (METM)

The division delivered 55.5% growth, with sales at £99.6m, which accounts for 18% of group sales (2005: 14%) with a ROCE of 20.1%. Margins were 14.3% (2005: 20.5%). Oil & gas, aerospace and construction demand was robust across all regions, with North America and Middle East particularly strong, posting growth of 39% and 53% respectively. We invested in a number of key market segments to strengthen our leadership, e.g. two fatigue testing laboratories (Canada and UK) and two advanced high temperature &

corrosion laboratories (Czech Republic and US). The purchase of Staveley laboratories in December, with four sites, has strengthened our market coverage in the US. Our Middle East laboratories are benefiting from the major government backed civil infrastructure investment taking place in the region. The acquisition of the Warrington Fire business (seven sites in four countries) significantly expands our existing capabilities in this market segment. Similarly, our North American automotive position was expanded by the addition of ACT Laboratories with two locations in Michigan. We continued our investment in engine testing and development for trucks and automotive compliance, where demand is driven by ever tightening environmental standards. Sales for our first year of operation in Asia Pacific were £1.2m. In addition to the laboratories joining the Group with the Warrington Fire acquisition (Hong Kong and Australia), we have created a business development team based in Singapore to intensify our effort to enter this important market in support of migrating global manufacturers and local companies. During the year, Measurement Solutions was added to the division, based initially on a business acquired from Saab Aerospace and delivered sales of £11m. The business currently includes eleven laboratories in four countries (Germany, Denmark, Sweden and Finland) with a plan to create a pan-European value added service for our existing customer base, particularly in the aerospace, defence, telecoms and pharmaceutical sectors. The business won a €1m per annum outsourcing contract, starting in 2007, from a large Danish pharmaceutical business.

Health Sciences/Environmental (HSE) Division

The division delivered 101% growth, with sales at £45.2m, which accounts for 8% of the group (2005: 5%) and ROCE was 20.0%. Margins were 15.6% (2005: 14.1%). The UK pharmaceutical and food markets progressed well. We acquired six businesses in the UK and Eire at multiples which met our demanding acquisition criteria (SEAL Land & Water, Norpath, Foodscan, Tetra and Prova R&D all in the UK and Consult-Us in Eire) thus establishing a strong network of facilities in support of both UK pharmaceutical manufacturers and food retailers. Our combination of food testing and advisory enables a unique service offering in the market. Our North American operations performed well in Ontario and Oregon but were disappointing in Quebec. The acquisition of Norwest in Canada and West Coast Analytical in California substantially expanded our network, opening up cross-selling opportunities. North American markets were buoyant in the civil sector while UK asbestos testing demand was soft. The acquisition of Norwest added services in key market segments, including environmental impact studies for the Albian oil sands development projects.

Associated Company SSCP Coatings Sarl (SSCP)

We have been participating in the consolidation of the Physical Vapour Deposition (PVD) market by way of our investment in SSCP following the sale of our own PVD interests to them in 2005. From a customer perspective SSCP continues to provide high quality coatings with excellent service and technical knowledge. However, it was decided that we should write off our equity investment (£8.3m) in SSCP at year end following SSCP's poor trading performance and subsequent refinancing. The consequent infusion of funds allows SSCP to continue normal operations, but comes at a cost and could dilute the minority equity shareholders if we do not subscribe for warrants to be issued in March. If Bodycote elects not to buy warrants, the Group's holding would be diluted to 9.25% in the event of a full exercise. We remain hopeful that, over time, the company will recover. Bodycote and SSCP continue to jointly market their synergistic heat treatment and PVD services.

Financial Review

Revenue

Group revenue from continuing operations, as reported for the year, was £558.6m, an increase of £87.7m (18.6%) on 2005 (£470.9m). Revenue growth for Heat Treatment was £25.8m (up 7.4% on 2005), for HIP £3.7m (up 10.5%) and for Testing £58.2m (67.3% on 2005). Organic growth accounted for £25.9m (30% of total growth) of the increase and acquisitions for £61.6m (70% of total growth). The net impact of foreign currency movements on revenues were negligible, with foreign currency losses in Euros and US Dollar being offset by gains in the Canadian Dollar.

Operating Profit and Margins

Demand was robust in most of our markets in 2006 with the notable exception of automotive in North America and France. On the other hand, energy and commodity prices rose considerably and had a significant impact on our ability to improve margins, particularly in heat treatment, notwithstanding the fact that these increased costs were essentially completely recovered via higher selling prices. Consequently, headline* operating profit increased 17.6%. In Heat Treatment, margins improved from 12.8% to 13.4% with headline* operating profits up 12.3%. HIP continued to benefit from robust aerospace and power generation demand and is much less energy intensive than heat treatment. Consequently margins moved ahead from 27.0% to 32.9% and headline* operating profit increased by 34.7%. Testing headline* operating profit increased 30.7% but margins fell back from 18.8% to 14.7% due to a combination of the mix of businesses acquired and additional infrastructure costs. Consequently the overall Group operating margin was slightly lower at 14.3% (2005:14.4%).

Interest

The net finance charge for the Group was £12.2m compared to £8.3m in 2005. The increase was primarily due to a one-off make whole payment of £3.1m as a result of the early settlement of \$80m of privately placed senior notes at 7.79% which were originally due in December 2009 and, in addition, higher average net debt levels resulting from the 2006 acquisitions.

Profit before tax

Headline* profit before tax was £66.9m compared to £58.7m in 2005. Profit before tax was £46.6m compared to £52.7m in 2005.

Taxation

Taxation was £2.7m for the year, £9.1m lower than in 2005. The effective tax rate for the Group, before impairment of goodwill and amortisation of acquired intangibles (which are generally not allowed for tax) and before non recurring items was 7.7% (2005: 20.2%). In the year, the Group was able to reassess the tax effectiveness of treasury management in 2003 and 2004 and has also benefited from a settlement with the relevant tax authority in respect of the Lindberg acquisition in 2001. These items have reduced the tax liability by £11.2m. Excluding these two items, the adjusted underlying effective tax rate would be 19.9%.

Earnings per share

Basic earnings per share for the year were 13.4p (2005: 12.7p) and diluted earnings per share were 13.4p (2005: 12.7p). Headline earnings per share, after adding back the post-tax effect of goodwill impairment, amortisation of acquired intangibles, major facility closure costs, impairment of equity investment in an associate and prior year tax benefits, rose by 18.5% to 17.3p (2005: 14.6p).

Dividend

The Board has recommended a final dividend of 4.5p bringing the total dividend in 2006 to 7.0p (2005: 6.4p) an increase of 9.4%. The dividend is covered 2.5 times by headline** earnings (2005: 2.3 times).

Capital Structure

Our balance sheet at 31 December 2006 can be summarised as set out in the table below:

	Assets	Liabilities	Net assts
	£m	£m	£m
Property plant and equipment	448.4	0.0	448.4
Goodwill and intangible assets	212.3	0.0	212.3
Current assets and liabilities	154.0	(128.5)	25.5
Other non-current assets and liabilities	16.8	(9.9)	6.9
Post retirement obligations	0.0	(32.8)	(32.8)
Deferred tax	23.2	(68.7)	(45.5)
Total before net debt	854.7	(239.9)	614.8
Net debt	34.7	(195.6)	(160.9)
Total as at 31 December 2006	889.4	(435.5)	453.9
Total as at 31 December 2005	893.4	(459.9)	433.5

Net assets increased by 4.7% to £453.9m (2005: £433.5m) and net assets per share by 4.4% to £1.41 (2005:£1.35). The main movements in the balance sheet were an increase in goodwill and intangible assets of £54.4m arising from the acquisitions completed during the year, an increase in net current assets of £9.1m and an increase in net borrowings of £52.4m.

Net debt

Group net debt was £160.9m (2005: £108.5m). During the year additional loans of £13.4m were drawn down under committed facilities and \$80m of senior notes were repaid early. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding. In 2006, a seven year committed loan facility of €125m was completed.

Cash flow

After allowing for capital expenditure, interest and tax the Group generated free cash flow of £41.0m compared to £42.1m in 2005 and cash flow from operating activities was £109.2m compared to £95.7m in 2005. The reduction in free cash flow was primarily due to increased capital expenditure. There has been continued focus on cash collection although debtor days increased by one to 70. Acquisitions resulted in net cash outgoings of £86.3m.

Capital Expenditure

Net capital expenditure for the year was £55.4m compared to £44.1m in 2005. The multiple of net capital expenditure to depreciation was 1.2 times as the Group expands into emerging markets and continues to take advantage of outsourcing opportunities. With buoyant demand in a number of the Group's markets, strong growth expected in Testing and the major investment in HIP capacity in the USA, the Group anticipates a ratio of 1.3 times in the coming year.

Major projects undertaken during the year included the establishment of a combined Thermal Spray and Testing facility in Singapore, expansion of the HIP facility in Surahammer, Sweden, additional Kolsterising capacity in southern Germany and France, ground breaking for a greenfield heat treatment plant in Silao, Mexico, additional aerospace focused vacuum heat treatment capacity in France, establishment of new laboratories in Dubai, Saudi Arabia, Manchester, UK and Monterrey, Mexico along with additional heavy duty engine testing cells in Canada and new fatigue testing equipment in North America and the UK.

Liquidity and investments

Bodycote is financed by a mix of cash flows from operations, short-term borrowings, longer-term loans and finance leases. Bodycote's funding policy is to ensure continuity of finance at reasonable cost, based on committed facilities from several sources, arranged for a spread of maturities. At 31 December 2006 Bodycote had £125.8m of unutilised committed facilities with average remaining life of 4.4 years. The Group's principal committed facility of £225m (£84.7m of which was unutilised at 31 December 2006) has a maturity of 3.6 years. During the year the Group completed a €125m loan facility committed until July 2013 (£41.1m of which was unutilised at 31 December 2006). Part of these proceeds have been used to repay US \$80m of senior notes.

Bodycote also has access to uncommitted and short-term facilities, used principally to manage day-to-day liquidity and working capital requirements. In addition pooling, netting and concentration techniques are used to minimise borrowings.

Treasury policy

Treasury activities have the objective of minimising risk and are centralised in the Group's head office. Group Treasury is responsible for management of liquidity and interest and foreign exchange risks, operating within policies and authority limits approved by the Board. The use of financial instruments including derivatives is permitted when approved by the Board, where the effect is to minimise risk to the Group. Speculative trading of derivatives or other financial instruments is not permitted.

Bodycote has operations in 28 countries. Assets are hedged where appropriate, by matching the currency of borrowings to the net assets. The Group principally borrows in US Dollars, Euro and Swedish Krona, consistent with the location of the Group's non-sterling assets. These borrowings are at both fixed and floating interest rates and the Group will use derivatives where appropriate, to generate the desired effective currency and interest rate exposure.

Interest rate fluctuations on indebtedness are managed by using a combination of fixed and floating rates. Consideration is given to entering into interest rate swaps and forward rate agreements. The policy objective is to have a target proportion of net borrowings hedged at all times.

At the end of December 2006 4% of borrowings were at fixed rates for an average period of 4.6 years.

It is Group policy to hedge exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of foreign exchange forward contracts but not to hedge exposure for the translation of reported profits.

Defined Benefit Pension Arrangements

The Group has defined benefit pension obligations in the UK, France, Germany, Sweden, USA and Brazil which are all reflected in the Group balance sheet. In the UK the Group has a final salary scheme, which was closed to new members in April 2001 but continues to accrue benefits for current employee members, a total of just over 300 people. The deficit as calculated by the scheme actuary at 31 December 2006 using the principles of IAS 19 is £23.3m. In France we operate a plan which pays a cash lump sum on retirement and also for long service. The plan is open to new employees but by its nature is not mortality dependent. It is unfunded and the IAS 19 liability at 31 December 2006 was £4.1m. The Group's heat treatment business in Germany has inherited several defined benefit arrangements. They are all unfunded and are closed to new members but existing members continue to accrue benefits. The IAS 19 liability at 31 December 2006 was £2.6m. In Sweden, the Group has three defined benefit arrangements. One is funded and two are unfunded and each is open to new employees. The IAS 19 liability at 31 December 2006 was £2.4m. The company sponsors five defined benefit pension arrangements in the USA which were inherited with the acquisition of Lindberg and had a total IAS 19 deficit at 31 December 2006 of £0.5m. Following the sale of the St Louis facility and closure of Lansing, there are no further accruals on any of these plans. Brasimet operates a defined benefit plan for three senior members of staff. It is fully funded and the members continue to accrue benefits. At 31 December 2006 it had a surplus of £0.1m.

Post balance sheet events

After the year end the Group purchased Techmeta SA, a French Electron Beam Welding business, for cash consideration of €6.0m (£4.0m) of which €2.7m (£1.8m) is deferred.

Change in accounting policies

During the year there were no material changes to accounting policies.

Going concern

After making enquiries, the directors have formed the opinion that 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.

Current Trading and Prospects

The forecasts we have seen for the aerospace, oil & gas, power generation, health sciences and environmental sectors are all positive in the near term. Automotive is experiencing over-capacity in North America and Western Europe, however, demand is increasing in Asia and other emerging economies. Our sales continue to grow as western manufacturers outsource their thermal processing and testing requirements to Bodycote. High efficiency, high equipment utilisation and adding support and value beyond the basic service are the tools by which we combat price competition. In addition, our growing presence in developing countries is providing us with the opportunities to assist western manufacturers who are establishing new facilities in these low cost countries.

Two greenfield facilities are being built in Mexico. A heat treatment facility in Silao will initially be focused on supporting GM with low pressure carburizing and a testing laboratory in Monterey will be supporting a major aerospace supplier. We are also in the process of building a greenfield heat treatment plant in Pune, India and anticipate it will go into production in early 2008. A joint greenfield thermal spray and testing facility in Singapore will commence production by mid-2007. Other developments include plans for greenfield laboratories in Bahrain, Saudi Arabia, Kazakhstan and Croatia as well as several transient laboratories in support of large scale infrastructure projects in the Middle East including the Dubai Light Railway project.

An additional 'mega' HIP unit is scheduled to be in production by the end of 2007 at our Camas, Washington facility and an additional Densal® unit will go into production in Haag, Germany in the first half of the year. Our Surahammar, Sweden facility is being expanded to improve efficiency of can making/powder filling which gives us additional work for the HIP unit which will improve ROCE. The International Thermo Nuclear Experimental Reactor (ITER) is continuing to move forward with funding now committed by an international consortium. We expect high value HIP opportunities over the medium term as we saw from the CERN project on which we completed work in 2006.

In line with our strategy, we will continue to seek bolt-on acquisitions which are either in Testing, developing markets or have technical niches which are value enhancing. Strict investment criteria and disciplined operations will continue to aid our growth and performance improvement. Overall, the Group anticipates about £60m will be spent on acquisitions in 2007, of which approximately two thirds will be in Testing. The Thermal Processing SBU acquired Techmeta SA in France at the beginning of February. Techmeta is an Electron Beam (EB) service provider and a global supplier of EB equipment which produced c. £6m of sales in 2006. This expands our current technical capabilities in servicing the aerospace, power generation and nuclear industries. We estimate about £70m will be invested in capital expenditure which will be approximately 1.3 times depreciation (2006: 1.2 times) and reflects the high level of investment in greenfield facilities in emerging markets and the Camas HIP facility in 2007. About half of the capital expenditure will be for additional capacity to grow the business in new technologies (e.g. low pressure carburizing) or enter new geographies and the remainder will be to replace equipment for cost saving projects or infrastructure.

Since the start of the current financial year, trading has been above the levels in the same period in 2006, with a strong performance in Europe and steady results in North America. Organic growth has been

robust with 2006 acquisitions contributing as expected. Notably, we entered 2007 with annualised revenue for the Testing SBU at approximately £170m.

We enter 2007 confident that we will deliver another successful performance.

J D Hubbard
27 February 2007

D F Landless
27 February 2007

The company will broadcast the meeting with analysts on 27 February in a live web cast commencing at 0900 AM GMT on the company's website at www.bodycote.com (follow the link to the Investor Relations page)

Consolidated income statement
For the year ended 31 December 2006

	2006	2005
	£m	£m
Revenue		
Existing operations	510.3	453.7
Acquisitions	48.3	17.2
	<u>558.6</u>	<u>470.9</u>
Operating profit		
Existing operations	51.3	57.0
Acquisitions	7.2	3.3
Share of results of associates	0.3	0.7
	<u>58.8</u>	<u>61.0</u>
Operating profit prior to amortisation, impairment charges and major facility closure costs	79.1	67.0
Amortisation/impairment of acquired intangible fixed assets	(1.0)	(0.2)
Impairment of goodwill	(6.0)	(5.8)
Impairment of investment in associate	(8.3)	-
Major facility closure costs	(5.0)	-
Operating profit	58.8	61.0
Investment income	3.4	5.2
Finance costs	(15.6)	(13.5)
Profit before taxation	<u>46.6</u>	<u>52.7</u>
Taxation	(2.7)	(11.8)
Profit for the year	<u><u>43.9</u></u>	<u><u>40.9</u></u>
Attributable to:		
Equity holders of the parent	43.1	40.7
Minority interest	0.8	0.2
	<u><u>43.9</u></u>	<u><u>40.9</u></u>
Earnings per share	pence	pence
From continuing operations:		
Basic	13.4	12.7
Diluted	13.4	12.7

Consolidated statement of recognised income and expense
For the year ended 31 December 2006

	2006	2005
	£m	£m
Exchange differences on translation of foreign operations	(6.7)	(5.1)
Actuarial losses on defined benefit pension schemes	(3.7)	(3.7)
Tax on items taken directly to equity	1.6	0.2
Net loss recognised directly in equity	<u>(8.8)</u>	<u>(8.6)</u>
Profit for the year	43.9	40.9
Recognised income for the year	<u>35.1</u>	<u>32.3</u>
Attributable to:		
Equity holders of the parent	34.3	32.1
Minority interests	0.8	0.2
	<u>35.1</u>	<u>32.3</u>

Consolidated balance sheet
As at 31 December 2006

	2006	2005
	£m	£m
Non-current assets		
Goodwill	201.9	154.2
Other intangible assets	10.4	3.7
Property, plant and equipment	448.4	442.9
Interests in associates	1.2	9.2
Finance lease receivables	1.4	1.9
Deferred tax asset	23.2	22.7
Derivative financial instruments	0.6	-
Trade and other receivables	11.3	6.1
	<u>698.4</u>	<u>640.7</u>
Current assets		
Inventories	13.7	11.9
Finance lease receivables	0.3	0.3
Derivative financial instruments	1.9	-
Trade and other receivables	138.1	114.5
Cash and cash equivalents	34.7	124.8
	<u>188.7</u>	<u>251.5</u>
Non-current assets classified as held for sale	<u>2.3</u>	<u>1.2</u>
Total assets	<u><u>889.4</u></u>	<u><u>893.4</u></u>
Current liabilities		
Trade and other payables	111.1	97.2
Dividends payable	8.0	7.5
Current tax liabilities	6.7	3.3
Obligations under finance leases	1.4	1.4
Bank overdrafts and loans	4.4	6.4
Derivative financial instruments	0.2	-
Short-term provisions	2.5	2.3
	<u>134.3</u>	<u>118.1</u>
Net current assets	<u>54.4</u>	<u>133.4</u>
Non-current liabilities		
Bank loans	186.5	221.6
Retirement benefit obligation	32.8	29.9
Deferred tax liabilities	68.7	79.9
Obligations under finance leases	3.3	3.9
Derivative financial instruments	0.1	-
Long-term provisions	4.1	4.7
Other payables	5.7	1.8
	<u>301.2</u>	<u>341.8</u>
Total liabilities	<u>435.5</u>	<u>459.9</u>
Net assets	<u><u>453.9</u></u>	<u><u>433.5</u></u>

Consolidated balance sheet
As at 31 December 2006

	2006	2005
	£m	£m
Equity		
Share capital	32.2	32.1
Share premium account	302.1	300.3
Own shares	(2.4)	(2.5)
Other reserves	3.8	1.7
Hedging and translation reserves	4.4	11.1
Retained earnings	109.4	89.4
Equity attributable to equity holders of the parent	<u>449.5</u>	<u>432.1</u>
Minority interest	4.4	1.4
Total equity	<u><u>453.9</u></u>	<u><u>433.5</u></u>

Consolidated cash flow statement
For the year ended 31 December 2006

	2006	2005
	£m	£m
Net cash from operating activities	109.2	95.7
Investing activities		
Purchases of property, plant and equipment	(59.5)	(51.8)
Proceeds on disposal of property, plant and equipment and intangible assets	4.8	8.6
Purchases of intangible fixed assets	(0.7)	(0.9)
Acquisition of investment in an associate	-	(2.3)
Acquisition of subsidiaries	(86.3)	(31.8)
Disposal of subsidiaries	0.1	5.8
Net cash used in investing activities	<u>(141.6)</u>	<u>(72.4)</u>
Financing activities		
Interest received	2.9	5.4
Interest paid	(15.7)	(14.9)
Dividends paid	(20.5)	(19.5)
Dividends paid to a minority shareholder	(0.1)	(0.1)
Repayments of bank loans	(65.5)	(10.1)
Payments of obligations under finance leases	(1.8)	(1.6)
New bank loans raised	46.0	0.1
New obligations under finance leases	0.5	0.1
Proceeds on issue of ordinary share capital	1.9	0.3
Settlement of share options/own shares purchased	0.1	(1.7)
Net cash used in financing activities	<u>(52.2)</u>	<u>(42.0)</u>
Net decrease in cash and cash equivalents	(84.6)	(18.7)
Cash and cash equivalents at beginning of year	120.7	138.7
Effect of foreign exchange rate changes	<u>(2.7)</u>	<u>0.7</u>
Cash and cash equivalents at end of year	<u><u>33.4</u></u>	<u><u>120.7</u></u>

Reconciliation of operating profit to net cash from operating activities

	2006	2005
	£m	£m
Operating profit	58.8	61.0
Share of associates' interest and tax	0.6	0.8
Depreciation of property, plant and equipment	44.8	40.5
Amortisation/impairment of intangible assets	1.6	0.9
Impairment of goodwill	6.0	5.8
Impairment in investment in associate	8.3	-
Major facility closure costs	5.0	-
EBITDA ¹	<u>125.1</u>	<u>109.0</u>
(Gain)/loss on disposal of property, plant and equipment	0.3	(0.6)
Income from associates	(0.9)	(1.6)
Share-based payments	<u>2.1</u>	<u>0.2</u>
Operating cash flows before movements in working capital	126.6	107.0
Increase in inventories	(0.4)	(2.1)
Increase in receivables	(15.5)	(8.4)
Increase in payables	9.5	2.8
(Decrease)/increase in provisions	<u>(2.6)</u>	<u>4.7</u>
Cash generated by operations	117.6	104.0
Income taxes paid	<u>(8.4)</u>	<u>(8.3)</u>
Net cash from operating activities	<u><u>109.2</u></u>	<u><u>95.7</u></u>

¹ Earnings before interest, tax, depreciation and amortisation

1. Operating Profit

	2006			2005		
	Existing operations	Acquisitions	Continuing operations	Existing operations	Acquisitions	Continuing operations
	£m	£m	£m	£m	£m	£m
Revenue	510.3	48.3	558.6	453.7	17.2	470.9
Cost of sales	(334.7)	(31.3)	(366.0)	(301.4)	(10.7)	(312.1)
Gross profit	175.6	17.0	192.6	152.3	6.5	158.8
Other operating income	2.8	-	2.8	2.5	0.1	2.6
Distribution costs	(16.5)	(2.1)	(18.6)	(14.3)	(0.4)	(14.7)
Administration expenses	(90.7)	(7.1)	(97.8)	(77.7)	(2.7)	(80.4)
Other operating expenses	(0.2)	-	(0.2)	-	-	-
Amortisation/impairment of acquired intangible fixed assets*	(0.4)	(0.6)	(1.0)	-	(0.2)	(0.2)
Impairment of goodwill*	(6.0)	-	(6.0)	(5.8)	-	(5.8)
Impairment of investment in associate*	(8.3)	-	(8.3)	-	-	-
Major facility closure costs*	(5.0)	-	(5.0)	-	-	-
Operating profit before income from associates	51.3	7.2	58.5	57.0	3.3	60.3
Income from associates after interest and tax			0.3			0.7
Operating profit			58.8			61.0

* Administration expenses (total £118.1m; 2005: £86.4m)

2. Business and geographical segments

	Heat Treatment	Hot Isostatic Pressing	Testing	Discontinued Operations		Continuing operations
				Electroplating	Head Office and eliminations	
				2006	2006	
	2006	2006	2006	2006	2006	2006
	£m	£m	£m	£m	£m	£m
Revenue						
External sales	375.0	38.9	144.7	-	-	558.6
Inter-segment sales	-	-	0.6	-	(0.6)	-
Total revenue	375.0	38.9	145.3	-	(0.6)	558.6

Inter-segment sales are charged at prevailing market prices

Result

Segment result prior to amortisation of acquired intangible assets and impairment of goodwill	49.5	12.7	21.3	-	-	83.5
Share of associates' operating profit	0.8	0.1	-	-	-	0.9
Unallocated corporate expenses	-	-	-	-	(4.7)	(4.7)
	<u>50.3</u>	<u>12.8</u>	<u>21.3</u>	<u>-</u>	<u>(4.7)</u>	<u>79.7</u>
Amortisation /impairment of acquired intangible assets and impairment of goodwill and investment in associate	(10.7)	-	(4.6)	-	-	(15.3)
Major facility closure costs	(5.0)	-	-	-	-	(5.0)
	<u>34.6</u>	<u>12.8</u>	<u>16.7</u>	<u>-</u>	<u>(4.7)</u>	<u>59.4</u>
Segment result						
Share of associates' interest and tax	<u>(0.6)</u>					<u>(0.6)</u>
Operating profit - continuing operations						58.8
Investment revenues						3.4
Finance costs						<u>(15.6)</u>
Profit before tax						46.6
Tax						<u>(2.7)</u>
Profit for year						<u>43.9</u>

2. Business and geographical segments (continued)

	Discontinued Operations				Head Office and eliminations	Continuing operations
	Heat Treatment	Hot Isostatic Pressing	Testing	Electroplating		
	2005 £m	2005 £m	2005 £m	2005 £m		
Revenue						
External sales	349.2	35.2	86.5	1.5	(1.5)	470.9
Inter-segment sales	-	-	0.6	-	(0.6)	-
Total revenue	<u>349.2</u>	<u>35.2</u>	<u>87.1</u>	<u>1.5</u>	<u>(2.1)</u>	<u>470.9</u>
Inter-segment sales are charged at prevailing market prices						
Result						
Segment result prior to amortisation of acquired intangible assets and impairment of goodwill	43.3	9.5	16.3	-	-	69.1
Share of associates' operating profit	1.5	-	-	-	-	1.5
Unallocated corporate expenses	-	-	-	-	(2.8)	(2.8)
	<u>44.8</u>	<u>9.5</u>	<u>16.3</u>	<u>-</u>	<u>(2.8)</u>	<u>67.8</u>
Amortisation of acquired intangible assets and impairment of goodwill	(5.8)	-	(0.2)	-	-	(6.0)
Segment result	<u>39.0</u>	<u>9.5</u>	<u>16.1</u>	<u>-</u>	<u>(2.8)</u>	<u>61.8</u>
Share of associates' interest and tax	<u>(0.8)</u>					<u>(0.8)</u>
Operating profit - continuing operations						61.0
Investment revenues						5.2
Finance costs						<u>(13.5)</u>
Profit before tax						52.7
Tax						<u>(11.8)</u>
Profit for year						<u>40.9</u>

**2. Business and geographical segments
(continued)**

Other information

	Heat Treatment	Hot Isostatic Pressing	Testing	Discontinued Operations Electroplating	Head office and eliminations	Consolidated
	2006	2006	2006	2006	2006	2006
	£m	£m	£m	£m	£m	£m
Capital additions	38.8	6.6	14.5	-	0.3	60.2
Depreciation and amortisation	33.1	4.3	8.6	-	0.2	46.2
Impairment losses recognised in income	13.9	-	3.9	-	-	17.8

Balance sheet

Assets:

Segment assets	772.6	87.2	196.5	-	(168.1)	888.2
Interests in associates	1.2	-	-	-	-	1.2

Consolidated total assets	773.8	87.2	196.5	-	(168.1)	889.4
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Liabilities:

Segment liabilities	445.7	36.1	168.0	-	(214.3)	435.5
<u>Segment net assets</u>	<u>328.1</u>	<u>51.1</u>	<u>28.5</u>	<u>-</u>	<u>46.2</u>	<u>453.9</u>

	Heat Treatment	Hot Isostatic Pressing	Testing	Discontinued Operations Electroplating	Head office and eliminations	Consolidated
	2005	2005	2005	2005	2005	2005
	£m	£m	£m	£m	£m	£m
Capital additions	37.6	5.2	9.9	-	-	52.7
Depreciation and amortisation	32.2	4.3	4.9	-	-	41.4
Impairment losses recognised in income	5.8	-	-	-	-	5.8

Balance sheet

Assets:

Segment assets	726.8	86.5	117.6	-	(46.7)	884.2
Interests in associates	9.2	-	-	-	-	9.2

Consolidated total assets	736.0	86.5	117.6	-	(46.7)	893.4
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Liabilities:

Segment liabilities	399.1	28.0	69.3	-	(36.5)	459.9
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<u>Segment net assets</u>	<u>336.9</u>	<u>58.5</u>	<u>48.3</u>	<u>-</u>	<u>(10.2)</u>	<u>433.5</u>
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**2. Business and geographical segments
(continued)**

**By geographical
market**

	<u>Sales revenue</u>	
	2006	2005
	£m	£m
EMEA	356.8	304.2
Americas	200.6	166.7
Asia Pacific	1.2	-
	<u>558.6</u>	<u>470.9</u>

Revenue from the Group's discontinued operations was derived principally from EMEA (2006: £nil, 2005: £1.5 million).

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2006	2005	2006	2005
	£m	£m	£m	£m
EMEA	321.5	305.6	37.3	31.5
Americas	129.8	126.9	19.6	21.0
Asia Pacific	2.6	1.0	3.3	0.2
	<u>453.9</u>	<u>433.5</u>	<u>60.2</u>	<u>52.7</u>

3. Taxation

	2006	2005
	£m	£m
Current taxation - charge for the year	10.5	9.5
Current taxation - adjustment in respect of previous years	1.6	(0.1)
Deferred taxation	<u>(9.4)</u>	<u>2.4</u>
	<u>2.7</u>	<u>11.8</u>

UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the year.
Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

4. Earnings per share

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

	2006 £m	2005 £m
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	43.1	40.7
	<u>43.1</u>	<u>40.7</u>
Number of shares		
	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	320,462,772	319,719,955
Effect of dilutive potential ordinary shares:		
Share options	880,065	546,590
	<u>880,065</u>	<u>546,590</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	321,342,837	320,266,545
	<u>321,342,837</u>	<u>320,266,545</u>
	pence	pence
Basic	13.4	12.7
	<u>13.4</u>	<u>12.7</u>
Diluted	13.4	12.7
	<u>13.4</u>	<u>12.7</u>
	£m	£m
Headline earnings		
Net profit attributable to equity holders of the parent	43.1	40.7
Add back:		
Impairment of goodwill	6.0	5.8
Amortisation/impairment of acquired intangible fixed assets	1.0	0.2
Impairment of investment in associate	8.3	-
Major facility closure costs	5.0	-
Cost of early settlement of US dollar private placement debt	3.1	-
Tax settlements in respect of prior years	(11.2)	-
	<u>(11.2)</u>	<u>-</u>
Headline earnings	55.3	46.7
	<u>55.3</u>	<u>46.7</u>
Earnings per share from headline earnings:		
	pence	pence
Basic	17.3	14.6
	<u>17.3</u>	<u>14.6</u>
Diluted	17.2	14.6
	<u>17.2</u>	<u>14.6</u>

5. Basis of preparation

The financial information has been 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 March 2007.

The financial information has been prepared under the same accounting policies as the 2005 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 2006 or 2005 but is derived from those financial statements. Statutory financial statements for 2005 have been delivered to the Register of Companies. Those for 2006 will be delivered following the company's annual general meeting, which will be convened at 3 pm on 23 May 2007. The auditors have reported on those accounts: their report was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.

This report was approved by the Board of Directors on 27 February 2007.