



Bodycote plc
Audited results for the year ended 31 December 2013

Financial Highlights

	2013	2012 (Restated) ¹	% change
Revenue	£619.6m	£587.8m	5
Headline operating profit ²	£107.4m	£97.5m	10
Return on sales ³	17.3%	16.6%	
Operating profit	£102.1m	£93.0m	10
Headline profit before taxation ²	£103.7m	£94.5m	10
Profit before taxation	£98.4m	£90.0m	9
Headline operating cash flow ⁴	£108.9m	£110.8m	(2)
Operating cash flow ⁵	£104.6m	£103.0m	2
Net cash / (debt)	£15.0m	£(34.2)m	
Basic headline earnings per share ⁶	41.2p	37.5p	10
Basic earnings per share	38.5p	35.9p	7
Ordinary dividend per share	13.5p	12.3p	10
Special dividend per share	10.0p	-	
Return on capital employed ⁷	19.9%	17.9%	

Highlights

- Bodycote moved strongly ahead despite mixed markets
- Excellent performance from 2012 acquisitions
- New Technologies growing following capacity enhancement
- Headline margin up 70 basis points to 17.3%
- Fourth year of strong free cash generation, net cash of £15.0m
- Final ordinary dividend of 9.1p, 13.5p for the year, up 10%
- Special dividend of 10.0p

Commenting, Stephen Harris, Chief Executive said:

“In 2013 improvements in business mix, plus the full year effect of the 2012 acquisitions, enabled Bodycote to achieve good growth and strong returns, despite weak markets in the early part of the year.

At this early stage in the year and on a constant currency basis, the Board expects Bodycote’s growth initiatives to deliver further progress in 2014.”

Definitions:

- ¹ 2012 restated for the adoption of IAS 19 (revised) 'Employee Benefits', which has the effect of reducing headline operating profit and operating profit by £0.4m, reducing finance charge by £0.6m and increasing profit before taxation by £0.2m.
- ² Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £4.5m (2012: £2.0m), reorganisation costs of £0.8m (2012: £2.4m), profit on disposal of investments of £nil (2012: £2.4m) and acquisition costs of £nil (2012: £2.5m).
- ³ Return on sales is defined as headline operating profit as a percentage of revenue.
- ⁴ Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £4.3m (2012: £5.3m) and acquisition costs of £nil (2012: £2.5m).
- ⁵ Operating cash flow is defined as cash generated by operations of £161.9m (2012: £150.7m) less net capital expenditure of £57.3m (2012: £47.7m).
- ⁶ A detailed reconciliation is provided in note 4 to this announcement.
- ⁷ The definition of return on capital employed (ROCE) has been amended and is now defined as headline operating profit of £107.4m (2012: £97.5m) divided by the average of opening and closing capital employed of £539.6m (2012: £543.5m) as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash / (debt).

A live webcast of the analysts' meeting will be available from 9.45am at www.bodycote.com.

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OVERVIEW

Bodycote moved strongly ahead in 2013 despite mixed market conditions. Reported revenue grew by £31.8m (5.4%) to £619.6m, albeit helped by a positive contribution of £14.2m (2.4%) from foreign exchange translation effects. This corresponds to a 3% growth at constant exchange rates. The acquisitions made in 2012 contributed £32.4m, or 5.5%, with organic revenues declining by £14.8m (2.5%). Nearly all of Bodycote's markets were weak in the first part of the year but, encouragingly, many strengthened as the year progressed.

Margins increased once again with progress in both the Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI) businesses. Group margins rose to 17.3% from 16.6% in the prior year. ADE now has a margin of 27.0% (2012: 26.8%) and AGI has improved to 14.7% (2012: 13.4%). These margin improvements are largely down to the continuing drive towards a better mix of business, notably from increased revenues generated in S³P and HIP Product Fabrication, and strong cost management. This can be seen very clearly when looking at the organic performance of the Group on a constant currency basis. Overall organic profit fell only £0.4m on £14.8m of organic sales decline. Both ADE and AGI saw organic sales declines, the former primarily driven by falling oil and gas demand and the latter driven by weak general industrial demand. The mix improvement and cost management efforts held organic headline operating profit decline in ADE to £0.9m on organic sales down £4.5m, while in AGI headline operating profit increased by £0.8m notwithstanding a £10.3m drop in organic revenues. Acquisitions added £6.7m of headline operating profit.

A key element of the Group's success in these weak economic conditions was its ability to maintain price increases at or above cost inflation. In 2013, the business demonstrated its pricing power once again with price increases some £1.6m greater than cost increases.

In 2013 headline EPS grew by 10% to 41.2p while return on capital employed grew to 19.9% (2012: 17.9%). The high quality of the Group's earnings was underscored by the cash performance with a headline operating cash flow of £108.9m (2012: £110.8m), corresponding to a headline operating cash conversion rate of 101%. This was despite a 20% increase in capital spending. One of the consequences of Bodycote's focus on high returns on investment and a constant focus on cash generation resulted in the Group finishing the year with net cash of £15.0m. This compares to £34.2m of net debt at the end of 2012.

The Group's priority for the use of cash is firstly to fund organic expansion followed by enhancement of the core dividend. Acquisitions form the third priority after these first two items. Supplemental distributions will only be made if cash generation exceeds the immediate needs of the business and such a distribution can be undertaken without compromising the Group's acquisition strategy or sacrificing its strong financial position.

DIVIDEND

The Board is proposing a final ordinary dividend of 9.1p, an increase of 10%, which will be paid on 2 May 2014 subject to shareholder approval at the AGM. This brings the total ordinary dividend for 2013 to 13.5p (2012: 12.3p) costing £25.7m, which is a year on year increase of 10%. The Board is also recommending a supplemental distribution, by way of a special dividend, amounting to 10.0 pence per share costing £19.1m.

STRATEGIC PROGRESS

The Group's expansion in China continued with one new plant coming on stream in 2013. There is strong demand for Bodycote's service offering in China, which is geared towards non-Chinese companies targeting the domestic Chinese market. Further facilities are currently in the planning stage for the emerging markets.

The market in Brazil remained challenging in 2013 and even though 20 basis points of the Group's margin improvement was derived from a better operating performance in Brazil, the business has yet to reach breakeven. Further progress is expected in 2014 with the focus now firmly shifted to sales expansion following the restructuring activities of previous years. Any improvement in the Brazilian economy in this region should have a significant positive impact, as operational gearing is likely to be very high on extra sales generated.

The new technologies of S³P and HIP Product Fabrication are starting to be meaningful contributors to the Group performance. Investment in these exciting technologies has been a focus for some five years now and they have moved from a virtual standing start to adding 40 basis points to the Group's margins in 2013 compared to 2012. Significant capacity expansion took place in S³P during 2012 and 2013 and more expansion will occur in the coming year. Meanwhile, extra Giga HIP capacity was brought on line at the end of 2013 which will further assist the growth in the HIP business in 2014.

A significant focus in 2013 was the post acquisition integration of the three businesses acquired in 2012. The integration has been virtually seamless and the new businesses together generated a 13% return on investment in their first full year of Bodycote ownership. No new acquisitions were made during the year. The Group continues to be on the lookout for value enhancing acquisitions.

SUMMARY & OUTLOOK

In 2013 improvements in business mix, plus the full year effect of the 2012 acquisitions, enabled Bodycote to achieve good growth and strong returns, despite weak markets in the early part of the year.

At this early stage in the year and on a constant currency basis, the Board expects Bodycote's growth initiatives to deliver further progress in 2014.

BUSINESS PERFORMANCE

	2013	2012 (Restated)
	£m	£m
Revenue	<u>619.6</u>	<u>587.8</u>
Operating profit	102.1	93.0
Profit on disposal of investments	-	(2.4)
Acquisition costs	-	2.5
Reorganisation costs	<u>0.8</u>	<u>2.4</u>
Operating profit prior to exceptional items	102.9	95.5
Amortisation of acquired intangible fixed assets	<u>4.5</u>	<u>2.0</u>
Headline operating profit	<u>107.4</u>	<u>97.5</u>

Group revenue was £619.6m, an increase of 5.4%, of which acquisitions accounted for 5.5%, with organic revenues down 2.5% and foreign exchange rate movements having a positive impact of 2.4%.

Headline operating profit for the year increased by 10.2% from £97.5m to £107.4m, and headline operating margin was 17.3% (2012: 16.6%). Acquisitions made in the prior year increased headline operating profit by £6.7m. The impact of foreign currency movements in the year was an increase in headline operating profit of £3.6m. Despite a £14.8m decline in organic revenue, organic headline operating profit decreased by only £0.4m.

Cash flow is analysed as follows:

	2013	2012 (Restated)
	£m	£m
Headline operating profit	107.4	97.5
Add back non-cash items:		
Depreciation and amortisation	52.9	50.5
Impairment of fixed assets	5.1	0.7
Share-based payments	3.6	3.9
(Profit) / loss on disposal of property, plant and equipment	<u>(0.1)</u>	<u>0.1</u>
Headline EBITDA ¹	168.9	152.7
Net capital expenditure	(57.3)	(47.7)
Net working capital movement	<u>(2.7)</u>	<u>5.8</u>
Headline operating cash flow	108.9	110.8
Cash cost of restructuring	(4.3)	(5.3)
Acquisition costs	<u>-</u>	<u>(2.5)</u>
Operating cash flow	104.6	103.0
Interest	(3.3)	(2.5)
Taxation	<u>(22.5)</u>	<u>(19.3)</u>
Free cash flow	<u>78.8</u>	<u>81.2</u>

Strong profit growth, disciplined capital spending and working capital control have resulted in excellent operating cash flow of £104.6m (2012: £103.0m). Group net cash at 31 December 2013 was £15.0m (2012: net debt £34.2m).

Capital expenditure continued to be managed carefully. Capital spend (net of asset sales) in 2013 was £57.3m (2012: £47.7m), being 1.0 times depreciation² (2012: 0.9 times). There has been a continued focus on cash collection and receivable days at 31 December 2013 were 59 days (31 December 2012: 58 days). The net working capital outflow in the year is primarily a result of a decrease in payables, offset by a modest decrease in receivables.

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

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

KEY PERFORMANCE INDICATORS

The Group focuses on a small number of Key Performance Indicators (KPIs), which cover both financial and non-financial metrics.

The financial KPIs are Return on Capital Employed¹, Return on Sales² and Headline Earnings Per Share³. The non-financial KPIs are Accident Frequency⁴ and Carbon Footprint⁵.

Financial

Return on capital employed increased by 2.0 percentage points during the year, from 17.9% to 19.9%. Headline operating profit increased by 10.2% from £97.5m to £107.4m, while average capital employed reduced by 0.7% to £539.6m.

Return on sales increased by 0.7 percentage points during the year, from 16.6% to 17.3%. Revenue increased by 5.4% from £587.8m to £619.6m.

Headline earnings per share increased by 3.7 pence during the year, from 37.5 pence to 41.2 pence. Headline earnings increased by 11.1% from £70.2m to £78.0m, while the average number of shares in issue remained static.

Non-financial

Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for everyone who works at or visits our locations. The accident frequency rate has increased to 1.9 in the year (2012: 1.5). We believe the primary reason for this is the emphasis we have placed on the reporting of incidents.

Excluding the year on year impact of acquisitions and at constant currency, the carbon footprint decreased by 3% from 603.4 tonnes per £m sales to 583.1 tonnes per £m sales. In total and at actual exchange rates, the carbon footprint remained in line with 2012. Acquisitions were made in the USA, which has a higher energy to carbon conversion rate than most of the other countries in which the Group operates.

¹ Headline operating profit as a percentage of the average of opening and closing capital employed as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash / (debt).

² Headline operating profit as a percentage of revenue.

³ Headline earnings per share is defined in note 4 to this announcement.

⁴ Accident frequency is defined as the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.

⁵ Carbon footprint is defined as tonnes of CO₂ equivalent emissions divided by £m revenue. CO₂ equivalent emissions are calculated by taking electricity and gas usage in kilowatt hours and multiplying by country specific conversion factors provided by DEFRA (Department for Environment, Food & Rural Affairs).

MARKETS

Aerospace, Defence & Energy markets

Civil aerospace revenues increased in 2013 by 10% (8% at constant exchange rates, of which 5% was organic and 3% from acquisitions), due to a combination of new contract gains and market demand. Original equipment sales improved as both Boeing and Airbus continued to increase production rates. Available seat kilometres grew by 5% indicating an increase in aircraft flying hours, which in turn drove an increase in demand for aftermarket parts.

Sales into the defence sector, which accounted for around 5% of Group sales, were weak as the effect of the widespread reduction in military budgets took effect. Revenues were 6% lower than in 2012 (7% at constant exchange rates).

Demand for the Group's services in the power generation sector grew well with sales ahead by 11% in 2013 (9% at constant exchange rates, of which 5% was organic and 4% from acquisitions) compared to 2012. Additional capability came on-stream at the end of 2013. The organic growth was driven mainly by our European operations.

Market conditions were markedly different in the onshore and subsea oil & gas sectors during 2013. The majority of the Group's revenues in the onshore sector are in the USA covering both conventional and fracking requirements. Customers for components for fracking undertook significant destocking during the year, which resulted in sales in North America being down 19% (21% at constant exchange rates). Conversely, sales into subsea continued to improve so that, in total, revenues to the oil & gas sector were lower by 7% (8% at constant exchange rates).

Automotive & General Industrial markets

Car and light truck production showed improvement in most territories in 2013. Backed by the Group's value-added technologies, revenues increased year-on-year by 18% (15% at constant exchange rates, of which 4% was organic and 11% coming from acquisitions completed in 2012). Particularly pleasing was an 8% increase in sales in Europe (4% at constant exchange rates) notwithstanding weak consumer demand.

As anticipated 2013 was a difficult year in heavy truck with very weak demand in both North America and Europe for much of the year. North American revenues were helped from a low base by the acquisitions undertaken in 2012 but overall sales to the sector were down 1% (4% at constant exchange rates).

Bodycote provides thermal processing services for a wide range of heavy equipment. Cutbacks in capital expenditure in the mining sector were a notable drag on demand and requirements for agricultural equipment have been subdued. Together these areas more than offset some increase in demand for construction machinery and rail. With the benefit of currency movements overall revenues increased by 2% but fell by 1% at constant exchange rates.

BUSINESS REVIEW - AEROSPACE, DEFENCE & ENERGY

Within the Aerospace, Defence & Energy (ADE) business, our customers think and operate globally and increasingly expect Bodycote to service them in the same way. Consequently, the ADE business is organised globally. This gives Bodycote a notable advantage as the only thermal processing company with a global footprint and knowledge of operating in all of the world's key manufacturing areas. A number of Bodycote's most important customers fall within the compass of ADE and Bodycote intends to continue to leverage its unique market position to increase revenues in these market sectors. The business incorporates the Group's activities in hot isostatic pressing and surface technology as well as the relevant heat treatment services, encompassing 64 facilities in total.

Results

Revenues for the Aerospace, Defence & Energy (ADE) business were £261.8m in 2013 compared to £258.0m in 2012, an increase of 1.5% (a 0.5% decline at constant exchange rates made up of 1.8% organic decline and 1.3% increase from acquisitions). Organic revenue reduction in the year reflects, on the one hand, a further increase in demand from aerospace and industrial gas turbine customers in all geographies and market share gains, particularly for subsea oil & gas requirements, but on the other very weak demand in North American onshore oil & gas.

Headline operating profit¹ for ADE was £70.7m (2012: £69.1m). The headline operating profit margin improved from 26.8% to 27.0% as a result of a continuing improvement in mix of business.

In 2013, the Group added capacity in a number of aerospace-focused facilities, including the establishment of a new Surface Technology location in Houston, Texas. In the coming year it is expected that capital expenditure will again be slightly above depreciation as further capacity and capability are added to support continuing growth in aerospace demand.

Net capital expenditure in 2013 was £20.4m (2012: £21.0m) which represents 1.1 times depreciation (2012: 1.1 times).

Average capital employed in ADE in 2013 was £235.4m (2012: £227.9m). The small increase is primarily due to investment in new capacity to meet continued sales growth in the aerospace markets. Return on capital employed in 2013 was 26.1% (2012: 26.1%).

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

Achievements in 2013

The ADE divisions made further progress during the year in gaining new agreements with a range of customers and for a variety of end uses. In HIP, new customers, who are key suppliers to the oil majors in the subsea oil & gas market, have continued to be added as they adopt the Group's proprietary Product Fabrication (PF) offering.

Organisation and people

Total full-time equivalent headcount at 31 December 2013 was 1,945 (2012: 2,099), a decrease of 7.3% compared to revenue growth in ADE of 1.5%.

Looking ahead

Order books for commercial aerospace OEMs remain strong, although aircraft build rates in the higher volume platforms have now reached manufacturers' target levels. There is softness in North American onshore oil & gas demand but offtake appears to be improving slowly. Defence markets are expected to remain weak. Bodycote expects to be able to continue to capitalise on its world leading position and once again outperform the market.

BUSINESS REVIEW - AUTOMOTIVE & GENERAL INDUSTRIAL

Whilst the Automotive & General Industrial (AGI) marketplace has many multinational customers which tend to operate on a regionally-focused basis, it also has very many medium-sized and smaller businesses. Generally, there are more competitors to Bodycote in AGI and much of the business is locally oriented, meaning that proximity to the customer is very important. Bodycote's uniquely large network of 127 AGI facilities enables the business to offer the widest range of technical capability and security of supply, continuing to increase the proportion of technically differentiated services that it offers. Bodycote has a long and successful history of serving this wide-ranging customer base.

Results

Automotive & General Industrial (AGI) business revenues were £357.8m in 2013, compared to £329.8m in 2012, an increase of 8.5% (5.7% at constant exchange rates, made up of an organic decline of 3.1% and an increase from acquisitions of 8.8%).

In 2013 sales into car & light truck have been good in all geographies with revenues increasing by 3.7% (excluding acquisitions and at constant exchange rates). Revenues to heavy truck and general industrial markets have been soft in all territories. Sales into heavy truck and general industrial sectors decreased by 14.6% and 5.5% respectively, excluding acquisitions and at constant exchange rates.

North American revenues declined by 10.2% excluding acquisitions and at constant exchange rates, driven by the softening in general industrial markets. In Europe, revenues declined by 1.7% (at constant exchange rates). In the emerging markets, revenues declined by 0.8% (at constant exchange rates), with Brazil lower by 8.4% driven by weaker demand from general industrial markets, but with Asia ahead by 18.7% helped by the Group's greenfield expansion.

Acquisitions made in 2012 increased revenue and headline operating profit in the AGI division by £29.1m and £5.5m respectively.

Headline operating profit¹ in AGI was £52.7m compared to £44.1m in 2012. Headline margin increased to 14.7% (2012: 13.4%) reflecting strong cost control, particularly in areas of demand weakness and improved mix. Sales of the Group's high added-value services, and especially its S³P technology, grew strongly at high margins.

Net capital expenditure in 2013 was £34.2m (2012: £23.1m), which represents 1.0 times depreciation (2012: 0.7 times). In 2014 we expect that capital expenditure will be just above depreciation as we add further capacity in China, Mexico and for selected technologies such as S³P, Corr-I-Dur® and low pressure carburising. Return on capital employed in 2013 was 15.1% (2012: 12.0%). The increase reflects continuing focus on improving capital returns by increasingly targeting higher added-value activities. On average, capital employed in 2013 was £304.2m (2012: £315.5m).

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

Achievements in 2013

The Group has continued to win business across all geographies. In both North America and Europe our ability to support automotive manufacturers as they move to newer technologies in pursuit of better fuel efficiency has provided Bodycote with market share growth. New outsourcing contracts and contributions from differentiated technologies such as S³P meant that the revenue declines stemming from the weak economic environment were mitigated and margins improved.

AGI continued to see the benefits of restructuring and market focus. The emphasis on improved efficiency has been a key factor in the achievement of margin enhancements in the face of declining revenues.

Organisation and people

At 31 December 2013, the number of full-time equivalent employees in AGI was 3,614 compared to 3,619 at the end of 2012 and 1,630 less than its peak in July 2008. AGI revenues of £357.8m compare to £363.3m in 2008 (at 2013 exchange rates), a decrease of 1.5%.

Looking ahead

The AGI businesses will continue to build on their success of enhancing their margins through capturing high value work. The focus on improving customer service helps drive this effort while the prioritisation of existing capacity in favour of higher value work and investing in selected technologies such as S³P, Corr-I-Dur® and low pressure carburising provides additional momentum. In addition the Group will continue with its strategy of adding to its existing footprint in emerging markets, with an emphasis on China and Mexico in the near term.

FINANCIAL OVERVIEW

	2013	2012 (Restated)
	£m	£m
Revenue	<u>619.6</u>	<u>587.8</u>
Headline operating profit	107.4	97.5
Amortisation of acquired intangible fixed assets	<u>(4.5)</u>	<u>(2.0)</u>
Operating profit prior to exceptional items	102.9	95.5
Profit on disposal of investments	-	2.4
Acquisition costs	-	(2.5)
Reorganisation costs	<u>(0.8)</u>	<u>(2.4)</u>
Operating profit	102.1	93.0
Net finance charge	<u>(3.7)</u>	<u>(3.0)</u>
Profit before taxation	98.4	90.0
Taxation	<u>(25.3)</u>	<u>(22.8)</u>
Profit for the year	<u>73.1</u>	<u>67.2</u>

Group revenue was £619.6m, an increase of 5.4%, of which acquisitions accounted for 5.5%, with organic revenues down 2.5% and foreign exchange rate movements having a positive impact of 2.4%.

Headline operating profit for the year increased by 10.2% from £97.5m to £107.4m and headline operating margin was 17.3% (2012: 16.6%). Acquisitions in the prior year increased headline operating profit by £6.7m. The impact of foreign currency movements in the year was to increase headline operating profit by £3.6m. Despite a £14.8m decline in organic revenue, organic headline operating profit decreased by only £0.4m.

The amortisation of acquired intangible assets arises from acquisitions in prior years and the level of the charge has increased to £4.5m (2012: £2.0m) due to the full year impact of the acquisitions completed during 2012.

Operating profit was £102.1m (2012: £93.0m) after charging £4.5m (2012: £2.0m) in respect of the amortisation of acquired intangible assets and £0.8m (2012: £2.4m) of reorganisation costs. During 2012 a profit on disposal of the Group's investment in Ionbond of £2.4m and acquisition costs of £2.5m were also recognised.

Headline operating cash flow¹ for the Group was £108.9m (2012: £110.8m). This was 101.4% of headline operating profit (2012: 113.6%). Net capital expenditure was 1.0 times depreciation (2012: 0.9 times) as the Group continued to focus on increasing the utilisation of existing equipment. There was a working capital outflow in the year mainly due to a decrease in the level of payables and an increase in the level of inventories offset by a small decrease in the level of receivables.

After deducting interest and tax, the Group recorded positive free cash flow¹ of £78.8m (2012: £81.2m).

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

EXCEPTIONAL COSTS

Total exceptional costs charged to the income statement amounted to £0.8m (2012: £2.5m). Redundancy and reorganisation costs of £0.8m (2012: £2.4m) have been incurred in relation to the transfer of accounting services for our Sweden, Finland and Denmark operations to our Shared Service Centre in Prague. There was no profit on disposal of investments (2012: £2.4m) and no acquisition costs were expensed in the year (2012: £2.5m).

Restructuring provisions outstanding at 31 December 2013 totalled £8.6m. Of the remaining costs, £4.1m is expected to be spent in 2014 and £4.5m in 2015 and later. All expenditure after the end of 2014 relates to ongoing environmental remediation, primarily in the USA.

PROFIT BEFORE TAX

Headline profit before tax was £103.7m (2012: £94.5m). Profit before tax was £98.4m (2012: £90.0m). These amounts are reconciled as follows:

	2013	2012
	£m	(Restated) £m
Headline operating profit	107.4	97.5
Net finance charge	(3.7)	(3.0)
Headline profit before tax	103.7	94.5
Amortisation of acquired intangible fixed assets	(4.5)	(2.0)
Profit before tax prior to exceptional items	99.2	92.5
Profit on disposal of investments	-	2.4
Acquisition costs	-	(2.5)
Reorganisation costs	(0.8)	(2.4)
Profit before tax	98.4	90.0

FINANCE CHARGE

The net finance charge was £3.7m compared to £3.0m in 2012¹. The increase results primarily from higher average net debt during the year due to the cost of acquisitions completed during 2012 and a refinancing of the €125m revolving credit facility in 2013 (£0.2m due to higher commitment fees and £0.2m from the amortisation of upfront fees).

	2013	2012
	£m	(Restated) £m
Net interest payable	0.6	0.5
Financing costs	1.5	1.1
Bank and other charges	1.0	0.8
Pension finance charge	0.6	0.6
Net finance charge	3.7	3.0

¹ 2012 restated for the adoption of IAS 19 (revised) 'Employee Benefits', which has the effect of reducing headline operating profit and operating profit by £0.4m, reducing finance charge by £0.6m and increasing profit before taxation by £0.2m.

TAXATION

The tax charge was £25.3m for the year (2012: £22.8m).

The effective tax rate of 25.7% (2012: 25.3%) resulted from the blending of differing tax rates in each of the countries in which the Group operates.

The headline tax rate for 2013 was 24.7% (2012: 25.6%), being stated before accounting for exceptional items, including amortisation of goodwill and acquired intangibles, which are generally not allowable for tax purposes.

Subject to any future tax legislation changes, and with the Group making most of its profits in countries other than the UK, the headline tax rate is expected to remain around current levels, being higher than the current UK statutory tax rate of 23%, which is due to fall to 20% from 2015.

EARNINGS PER SHARE

Basic headline earnings per share increased to 41.2p from 37.5p. Basic earnings per share for the year increased to 38.5p from 35.9p.

DIVIDEND

The Board has recommended a final ordinary dividend of 9.1p (2012: 8.3p) bringing the total ordinary dividend to 13.5p per share (2012: 12.3p). The Board has also recommended a supplemental distribution, by way of a special dividend, amounting to 10.0p per share. If approved by shareholders, the final ordinary dividend of 9.1p per share for 2013 and the supplemental distribution of 10.0p per share for 2013 will be paid on 2 May 2014 to all shareholders on the register at the close of business on 11 April 2014.

CAPITAL STRUCTURE

The Group's balance sheet at 31 December 2013 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	444.6	-	444.6
Goodwill and intangible assets	167.9	-	167.9
Current assets and liabilities	146.4	(166.1)	(19.7)
Other non-current assets and liabilities	3.4	(13.1)	(9.7)
Retirement benefit obligations	-	(18.5)	(18.5)
Deferred tax	29.4	(61.6)	(32.2)
Total before net cash	791.7	(259.3)	532.4
Net cash	16.9	(1.9)	15.0
Net assets as at 31 December 2013	<u>808.6</u>	<u>(261.2)</u>	<u>547.4</u>
Net assets as at 31 December 2012 (restated)	<u>792.8</u>	<u>(288.7)</u>	<u>504.1</u>

Net assets increased by £43.3m (8.6%) to £547.4m (2012¹: £504.1m). At constant exchange rates, net assets increased by £42.5m (8.4%). The major movements compared to 31 December 2012 were a reduction in net debt of £49.2m, together with an increase in net deferred tax liabilities¹ of £9.3m and a decrease in property, plant and equipment of £4.1m.

The decrease in property, plant and equipment was due to additions of £57.3m offset by depreciation of £51.9m, asset impairments of £5.1m and foreign exchange variances.

Net deferred tax liabilities¹ increased by £9.3m due to the inclusion of deferred tax liabilities attributed to the 2012 acquisitions, timing differences on depreciation and local provisions and a reduction in deferred tax assets following the utilisation of tax losses. Restructuring provisions were reduced by £2.9m, as Group restructuring activities proceeded as planned.

Retirement benefit obligations¹ decreased by £0.5m during the year, largely as a result of benefit payments made from the scheme offsetting the increase in liabilities generated from accrued interest, in addition to the effect of the change in RPI to 3.4% (2012: 3.1%).

¹ 2012 restated for the adoption of IAS 19 (revised) 'Employee Benefits'.

NET CASH / (DEBT)

Group net cash at 31 December 2013 was £15.0m (2012: net debt £34.2m). During the year, loans of £33.9m drawn under committed facilities were repaid. The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of funding.

CASH FLOW

The net increase in cash and cash equivalents was £13.7m (2012: decrease of £7.6m), made up of net cash from operating activities of £139.4m (2012: £131.2m), less investing activities of £58.2m (2012: £130.6m) and less cash used in financing activities of £67.5m (2012: £8.2m).

The increase in net cash flow from operating activities from £131.2m to £139.4m was driven primarily by the increase in headline EBITDA¹ from £152.7m to £168.9m. Working capital increased in line with levels of activity. Net current tax liabilities decreased by £2.5m, mainly due to the timing of tax payments made compared to the previous year. The continuing utilisation of environmental and restructuring provisions resulted in a cash outflow of £2.4m.

Net cash outflows from investing activities decreased from £130.6m to £58.2m, primarily as a result of no acquisitions being completed in 2013 compared to the prior year. The level of net capital expenditure in 2013 was £57.3m (2012: £47.7m), consistent with plans to maintain and improve the capacity and capability of the Group, whilst keeping expenditure levels close to depreciation.

Net cash outflows used in financing activities increased from £8.2m to £67.5m. 2013 saw the repayment of loans of £36.6m (2012: £2.3m) and new bank loans raised of £nil (2012: £28.8m), together with payment of dividends totalling £24.0m (2012: £21.3m).

There has been a continued focus on cash collection, although receivable days at 31 December 2013 increased by one to 59 days (2012: 58 days).

Net interest payments for the year were £3.3m (2012: £2.5m). Tax payments were £22.5m (2012: £19.3m) reflecting the increase in Group profits.

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

CAPITAL EXPENDITURE

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £57.3m (2012: £47.7m). The multiple of net capital expenditure to depreciation was 1.0 times (2012: 0.9 times), which reflects the Group's continued careful management of its capital expenditure programme. Major capital projects that were in progress during 2013 included installation of new Giga HIP capacity in Camas, Washington, expansion of our production facilities in Silao, Mexico, completion of the Jinan facility in China, and expansion of our vacuum furnace capacity in Holland, Michigan and Derby, UK. The Group also continued to invest in the implementation of a new ERP system.

BORROWING FACILITIES

Total funding available to the Group under its committed facilities at 31 December 2013 was £229.0m (2012: £226.4m), expiring between August 2016 and March 2018, as well as access to a US\$10m committed letter of credit facility maturing in August 2016.

The €125m revolving credit facility was refinanced for a further five years in February 2013 at a higher margin than the 2006 arranged facility it replaced.

At 31 December 2013, the Group had the following committed facilities:

Facility	Expiry Date	Facility £m	Loan and Letter of Credit Utilisation £m	Facility Headroom £m
£125m Revolving Credit	31 August 2016	125.0	-	125.0
€125m Revolving Credit	1 March 2018	<u>104.0</u>	<u>-</u>	<u>104.0</u>
		229.0	-	229.0
\$10m Letter of Credit	31 August 2016	<u>6.1</u>	<u>4.8</u>	<u>1.3</u>
		<u><u>235.1</u></u>	<u><u>4.8</u></u>	<u><u>230.3</u></u>

CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising capital, reserves and retained earnings.

The capital structure is reviewed regularly by the Board. The Group's policy is to maintain gearing, determined as the proportion of net debt to total capital, within defined parameters, allowing movement in the capital structure appropriate to the business cycle and corporate activity. Due to the net cash position at 31 December 2013 the gearing ratio has fallen to 0% (2012: 7%).

GOING CONCERN

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

The Group meets its working capital requirements through a combination of cash resources, committed and uncommitted facilities and overdrafts. The overdrafts and uncommitted facilities are repayable on demand but the committed facilities are due for renewal as set out below. There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future.

Committed facilities as at 31 December 2013 were as follows:

- £125m Revolving Credit Facility maturing 31 August 2016
- €125m Revolving Credit Facility maturing 1 March 2018
- \$10m Letter of Credit Facility maturing 31 August 2016

On 18 February 2013, the €125m Revolving Credit Facility was refinanced for the same amount, extending the maturity to 1 March 2018. The December 2013 weighted average life of the committed facilities was 3.3 years.

The Group's forecasts and projections, taking account of reasonable potential changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

The directors have reviewed forecasts and projections for the Group's markets and services, assessing the committed facility and financial covenant headroom, central liquidity and the Group's ability to access further funding. The directors also reviewed downside sensitivity analysis over the forecast period, thereby taking into account the uncertainties arising from the current economic environment. Following this review, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

CAUTIONARY STATEMENT

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

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012 (Restated)*	Note
	£m	£m	
Revenue	619.6	587.8	
Cost of sales and overheads	(516.7)	(492.3)	
Operating profit prior to exceptional items	102.9	95.5	
Profit on disposal of investments	-	2.4	
Acquisition costs	-	(2.5)	
Reorganisation costs	(0.8)	(2.4)	
Operating profit	102.1	93.0	2
Investment revenue	0.1	0.2	
Finance costs	(3.8)	(3.2)	
Profit before taxation	98.4	90.0	
Taxation	(25.3)	(22.8)	3
Profit for the year	73.1	67.2	
Attributable to:			
Equity holders of the parent	73.0	67.1	
Non-controlling interests	0.1	0.1	
	73.1	67.2	
Earnings per share			4
	Pence	Pence	
Basic	38.5	35.9	
Diluted	38.5	35.9	

All activities have arisen from continuing operations.

*Restated for the adoption of IAS 19 (revised) 'Employee Benefits'.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012 (Restated)*
	£m	£m
Profit for the year	73.1	67.2
Items that will not be reclassified to profit or loss:		
Actuarial losses on defined benefit pension schemes	(0.3)	(5.5)
Tax on items not reclassified	(0.1)	1.4
Total items that will not be reclassified to profit or loss	(0.4)	(4.1)
Items that may be reclassified subsequently to profit or loss:		
Exchange losses on translation of foreign operations	(3.1)	(14.2)
Movements on hedges of net investments	(1.3)	-
Total items that may be reclassified subsequently to profit or loss	(4.4)	(14.2)
Other comprehensive expense for the year	(4.8)	(18.3)
Total comprehensive income for the year	68.3	48.9
Attributable to:		
Equity holders of the parent	68.3	48.8
Non-controlling interests	-	0.1
	68.3	48.9

**CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2013**

	2013	2012 (Restated)*	Note
	£m	£m	
Non-current assets			
Goodwill	135.7	131.8	
Other intangible assets	32.2	35.0	
Property, plant and equipment	444.6	448.7	
Other investments	1.7	1.6	
Deferred tax assets	29.4	33.5	
Trade and other receivables	1.7	1.6	
	<u>645.3</u>	<u>652.2</u>	
Current assets			
Inventories	18.7	18.4	
Current tax assets	16.5	0.6	
Trade and other receivables	108.9	109.5	
Cash and bank balances	16.9	10.0	
Assets held for sale	2.3	2.1	
	<u>163.3</u>	<u>140.6</u>	
Total assets	<u>808.6</u>	<u>792.8</u>	
Current liabilities			
Trade and other payables	132.1	132.9	
Current tax liabilities	27.1	13.7	
Obligations under finance leases	0.1	0.2	
Borrowings	1.6	43.4	
Derivative financial instruments	-	0.1	
Provisions	6.9	8.9	5
	<u>167.8</u>	<u>199.2</u>	
Net current liabilities	<u>(4.5)</u>	<u>(58.6)</u>	
Non-current liabilities			
Borrowings	-	0.3	
Retirement benefit obligations	18.5	19.0	
Deferred tax liabilities	61.6	56.4	
Obligations under finance leases	0.2	0.3	
Provisions	9.5	9.4	5
Other payables	3.6	4.1	
	<u>93.4</u>	<u>89.5</u>	
Total liabilities	<u>261.2</u>	<u>288.7</u>	
Net assets	<u>547.4</u>	<u>504.1</u>	
Equity			
Share capital	33.1	33.1	
Share premium account	177.1	177.1	
Own shares	(5.5)	(11.3)	
Other reserves	140.1	141.6	
Hedging and translation reserves	4.7	10.5	
Retained earnings	197.3	151.7	
	<u>546.8</u>	<u>502.7</u>	
Equity attributable to equity holders of the parent	<u>546.8</u>	<u>502.7</u>	
Non-controlling interests	<u>0.6</u>	<u>1.4</u>	
Total equity	<u>547.4</u>	<u>504.1</u>	

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

	2013 £m	2012 £m	Note
Net cash from operating activities	<u>139.4</u>	<u>131.2</u>	6
Investing activities			
Purchases of property, plant and equipment	(56.2)	(48.8)	
Proceeds on disposal of property, plant and equipment and intangible assets	1.9	4.7	
Purchases of intangible fixed assets	(3.0)	(3.6)	
Acquisition of businesses	-	(84.7)	
Purchase of sundry investments	(0.9)	(0.9)	
Disposal of investments	-	2.7	
Net cash used in investing activities	<u>(58.2)</u>	<u>(130.6)</u>	
Financing activities			
Interest received	0.1	0.3	
Interest paid	(3.4)	(2.8)	
Dividends paid	(24.0)	(21.3)	
Repayments of bank loans	(36.6)	(2.3)	
Payments of obligations under finance leases	(0.1)	(0.2)	
New bank loans raised	-	28.8	
Proceeds on issue of ordinary share capital	-	0.3	
Own shares purchased / settlement of share options	(3.5)	(11.0)	
Net cash used in financing activities	<u>(67.5)</u>	<u>(8.2)</u>	
Net increase / (decrease) in cash and cash equivalents	13.7	(7.6)	
Cash and cash equivalents at beginning of year	1.6	9.5	
Effect of foreign exchange rate changes	-	(0.3)	
Cash and cash equivalents at end of year	<u>15.3</u>	<u>1.6</u>	6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non- controlling interests £m	Total equity £m
1 January 2012 (as previously reported)	33.0	176.9	(6.7)	143.1	24.7	110.3	481.3	1.3	482.6
Impact of IAS 19 (revised)	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
1 January 2012 (as restated)*	33.0	176.9	(6.7)	143.1	24.7	110.0	481.0	1.3	482.3
Net profit for the year	-	-	-	-	-	67.1	67.1	0.1	67.2
Exchange differences on translation of overseas operations	-	-	-	-	(14.2)	-	(14.2)	-	(14.2)
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	(4.1)	(4.1)	-	(4.1)
Total comprehensive income for the year	-	-	-	-	(14.2)	63.0	48.8	0.1	48.9
Issue of share capital	0.1	0.2	-	-	-	-	0.3	-	0.3
Acquired in the year / settlement of share options	-	-	(4.6)	(5.0)	-	(1.4)	(11.0)	-	(11.0)
Share-based payments	-	-	-	3.9	-	-	3.9	-	3.9
Deferred tax on share-based payment transactions	-	-	-	-	-	1.0	1.0	-	1.0
Dividends paid	-	-	-	-	-	(21.3)	(21.3)	-	(21.3)
Realisation of revaluation surplus	-	-	-	(0.4)	-	0.4	-	-	-
31 December 2012	33.1	177.1	(11.3)	141.6	10.5	151.7	502.7	1.4	504.1
Net profit for the year	-	-	-	-	-	73.0	73.0	0.1	73.1
Exchange differences on translation of overseas operations	-	-	-	-	(3.0)	-	(3.0)	(0.1)	(3.1)
Movement on hedges of net investments	-	-	-	-	(1.3)	-	(1.3)	-	(1.3)
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Total comprehensive income for the year	-	-	-	-	(4.3)	72.6	68.3	-	68.3
Acquired in the year / settlement of share options	-	-	5.8	(5.1)	-	(4.2)	(3.5)	-	(3.5)
Share-based payments	-	-	-	3.6	-	-	3.6	-	3.6
Deferred tax on share-based payment transactions	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Dividends paid	-	-	-	-	-	(24.0)	(24.0)	-	(24.0)
Disposed with subsidiary	-	-	-	-	(1.5)	1.5	-	-	-
Purchase of non-controlling interests	-	-	-	-	-	-	-	(0.8)	(0.8)
31 December 2013	33.1	177.1	(5.5)	140.1	4.7	197.3	546.8	0.6	547.4

Included in other reserves is the capital redemption reserve arising on redemption of the Group's B shares of £129.4m (2012: £129.4m) and the share-based payments reserve of £9.2m (2012: £10.9m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2013 2,035,618 (2012: 4,373,136) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

1 Business and geographical segments

The Group has in excess of 190 locations across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

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

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

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

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

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

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

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

1 Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2013 £m	North America 2013 £m	Emerging markets 2013 £m	Total ADE 2013 £m
Revenue				
Total revenue	<u>121.0</u>	<u>137.9</u>	<u>2.9</u>	<u>261.8</u>
Result				
Headline operating profit prior to share-based payments	32.1	39.6	0.2	71.9
Share-based payments	<u>(0.3)</u>	<u>(0.9)</u>	<u>-</u>	<u>(1.2)</u>
Headline operating profit	31.8	38.7	0.2	70.7
Amortisation of acquired intangible fixed assets	<u>(0.3)</u>	<u>(1.0)</u>	<u>-</u>	<u>(1.3)</u>
Segment result	<u>31.5</u>	<u>37.7</u>	<u>0.2</u>	<u>69.4</u>
Automotive & General Industrial	Western Europe 2013 £m	North America 2013 £m	Emerging markets 2013 £m	Total AGI 2013 £m
Revenue				
Total revenue	<u>226.9</u>	<u>85.9</u>	<u>45.0</u>	<u>357.8</u>
Result				
Headline operating profit prior to share-based payments	36.1	15.6	2.5	54.2
Share-based payments	<u>(1.0)</u>	<u>(0.5)</u>	<u>-</u>	<u>(1.5)</u>
Headline operating profit	35.1	15.1	2.5	52.7
Amortisation of acquired intangible fixed assets	<u>(0.2)</u>	<u>(2.8)</u>	<u>(0.2)</u>	<u>(3.2)</u>
Segment result	<u>34.9</u>	<u>12.3</u>	<u>2.3</u>	<u>49.5</u>
			Restated**	
Group	ADE 2012 £m	AGI 2012 £m	Head Office and eliminations 2012 £m	Consolidated 2012 £m
Revenue				
Total revenue	<u>258.0</u>	<u>329.8</u>	<u>-</u>	<u>587.8</u>
Result				
Headline operating profit prior to share-based payments and unallocated corporate expenses	70.9	45.6	-	116.5
Share-based payments	(1.8)	(1.5)	(2.1)	(5.4)
Unallocated corporate expenses	<u>-</u>	<u>-</u>	<u>(13.6)</u>	<u>(13.6)</u>
Headline operating profit / (loss)	69.1	44.1	(15.7)	97.5
Amortisation of acquired intangible fixed assets	<u>(1.1)</u>	<u>(0.9)</u>	<u>-</u>	<u>(2.0)</u>
Operating profit / (loss) prior to exceptional items	68.0	43.2	(15.7)	95.5
Profit on disposal of investments	-	-	2.4	2.4
Acquisition costs	(0.8)	(1.7)	-	(2.5)
Reorganisation costs	<u>-</u>	<u>-</u>	<u>(2.4)</u>	<u>(2.4)</u>
Segment result	<u>67.2</u>	<u>41.5</u>	<u>(15.7)</u>	93.0
Investment revenue				0.2
Finance costs				<u>(3.2)</u>
Profit before taxation				90.0
Taxation				<u>(22.8)</u>
Profit for the year				<u>67.2</u>

**Restated for the adoption of IAS 19 (revised) 'Employee Benefits' and the reclassification of one facility from ADE to AGI following a reassessment of its customers.

1 Business and geographical segments (continued)

	Restated**			Total ADE 2012 £m
	Western Europe 2012 £m	North America 2012 £m	Emerging markets 2012 £m	
Aerospace, Defence & Energy				
Revenue				
Total revenue	115.9	140.4	1.7	258.0
Result				
Headline operating profit / (loss) prior to share-based payments	27.4	43.7	(0.2)	70.9
Share-based payments	(0.5)	(1.3)	-	(1.8)
Headline operating profit / (loss)	26.9	42.4	(0.2)	69.1
Amortisation of acquired intangible fixed assets	(0.3)	(0.8)	-	(1.1)
Operating profit / (loss) prior to exceptional items	26.6	41.6	(0.2)	68.0
Acquisition costs	-	(0.8)	-	(0.8)
Segment result	26.6	40.8	(0.2)	67.2
Automotive & General Industrial				
Revenue				
Total revenue	221.6	61.8	46.4	329.8
Result				
Headline operating profit prior to share-based payments	30.8	13.1	1.7	45.6
Share-based payments	(1.0)	(0.5)	-	(1.5)
Headline operating profit	29.8	12.6	1.7	44.1
Amortisation of acquired intangible fixed assets	(0.2)	(0.5)	(0.2)	(0.9)
Operating profit prior to exceptional items	29.6	12.1	1.5	43.2
Acquisition costs	-	(1.7)	-	(1.7)
Segment result	29.6	10.4	1.5	41.5
Other information				
Group	ADE 2013 £m	AGI 2013 £m	Head Office and eliminations 2013 £m	Consolidated 2013 £m
Capital additions	21.1	35.4	2.7	59.2
Depreciation and amortisation	20.6	36.1	0.7	57.4
Balance sheet				
Assets:				
Segment assets	312.5	440.2	54.2	806.9
Other investments	-	-	1.7	1.7
Consolidated total assets	312.5	440.2	55.9	808.6
Liabilities:				
Segment liabilities	(63.6)	(130.2)	(67.4)	(261.2)
Allocation of head office net liabilities	(5.1)	(6.4)	11.5	-
Adjusted segment net assets	248.9	310.0	(11.5)	547.4
	243.8	303.6	-	547.4

1 Business and geographical segments (continued)

	Western Europe 2013 £m	North America 2013 £m	Emerging markets 2013 £m	Total ADE 2013 £m
Aerospace, Defence & Energy				
Capital additions	7.4	13.4	0.3	21.1
Depreciation and amortisation	10.0	10.3	0.3	20.6
Balance sheet				
Assets:				
Segment assets	148.5	161.2	2.8	312.5
Liabilities:				
Segment liabilities	<u>(34.7)</u>	<u>(27.2)</u>	<u>(1.7)</u>	<u>(63.6)</u>
Segment net assets	<u>113.8</u>	<u>134.0</u>	<u>1.1</u>	<u>248.9</u>
	Western Europe 2013 £m	North America 2013 £m	Emerging markets 2013 £m	Total AGI 2013 £m
Automotive & General Industrial				
Capital additions	17.3	9.9	8.2	35.4
Depreciation and amortisation	22.8	8.1	5.2	36.1
Balance sheet				
Assets:				
Segment assets	263.2	114.1	62.9	440.2
Liabilities:				
Segment liabilities	<u>(99.1)</u>	<u>(18.6)</u>	<u>(12.5)</u>	<u>(130.2)</u>
Segment net assets	<u>164.1</u>	<u>95.5</u>	<u>50.4</u>	<u>310.0</u>
			Restated**	
Group	ADE 2012 £m	AGI 2012 £m	Head Office and eliminations 2012 £m	Consolidated 2012 £m
Capital additions	22.8	25.9	3.7	52.4
Depreciation and amortisation	19.3	31.7	1.9	52.9
Balance sheet				
Assets:				
Segment assets	310.2	453.0	28.0	791.2
Other investments	-	-	1.6	1.6
Consolidated total assets	310.2	453.0	29.6	792.8
Liabilities:				
Segment liabilities	<u>(68.4)</u>	<u>(127.7)</u>	<u>(92.6)</u>	<u>(288.7)</u>
Allocation of head office net liabilities	<u>241.8</u>	<u>325.3</u>	<u>(63.0)</u>	<u>504.1</u>
Adjusted segment net assets	<u>214.9</u>	<u>289.2</u>	<u>-</u>	<u>504.1</u>

1 Business and geographical segments (continued)

	Restated**			Total ADE 2012 £m
	Western Europe 2012 £m	North America 2012 £m	Emerging markets 2012 £m	
Aerospace, Defence & Energy				
Capital additions	6.4	16.4	-	22.8
Depreciation and amortisation	9.7	9.4	0.2	19.3
Balance sheet				
Assets:				
Segment assets	147.0	160.5	2.7	310.2
Liabilities:				
Segment liabilities	<u>(35.8)</u>	<u>(31.4)</u>	<u>(1.2)</u>	<u>(68.4)</u>
Segment net assets	<u>111.2</u>	<u>129.1</u>	<u>1.5</u>	<u>241.8</u>

	Restated**			Total AGI 2012 £m
	Western Europe 2012 £m	North America 2012 £m	Emerging markets 2012 £m	
Automotive & General Industrial				
Capital additions	16.9	4.9	4.1	25.9
Depreciation and amortisation	22.6	4.0	5.1	31.7
Balance sheet				
Assets:				
Segment assets	276.4	112.1	64.5	453.0
Liabilities:				
Segment liabilities	<u>(97.5)</u>	<u>(17.3)</u>	<u>(12.9)</u>	<u>(127.7)</u>
Segment net assets	<u>178.9</u>	<u>94.8</u>	<u>51.6</u>	<u>325.3</u>

Geographical information

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

	Revenue from external customers		Non-current assets	
	2013 £m	2012 £m	2013 £m	2012 £m
USA	216.1	194.2	237.4	233.3
France	93.8	90.1	68.5	70.1
UK	64.2	63.9	71.5	72.7
Germany	63.9	60.5	65.1	64.7
Sweden	42.0	42.1	43.8	44.3
Netherlands	26.7	24.1	20.2	20.8
Others	112.9	112.9	107.7	111.2
	<u>619.6</u>	<u>587.8</u>	<u>614.2</u>	<u>617.1</u>

2 Operating profit

	2013	2012
	£m	(Restated)* £m
Revenue	619.6	587.8
Cost of sales	(386.2)	(368.7)
Gross profit	233.4	219.1
Other operating income	3.5	5.2
Distribution costs	(18.0)	(17.6)
Administration expenses ¹	(109.6)	(104.2)
Other operating expenses	(1.9)	(5.0)
Headline operating profit	107.4	97.5
Amortisation of acquired intangible fixed assets ¹	(4.5)	(2.0)
Operating profit prior to exceptional items	102.9	95.5
Exceptional items ¹	(0.8)	(2.5)
Operating profit	102.1	93.0

¹ Administration expenses total £114.9m (2012: £108.7m).

Exceptional items comprise:

	2013	2012
	£m	£m
Profit on disposal of investments	-	(2.4)
Acquisition costs	-	2.5
Reorganisation costs	0.8	2.4
	0.8	2.5

3 Taxation

	2013	2012
	£m	£m
Current taxation – charge for the year	19.7	23.8
Current taxation – adjustments in respect of previous years	(0.2)	(0.5)
Deferred tax	5.8	(0.5)
	<u>25.3</u>	<u>22.8</u>

UK corporation tax is calculated at 23.25% (2012: 24.50%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2013	2012
	£m	(Restated)* £m
Profit before tax	<u>98.4</u>	<u>90.0</u>
Tax at the UK corporation tax rate of 23.25% (2012: 24.50%)	22.9	22.1
Tax effect of expenses that are not deductible in determining taxable profit	(6.1)	0.3
Deferred tax assets recognised	0.9	(2.8)
Tax effect of other adjustments in respect of previous years:		
Current tax	(0.1)	(0.5)
Deferred tax	(0.2)	(1.7)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>7.9</u>	<u>5.4</u>
Tax expense for the year	<u>25.3</u>	<u>22.8</u>

Tax on items taken directly to equity is a charge of £0.4m (2012: credit of £2.4m).

Tax on exceptional items is £0.2m (2012: £1.3m).

4 Earnings per share

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

	2013	2012
	£m	(Restated)* £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	73.0	67.1
	<hr/> <hr/>	<hr/> <hr/>
Number of shares	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	189,406,006	186,981,962
Effect of dilutive potential ordinary shares:		
Share options	-	19,307
Weighted average number of ordinary shares for the purpose of diluted earnings per share	189,406,006	187,001,269
	<hr/> <hr/>	<hr/> <hr/>
	Pence	Pence
Earnings per share:		
Basic	38.5	35.9
Diluted	38.5	35.9
	<hr/> <hr/>	<hr/> <hr/>
Headline earnings	£m	£m
Net profit attributable to equity holders of the parent	73.0	67.1
Add back:		
Amortisation of acquired intangible fixed assets (net of tax)	4.4	1.9
Profit on disposal of investments (net of tax)	-	(2.2)
Acquisition costs (net of tax)	-	1.6
Reorganisation costs (net of tax)	0.6	1.8
Headline earnings	78.0	70.2
	<hr/> <hr/>	<hr/> <hr/>
Earnings per share from headline earnings:	Pence	Pence
Basic	41.2	37.5
Diluted	41.2	37.5
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5 Provisions

	Restructuring £m	Restructuring Environmental £m	Environmental £m	Total £m
At 1 January 2013	4.4	7.1	6.8	18.3
Increase in provision	1.2	0.2	1.6	3.0
Release of provision	-	-	(0.1)	(0.1)
Utilisation of provision	(3.1)	(1.2)	(0.4)	(4.7)
Exchange difference	0.1	(0.1)	(0.1)	(0.1)
At 31 December 2013	<u>2.6</u>	<u>6.0</u>	<u>7.8</u>	<u>16.4</u>
Included in current liabilities				6.9
Included in non-current liabilities				<u>9.5</u>
				<u>16.4</u>

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

The Group provides for the costs of environmental remediation that have been identified, either as part of acquisition due diligence, or in other circumstances where remediation by the Group is required. This provision is reviewed annually and is separated into Restructuring Environmental and Environmental to separately identify environmental provisions relating to the restructuring programme from those arising in the ordinary course of business.

The increase in restructuring provisions is due to the ongoing implementation of the global restructuring initiatives. In addition, £0.8m (2012: £2.4m) of reorganisation and redundancy costs have been recognised in relation to the establishment of an accounting Shared Service Centre in Prague.

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

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

6 Notes to the cash flow statement

	2013	2012
	£m	(Restated)* £m
Profit for the year	73.1	67.2
Adjustments for:		
Investment revenue	(0.1)	(0.2)
Finance costs	3.8	3.2
Taxation	25.3	22.8
Depreciation of property, plant and equipment	51.9	48.7
Amortisation of intangible assets	5.5	4.2
(Profit) / loss on disposal of property, plant and equipment	(0.1)	0.1
Share-based payments	3.6	3.9
Impairment of fixed assets	5.1	0.7
Profit on disposal of investments	-	(2.4)
EBITDA¹	168.1	148.2
Increase in inventories	(0.3)	(1.8)
Decrease in receivables	0.2	0.3
(Decrease) / increase in payables	(4.3)	6.8
Decrease in provisions	(1.8)	(2.8)
Cash generated by operations	161.9	150.7
Cash outflow from settlement of derivative financial instruments	-	(0.2)
Income taxes paid	(22.5)	(19.3)
Net cash from operating activities	139.4	131.2

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

	2013	2012
	£m	£m
Cash and cash equivalents comprise:		
Cash and bank balances	16.9	10.0
Bank overdrafts (included in borrowings)	(1.6)	(8.4)
	15.3	1.6

7 Basis of preparation

The financial information has been based on the Company's financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. Whilst the financial information contained in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRS in April 2014. The financial information has been prepared under the same accounting policies as the 2012 financial statements.

8 Non statutory financial statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 2012, but is derived from those accounts. Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s.498 (2) or (3) Companies Act 2006.