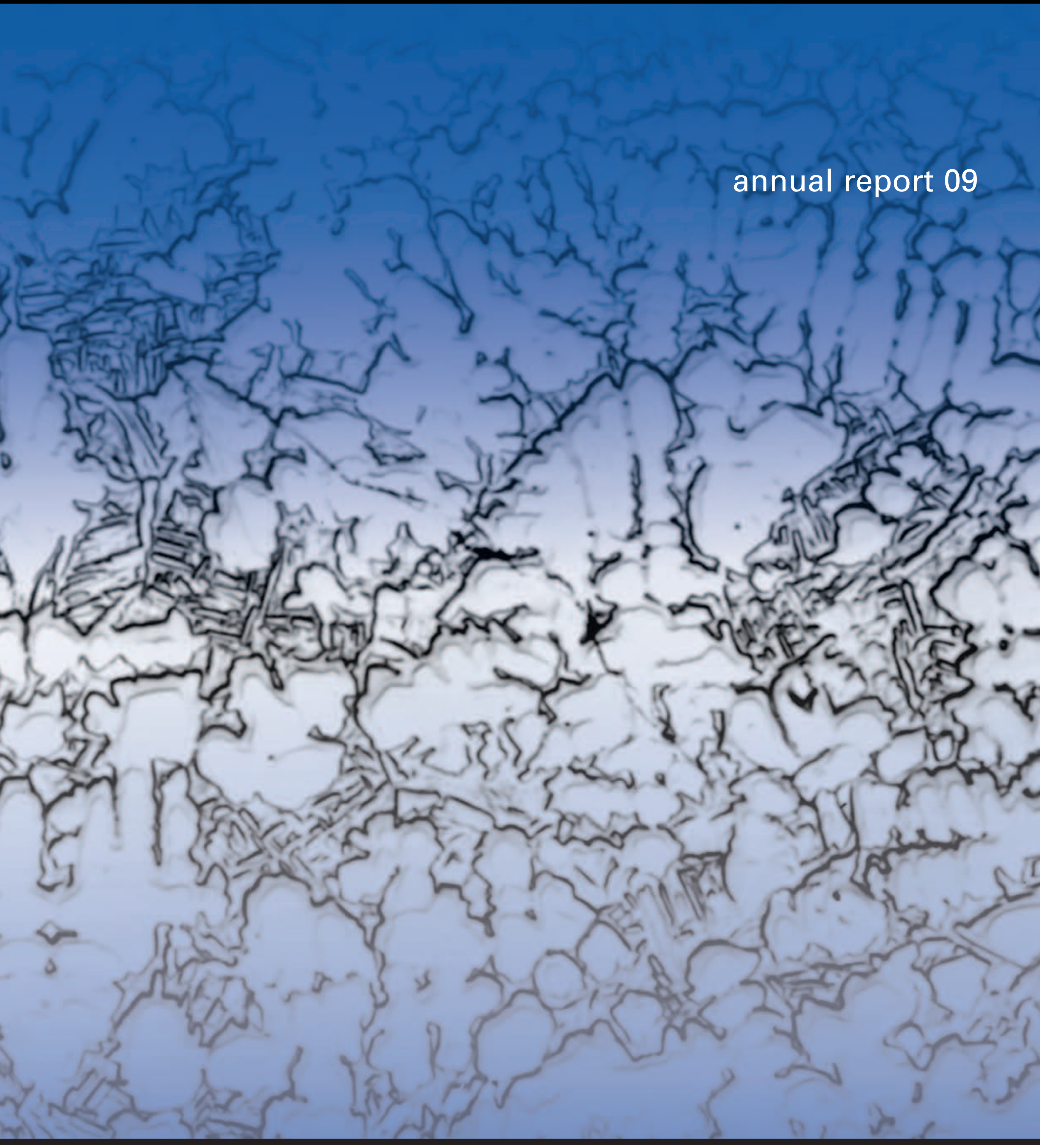


annual report 09

Bodycote

www.bodycote.com/audiocast

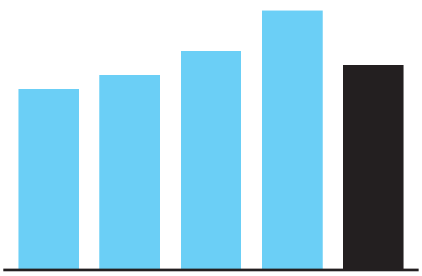
Bodycote continually improves the website offerings for both customers and investors. The most recent is the addition of an audio webcast of Bodycote's 2009 Results presentation in the Investor Relations section of the website. We invite you to view and to listen by visiting www.bodycote.com/audiocast

COVER IMAGE
This eye-catching photograph shows the microstructure of a gas nitrided sample of Titanium.
Nitriding of Titanium is a process that is used to improve the wear properties of the material, which increases the life of Titanium components in service.

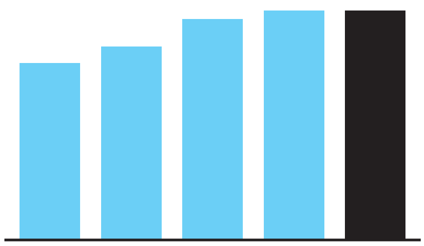
FINANCIAL HIGHLIGHTS

	2009	2008	Change %
Revenue - continuing operations	**£435.4m**	£551.8m	– 21.1
Headline Operating Profit[1] - continuing operations	**£8.0m**	£71.2m	– 88.8
Operating Loss - continuing operations	**£(50.2)m**	£(51.7)m	+ 2.9
Headline Profit Before Taxation[2]	**£3.7m**	£67.6m	– 94.5
Loss Before Taxation	**£(54.5)m**	£(55.3)m	+ 1.4
Headline Operating Cash Flow[3]	**£34.7m**	£63.1m	– 45.0
Operating Cash Flow[4]	**£15.5m**	£61.0m	– 74.6
Net Debt	**£85.5m**	£64.7m	+ 32.1
Basic Headline Earnings Per Share[5]	**0.4p**	17.5p	– 97.7
Basic (Loss)/Earnings Per Share	**(27.0)p**	48.2p	– 156.0
Dividend Per Share[6]	**8.3p**	8.3p	+ 0.0
Return on Capital Employed[7] - continuing operations	**1.5%**	12.1%	– 10.6

REVENUE - CONTINUING OPERATIONS
£ Million



DIVIDEND PER SHARE
Pence



[1] A detailed reconciliation is provided on page 13 and excludes exceptional items including the deduction of major facility closure costs of £25.4m (2008: £77.6m) and impairment of goodwill of £29.0m (2008: £31.9m).

[2] A detailed reconciliation is provided on page 27 and excludes profit on disposal of the Testing business of £Nil (2008: £199.3m) and exceptional items including the deduction of major facility closure costs of £25.4m (2008: £77.6m) and impairment of goodwill of £29.0m (2008: £31.9m).

[3] Headline operating cash flow is defined as operating cash flow stated before cash flow relating to exceptional items (£19.2m, 2008: £2.1m).

[4] Operating cash flow is defined as cash generated by operations (£47.7m, 2008: £135.9m) less net capital expenditure (£32.2m, 2008: £74.9m).

[5] A detailed reconciliation is provided in note 10 on page 75.

[6] See note 9 on page 74.

[7] Return on capital employed is defined as headline operating profit divided by average capital employed. Capital employed is defined as net assets plus net debt.

WHAT IS BODYCOTE?

Operating an international network of facilities and serving a wide range of industries, Bodycote is the world's largest and most respected provider of thermal processing services – a vital link in the manufacturing supply chain.

Bodycote operates in two major areas: the Aerospace, Defence & Energy business serves the aerospace, defence, power generation and oil & gas industries, whilst the Automotive & General Industrial business serves sectors including automotive, construction, machine building, medical and transportation.

TRUSTED

CORE TECHNOLOGIES

THERMAL PROCESSING

Bodycote provides thermal processing services which improve material properties such as strength, durability and corrosion resistance, enabling manufacturers' components to work more efficiently with significantly extended operational lifetimes. Bodycote's treatment services consist of a number of core technologies: heat treatment and metal joining, hot isostatic pressing (HIP) and surface technology.

HEAT TREATMENT AND METAL JOINING

Heat treatments are controlled processes used to alter the microstructure of materials, such as metals and alloys, to impart properties which benefit the working life of a component, for example: increased surface hardness, temperature resistance, ductility and strength. Metal joining includes specialist processes such as electron beam welding, vacuum and honeycomb brazing - complex operations requiring a fusion of expertise and technology.

Bodycote offers an extensive range of heat treatment services and specialist metal joining techniques from facilities around the world. With unmatched capacity and computerised systems, Bodycote facilities can process a wide range of component sizes to exacting standards with reliable, repeatable results.

HOT ISOSTATIC PRESSING (HIP)

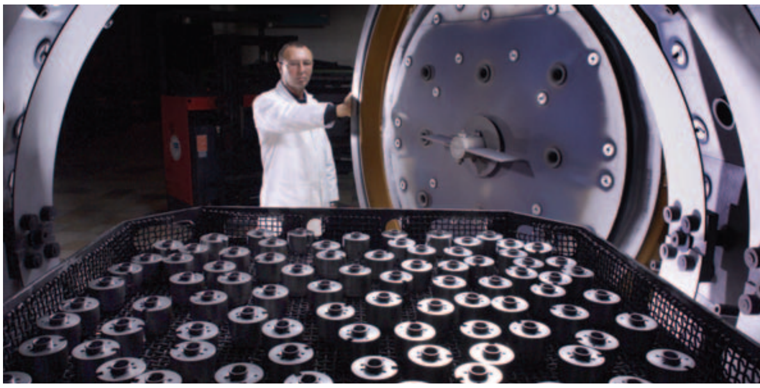
HIP combines very high temperature (up to 2,000°C) with inert gas under very high pressure (up to 30,000 psi - equivalent to that found at an ocean depth of 11,000m such as at the bottom of the Mariana Trench in the Pacific Ocean). HIP can be used to eliminate porosity in castings and consolidate encapsulated powders to dense materials. Dissimilar materials can be bonded together to manufacture unique, cost effective components. Every week a typical Bodycote HIP plant will process many tons of titanium, aluminium, steel and super-alloy castings, removing porosity and improving the performance of parts such as turbine blades and oilfield components.

With the largest operational capacity in the world and a wide variety of sizes of equipment, Bodycote HIP is able to accommodate large volumes of small product as economically as large individual components.

SURFACE TECHNOLOGY

Surface technologies are used extensively to prolong the working life of components and protect them from environmental factors such as corrosion and abrasion. The range of surface treatments available from Bodycote covers a wide variety of applications, providing manufacturers with solutions to meet requirements such as durability, wear resistance, improved hardness and electrical conductivity.

Bodycote is a provider of specialist plasma spray, high velocity oxy fuel (HVOF) and thermally formed ceramic treatments and is able to surface engineer components (including complex geometric shapes and internal bores) that are designed to operate in the most demanding of industrial applications.



...thermal processing is a vital part of any manufacturing process and includes a variety of techniques and specialist engineering processes which improve the properties of metals and alloys to extend the life of components

THE OUTSOURCING PRINCIPLE

THE PARTNER OF CHOICE

Bodycote has become the partner of choice for the world's most respected and innovative engineering companies by providing highly efficient, cost-effective services to the highest quality standards through strategic investment in people and the latest technology, equipment and quality systems.

By outsourcing non-core but vitally important thermal processing requirements to Bodycote, customers are able to concentrate their business resources where they are needed most. Bodycote's services offer tangible benefits to customers such as reduced equipment maintenance, capital expenditure, energy costs, people costs and a major reduction in CO_2 emissions.

Bodycote has a long history of successful outsourcing partnerships, from global to local manufacturers. In many cases, subcontracting relationships lead to component and service-specific long-term agreements, or strategic partnering arrangements, which embody protection and freedom from risk for the customer and Bodycote. These are often exclusive in character and provide the basis for mutual business development, with both companies freed to concentrate capital and other resources on core competencies.

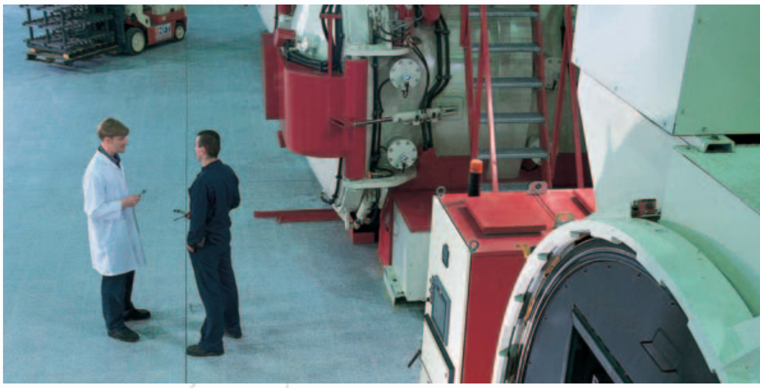
MAKING INNOVATIONS POSSIBLE

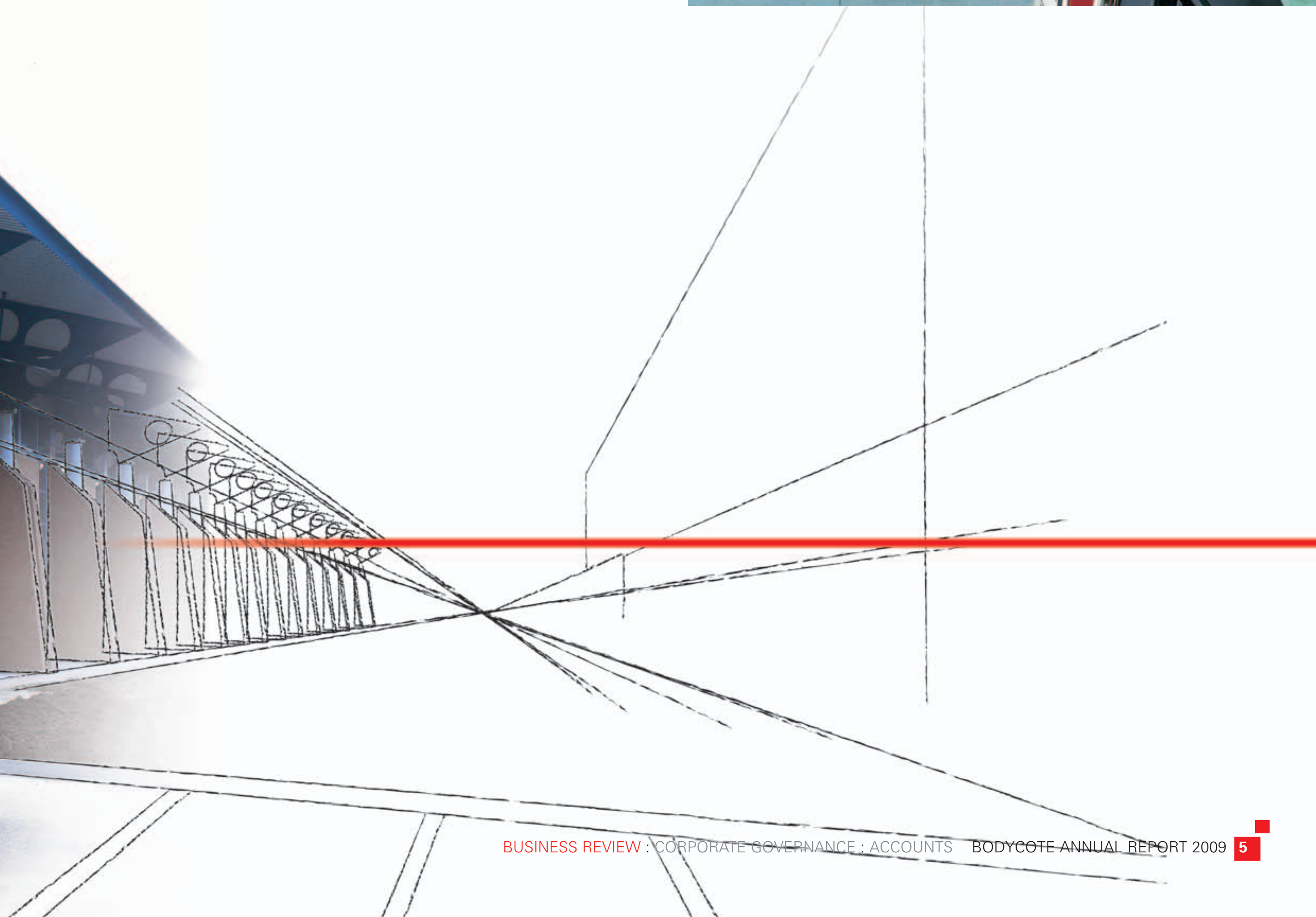
Bodycote's extensive facilities and expertise mean R&D projects can expand far beyond customers' in-house capabilities, helping to realise goals quicker and more cost-effectively.

Around the globe, Bodycote has dedicated R&D teams working on a variety of projects. When required, this may include the development of specific processes and equipment for a customer or verification of materials or designs, prior to their application.

In-house development and improvement of standard processes has led to Bodycote offering a range of proprietary processes such as Kolsterising®, Corr-I-Dur® and SheraCote®, which far outperform their standard counterparts.

Bodycote has a long history of successful outsourcing partnerships, from global to local manufacturers...





OUR GLOBAL NETWORK

Aerospace & Defence

Power Generation

Oil & Gas

Automotive

Civil Eng, Agriculture, Rail & Marine

OVERVIEW

As the only truly global provider of subcontract thermal processing services, Bodycote is able to offer a significant advantage to its customers. Through an international network of plants, Bodycote can effectively utilise a wealth of knowledge, experience and specialist expertise to deliver quality service when and where it is needed.

The network operates from 178 locations, with customers able to benefit from Bodycote's comprehensive range of services from multiple locations. Customers know that if their business expands, Bodycote will have the capability to meet their needs. They know that if they were to broaden their manufacturing footprint, Bodycote would be able to assist them. They know that they can obtain the same process to the same quality standards from multiple locations.

Such a large network brings economies of scale, with technology developed at one location being available globally if the market requires it.

The Bodycote network has a wealth of technical accreditations, some industry or customer specific, others more general. Individual operations concentrate on the accreditations suited to their market.

Although Bodycote is headquartered in the UK, 88% of the Group's business is outside the UK. With facilities in 27 countries, Bodycote is truly global.

NORTH AMERICA

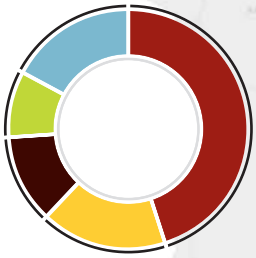
Bodycote has 40 facilities in North America, concentrated where manufacturing and technical industries are located. The network includes five specialist operations, four offering hot isostatic pressing (HIP), and the other offering surface technology. HIP capacity has recently been expanded to ensure that Bodycote is best positioned to satisfy its customers' needs when the economic climate improves.

Low pressure carburising capability has been similarly expanded. This energy efficient technology can, for example, enable automotive manufacturers to produce 7- and 8-speed automatic transmissions of modest weight and compact dimensions, which assist in the quest for lower emissions.

GROUP REVENUE BY MARKET SECTOR

- Aerospace & Defence
- Energy
- Automotive
- Civil Eng, Agriculture, Rail & Marine
- Other General Industrial

REVENUE BY MARKET SECTOR – NORTH AMERICA



- Aerospace & Defence
- Energy
- Automotive
- Civil Eng, Agriculture, Rail & Marine
- Other General Industrial

ESTABLISHED

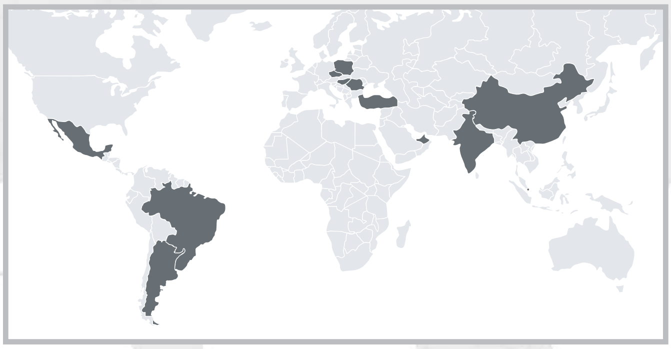
Tooling

Consumer Product

Electronics & Telecoms

Medical & Environmental

Miscellaneous



WESTERN EUROPE

Bodycote has 107 facilities in Western Europe including seven HIP plants and seven dedicated surface technology facilities. The important French, German and Scandinavian markets are particularly well served with 29, 20 and 19 facilities respectively. Recent capacity extensions include expanded facilities aimed at the needs of the wind energy market.

HIP capacity has been significantly enhanced to meet customers' growing needs for this service.

EMERGING MARKETS

Bodycote has 31 facilities in emerging geographies including two dedicated surface technology plants, one each in Singapore and Dubai. Bodycote enjoys large market shares in Brazil and Eastern Europe. These markets, along with China, have a special emphasis in the Group's future growth strategy.

REVENUE BY MARKET SECTOR – WESTERN EUROPE

Aerospace & Defence
Energy
Automotive
Civil Eng, Agriculture, Rail & Marine
Other General Industrial

REVENUE BY MARKET SECTOR – EMERGING MARKETS

Aerospace & Defence
Energy
Automotive
Civil Eng, Agriculture, Rail & Marine
Other General Industrial

...emerging

CHAIRMAN'S STATEMENT

ALAN THOMSON
Chairman

OVERVIEW

In 2008, the Board indicated that the Group was already experiencing the effects of what might become a deep economic downturn. Looking at the situation one year on, the recession has proved to be every bit as bad as anticipated and while the worst seems to be over, there is little sign yet of any meaningful improvement in trading conditions.

Following the disposal of the Testing division in the final quarter of 2008, the Board announced the appointment of Stephen Harris as the new Chief Executive with effect from the start of 2009.

In his first year he has led a major transformation exercise concentrating to date on three specific areas:

- Following an in-depth strategic review, the Group's operations and organisation are now focused on its core technologies and key markets.
- A major restructuring programme has taken place, addressing the sharp reduction in demand and reducing the fixed and variable cost base. The results of this are now contributing to the improved operational results.
- Linked to the strategic review, a full evaluation of management strength in all disciplines has been carried out. This has resulted in a number of new appointments already, as part of delayering the organisation, and several positions will be filled in the first half of 2010.

In the absence of any significant trading upturn, it is still too early to see the full impact of these initiatives. Nevertheless, the Board expects that with a revitalised management team focused on key markets and core technologies, together with a reduction in the proportion of low value-added activities, the Group should soon be reporting improved results. The full benefit will only be realised when sustainable growth returns to our major areas of activity.

PREPARED

GROUP RESULTS

The difficulties encountered by most of the businesses are clearly reflected in the 2009 results. Revenue from operations declined by 21.1% to £435.4m. At constant rates of exchange, the sales reduction exceeded 29%. To compensate for the loss of business, employee numbers have been reduced by a similar proportion and 25 of the original 203 operating sites have been closed. The profit recovery in the second half of 2009 has started to reflect these adjustments to the cost base, although the full effect of the changes will not be evident until the second half of 2010.

It was pleasing to note that the focus on cash management resulted in a satisfactory year end position. The cash cost of re-organising the Group's activities was largely funded by a sharp reduction in working capital such that the £20.8m increase in net debt during 2009 was entirely accounted for by the tax paid following the successful disposal of the Testing division in 2008. It is also reassuring to report that the Group's major borrowing facility has, in January 2010, been renewed with existing banks through until March 2013. This will ensure that Bodycote can complete its restructuring programme while providing the fixed and working capital resources which will enable the Group to fully benefit from the anticipated recovery in major markets over the next three years.

SUSTAINABILITY

Despite the enormous efforts made during the year to reposition the Group's operations, management recognise that sustainability must be a key element of the business strategy to deliver future growth. A responsible approach to the environment is important to ensure that Bodycote has a sustainable long-term future. Already over 75% of the facilities have met the ISO 14001 standard which helps minimise the risk of adverse environmental effects and the aim is to achieve 100% accreditation in all plants during the coming years.

Health and Safety statistics are closely monitored and are the subject of review at each Board and executive meeting. As a business, Bodycote is committed to providing its employees with a safe working environment while supporting and enhancing their health and wellbeing.

BOARD

The Non-executive Directors play a vital role in the governance of the Company and a key measure of Bodycote's success is their ability to provide wise counsel to the members of the executive team. The Board pays great attention to its corporate governance responsibilities and each year undertakes a review of its own performance. It is pleasing to report that after a number of changes in 2007 and 2008 the new Board is performing well, with each member contributing positively.

DIVIDEND

The Board considered carefully the level of dividend to be paid out to shareholders following the 2009 results. Having maintained the half year payout at the 2008 level, Board members felt that recent improving trading conditions, linked to the renewal of the major banking facility, enabled a final dividend of 5.35p per share to be recommended, giving a total of 8.3p for the year, unchanged from 2008. Although the disappointing result in 2009 means that the dividend will not be covered by earnings, the Board is confident that the actions taken to improve the operating performance, underpinned by a strong year end balance sheet, should enable the Group to fully cover the payout in 2010. The final dividend will be paid to shareholders in May following approval at the Annual General Meeting.

SUMMARY

Over the last two years the Non-executive Directors have visited a large number of Group facilities and met with employees at all levels. They have been impressed by the dedication and professionalism of the Group's staff and would like to thank them for their contribution in what has been an extremely turbulent and challenging period. The Board believes that Stephen and his colleagues have taken the right decisions to ensure that Bodycote emerges from this unprecedented recession in a position to deliver enhanced value to shareholders.

A. M. Thomson
Chairman
25 February 2010

...the Board believes that Stephen and his colleagues have taken the right decisions to ensure that Bodycote emerges from this unprecedented recession in a position to deliver enhanced value to shareholders

CHIEF EXECUTIVE'S REVIEW

STEPHEN HARRIS
Chief Executive

TRADING OVERVIEW

2009 was undoubtedly one of the fiercest economic storms that Bodycote, and indeed most other companies, has endured. In the face of rapidly declining demand on almost every front, volumes fell at the worst point to nearly 37% below prior year levels. The storm started to abate in the fourth quarter of the year and the final picture for the whole of 2009 was a year-on-year revenue decline of £116.4m, or 29.6% in constant currencies, to £435.4m.

Aided by significant and rapid restructuring actions, the fall in headline operating profit[1] was contained to £63.2m, so that the year end figure finished at £8.0m (2008: £71.2m), notwithstanding the loss that was incurred in the first half. This represents an operational gearing of 40%, at constant currencies, well below that exhibited by Bodycote in previous downturns. The restructuring actions led to an exceptional charge of £25.4m, of which £12.8m was cash and £12.6m was asset write-downs. In addition, the impairment of goodwill and investments amounted to £31.5m.

The restructuring programme has involved the closure of 25 facilities in total, the permanent decommissioning of some inefficient process lines and mothballing of others at a number of the remaining plants, together with the matching of headcount to demand throughout the organisation. The benefit has been a cost reduction of £30.4m in 2009 - equivalent to £43.0m on an annualised basis. In addition to these restructuring actions, all costs were critically examined and reduced where possible, leading to further substantial savings. The number of employees has been reduced by 29% since the peak in July 2008, to a total of 5,512.

The savings achieved from closing or consolidating plants and decommissioning lines are permanent. Other savings are largely volume related and can be expected to reverse to some degree as volumes rise.

Capital expenditure at £32.2m was well controlled and yielded a capital expenditure to depreciation ratio of 0.6, net of £4.3m of asset sales. This was 57% lower than in 2008. Headline operating cash flow[1] was £34.7m, well above headline operating profit. Year end net debt was £85.5m (2008: £64.7m). The increase in net debt was effectively due to £22.4m of tax paid in the year relating to the disposal of the Testing division that occurred in 2008.

A new £110m debt facility, extending until 2013, was put in place in January 2010, replacing the expiring 2010 facility. A second facility for $20m, which was also due to expire in 2010 was renewed in February 2010 and also extends to 2013. The covenant terms are unchanged, and the facilities provide headroom for expansion opportunities.

FOCUSED

[1] A detailed reconciliation is provided on page 13.

RESHAPING BODYCOTE

As the restructuring activities have progressed, great care has been taken to ensure that operational excellence and customer service have been maintained and that the business is ready for the upturn. In addition, a detailed strategic review has been carried out that has enabled us to refine our future strategy and reshape the business along specific strategic lines. The Group has now been organised as two business areas, each facing a different customer set with different characteristics and different requirements.

The Aerospace, Defence & Energy (ADE) business consists of 63 facilities and is organised on a global basis. It includes the Group's aerospace, defence and energy certified heat treatment activities, hot isostatic pressing and surface technology services. The latter two of these technologies are predominantly used in the aerospace, defence and energy markets and the total available market is overwhelmingly in these end-user sectors.

The Automotive & General Industrial (AGI) business consists of 115 facilities organised into four geographically based sub-divisions. The geographic organisation reflects the predominance of local work that is carried out for customers in the automotive and general industrial sectors.

It is worth noting that all of Bodycote's facilities in the emerging markets (Eastern Europe, Brazil and Asia), with the exception of the facilities in Singapore and Dubai, are part of the Automotive & General Industrial business. While this does not impede our ability to expand in the ADE sectors when it is required in these geographies, it does reflect the growth of core manufacturing activities in the emerging markets that the AGI customers are driving. So far, our customers from the developed markets in the ADE sectors have moved (or are in the process of moving) primarily activities such as assembly to these markets. Little or none of this ADE assembly activity requires the thermal processing services that Bodycote offers.

One of the refinements to the strategy is to be more selective about which emerging markets we pursue, and to drive harder in those we target. As a consequence of this approach, we have consolidated our facilities in India into one (from three) and have exited Thailand. The small associate venture in Thailand was sold back to the original owners in late 2009.

In total, the new divisional structure allows the Company to discriminate much more readily between different types of customer needs and to focus activity and investment in a more deliberate way.

In keeping with the new organisational structure, the executive committee has been expanded from five to nine members with the addition of two new global Divisional Presidents, a Director of Human Resources and a Director of Business Development.

THE FUTURE

Irrespective of the pace of the recovery, in the short term the tighter business disciplines and more focused capital investment procedures which were put in place in 2009 will enhance shareholder value in 2010 and beyond. The business process improvement and customer service enhancement programmes initiated during the year are another part of the drive for value creation.

Bodycote's recovery will be driven not only by general global demand but also by our own ability to gain market share. In addition, in the longer term, Bodycote stands to benefit from two trends.

The first is a likely acceleration in the trend for customers to outsource. In 2009 many have seen the problems associated with having high fixed cost thermal processing operations in-house that are entirely dependent on their own product throughput. Outsourcing this type of activity, which is often not core to our customers' business, is becoming a hotter topic as a result of the recession.

The second significant factor that will help to drive Bodycote's business in the coming years is the growing awareness of environmental sustainability and the need for carbon reduction. One of Bodycote's core competences as specialists in thermal processing is the efficient use of energy. The ability to aggregate work from multiple customers and process the work in a more energy efficient way helps reduce costs for customers and also lowers their aggregate carbon footprint.

Clearly, the key to Bodycote's future success is its employees. The difficulties of 2009 have been demanding, and the Group's employees have risen to the challenge that the world economy threw at us and moved the business a long way forward, even in the face of adversity.

SUMMARY & OUTLOOK

2009 was a year of transition for Bodycote, with a major cost reduction programme implemented, a new strategy defined and the Group reshaped accordingly. End markets were very challenging with sharply lower volumes, the impact of which was addressed by significant cost reductions. We delivered a headline operating profit for the full year, more than offsetting the losses incurred in the first half. Many of our automotive and general industrial markets have already started to recover but we do not expect the aerospace, defence and energy markets to strengthen until later in 2010. The pace of recovery remains uncertain and potentially uneven. We anticipate that full recovery in demand may take several years. This notwithstanding, we enter 2010 with a reshaped business and renewed vigour.

S. C. Harris
Chief Executive
25 February 2010

...the tighter business disciplines and more focused capital investment procedures which were put in place in 2009 will enhance shareholder value in 2010 and beyond

STRATEGY AND OBJECTIVES

Bodycote's objective is to create superior shareholder returns through the provision of selected thermal processing services, on a global basis, that are highly valued by our customers...

Our strategy is based on the following fundamental thrusts:

- Serving the aerospace, defence and energy markets, with a focused network of globally coordinated facilities, attuned to these customers' specific needs and requirements.
- Serving the automotive and chosen general industrial markets through a regionally organised business, catering for these customers' specific local needs and proximity requirements.
- Achieving the highest levels of customer service in terms of quality, delivery, reliability and technical problem solving.
- Capitalising on our proprietary technologies to provide our customers with the ability to create innovative, differentiated products.
- Migrating technology, over time, from the developed markets to our target emerging markets with an emphasis on Eastern Europe, Brazil and China.

Bodycote aims to achieve this in a safe working environment and with minimal environmental impact.

BUSINESS PERFORMANCE

BUSINESS PERFORMANCE

	2009 £m	2008 £m
Revenue	**435.4**	551.8
Operating loss	**(50.2)**	(51.7)
Add back:		
Major facility closure costs	**25.4**	77.6
Impairment charge	**31.5**	44.0
Amortisation of acquired intangible fixed assets	**1.3**	1.3
Headline operating profit	**8.0**	71.2

Group revenue from continuing operations was £435.4m, a decrease of £116.4m (21.1%) on 2008 (£551.8m). The decline in revenues at constant exchange rates amounted to £163.3m (29.6%), which included revenues of £12.5m (2.3%) lost due to plant closures.

The restructuring of the Group was largely completed in 2009, but required a further charge of £25.4m, of which asset write-downs accounted for £12.6m and cash costs for £12.8m. No further restructuring charges are expected in 2010.

An impairment charge of £31.5m was made following the management's review of the carrying value of assets. Of the total charge, £29.0m related to goodwill and the balance of £2.5m arose following the unwinding of the associate venture in Thailand.

Consequently the Group is reporting an operating loss of £50.2m (2008: loss £51.7m).

Headline operating profit for the Group's continuing operations was £8.0m, a decrease of £63.2m compared to 2008. Foreign currency movements increased profits by £1.1m (1.5% on 2008). Headline operating margins from continuing operations declined from 12.9% to 1.8%.

Headline Operating cash flow of £34.7m is made up of £57.4m EBITDA, a positive contribution from reduced working capital of £9.0m, and net capital expenditure of £32.2m.

	2009 Headline £m	**2009 Exceptional £m**	**2009 Total £m**	2008 Total £m
EBITDA[1]	**57.4**	**(12.8)**	**44.6**	118.3
Working capital movement	**9.0**	**–**	**9.0**	(13.0)
Provision movement	**0.5**	**(6.4)**	**(5.9)**	30.6
Net capital expenditure	**(32.2)**	**–**	**(32.2)**	(74.9)
Operating cash flow	**34.7**	**(19.2)**	**15.5**	61.0
Interest	**(4.4)**	**–**	**(4.4)**	(8.0)
Taxation	**(2.0)**	**(22.4)**	**(24.4)**	(20.5)
Lump sum contribution to pension plan	**(1.5)**	**–**	**(1.5)**	(21.0)
Free cash flow	**26.8**	**(41.6)**	**(14.8)**	11.5

After interest and tax payments, the headline free cash flow was £26.8m.

The outflow on exceptional items totalled £41.6m, of which £22.4m was the tax payable on the Testing disposal, and £19.2m was the cash spend on the restructuring programme, of which £6.4m had been accrued in the previous year.

Capital expenditure was restricted to necessary items of renewal along with the completion of expansion projects started before the downturn. Capital spend (net of asset sales) in 2009 was £32.2m, being 0.6 times depreciation compared to 1.3 times in 2008.

There has been a continued focus on cash collection and debtor days have been reduced to an average of 66 days in 2009, compared to 68 days in 2008 which, along with the decline in revenue, accounts for the reduction in working capital.

Definitions:

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

KEY PERFORMANCE INDICATORS

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

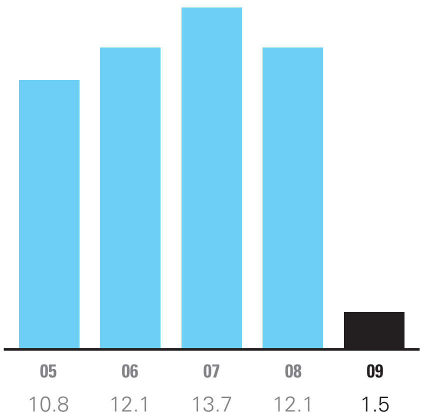
Financial
The financial KPIs are Return on Capital Employed[1] (ROCE) and Return on Sales[2] (ROS) and the non-financial KPIs are the Percentage of ISO 14001 accredited facilities and Accident Frequency[3].

As a direct consequence of the severe economic downturn, and despite the major restructuring programme and a multitude of other cost reduction actions, ROCE for 2009 was 1.5% (2008: 12.1%) and ROS was 1.8% (2008: 12.9%).

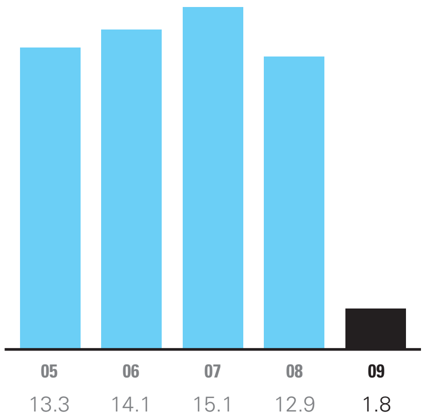
Non-financial
Reducing the environmental impact of the Group's activities is taken very seriously. Compliance with the requirements of ISO 14001 helps minimise the risk of adverse environmental effects at Bodycote locations. At the end of 2009, 77% of our plants had ISO 14001 accreditation - 137 plants out of a total of 178 (2008: 137 out of 193).

Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for anyone who works at, or visits, our locations. The major restructuring programme has not made this an easy task in 2009. Nevertheless, the Accident Frequency rate fell to 1.9 from 2.0 in 2008.

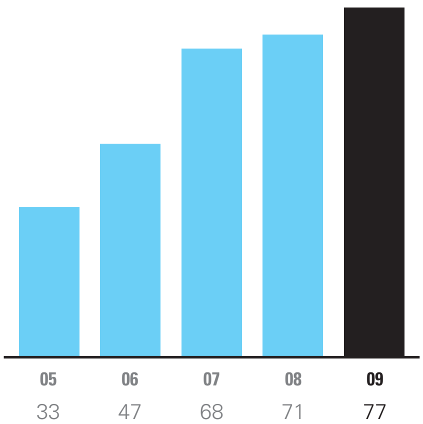
RETURN ON CAPITAL EMPLOYED (ROCE)
%



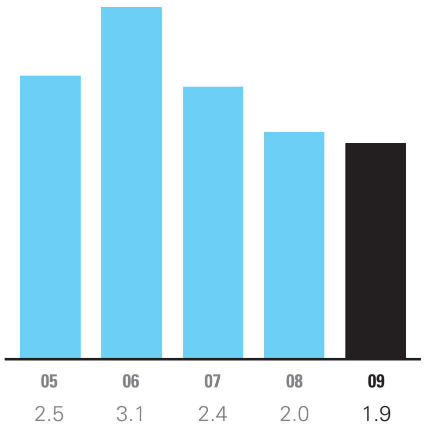
RETURN ON SALES (ROS)
%



ISO 14001 ACCREDITED FACILITIES
%



ACCIDENT FREQUENCY
Number



Definitions:

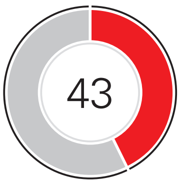
[1] Headline operating profit as a percentage of average capital employed from continuing operations. Capital employed includes tangible and intangible assets and all non-interest bearing assets and liabilities.

[2] Headline operating profit as a percentage of revenue from continuing operations.

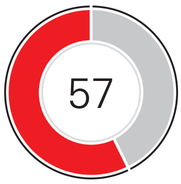
[3] Accident Frequency – the number of lost time accidents x 200,000 (approximately 100 man years), divided by the total hours worked.

The activities and management of the Group have been reorganised into two market-facing business areas that reflect the differing market and customer characteristics in two broadly defined groupings.

	AEROSPACE, DEFENCE & ENERGY		AUTOMOTIVE & GENERAL INDUSTRIAL
	See page 18 for an in-depth review		See page 22 for an in-depth review
NO. OF EMPLOYEES	1,934 (2008 : 2,373)		3,505 (2008 : 4,620)
% OF GROUP REVENUE	43 (2008 : 40%)		57 (2008 : 60%)
DIVISIONAL REVENUE	£189.5m (2008 : £220.1m)		£245.9m (2008 : £331.7m)
DIVISIONAL HEADLINE OPERATING PROFIT/(LOSS)	£24.7m (2008 : £45.5m)		£(13.3)m (2008 : £29.8m)



2008 : 40%



2008 : 60%

AEROSPACE, DEFENCE & ENERGY (ADE)
Incorporating HIP and Surface Technology
Within the ADE sectors, our customers tend to 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.

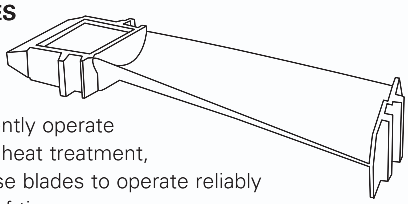
AUTOMOTIVE & GENERAL INDUSTRIAL (AGI)
Incorporating Speciality Stainless Steel Processes – S3P
Whilst the AGI marketplace has many multinational customers, it also has very many medium sized and smaller businesses, with the large multinationals tending to operate on a more regionally focused basis, as opposed to globally. Generally, there are more competitors to Bodycote in AGI and much of the business is very locally oriented, meaning that proximity to the customer is very important and excellent service is vital.

Bodycote's uniquely large network of 115 AGI facilities enables the business to offer the widest range of technical capability and security of supply. The AGI business aims to increase the proportion of technically differentiated services it offers. Bodycote has a long and successful history of serving this wide-ranging customer base and the newly established AGI business serves our North America, Western Europe and Emerging markets.

...the new divisional structure allows the Company to discriminate much more readily between different types of customer needs and to focus activity and investment in a more deliberate way

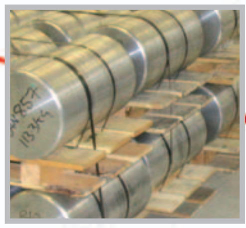
THE POWER TO DELIVER – A COMPONENT JOURNEY

LAND-BASED GAS TURBINE BLADES AND VANES

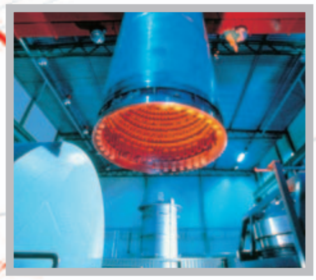


Like aircraft turbine blades and vanes, land-based gas turbine components used for power generation must withstand extreme temperatures in operation. These materials frequently operate at temperatures approaching their melting point – heat treatment, HIP and the use of surface technology allows these blades to operate reliably at these high temperatures for extended periods of time.

The turbine blades begin life as nickel-based superalloy billets. This superalloy gives superior strength at high working temperatures



The billets are investment cast to form the blade shape and then fettled to remove casting material



The blade castings are HIPed to remove porosity and increase their creep and fatigue resistant properties

Honeycomb for abradable seals is vacuum brazed onto the vanes' main sections

The blades are precipitation hardened to increase their strength at high temperatures

A thermally sprayed coating is applied to improve temperature resistance

Finally, the blades are machined prior to their assembly as part of an engine

End application – gas turbine engine

BODYCOTE COMPONENT JOURNEYS

This is just one example of how Bodycote brings together the huge wealth of knowledge and expertise from across the Group to provide the vital engineering services you need...

For more component journeys visit **www.bodycote.com**

Denotes the parts of the component journey undertaken by Bodycote

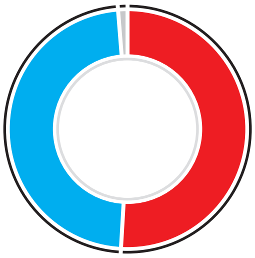
BUSINESS REVIEW - AEROSPACE, DEFENCE & ENERGY
INCORPORATING HIP AND SURFACE TECHNOLOGY

REVENUE £189.5m
2008 : £220.1m

OPERATING PROFIT £24.7m
2008 : £45.5m

MARKETS

TURNOVER BY GEOGRAPHY



RESULTS

Revenues for ADE were £189.5m in 2009 compared to £220.1m in 2008, a reduction of 13.9%. Revenues in constant currencies were lower by 23.5% reflecting reduced aerospace after-market requirements, some postponement of large power generation projects and the impact of lower oil prices on oil & gas exploration and production. Revenues benefited by 9.6% as a consequence of the weakness of sterling compared to most of the currencies in the countries in which the Group operates.

Headline operating profit for ADE was £24.7m (2008: £45.5m), with margins weakening from 20.7% to 13.0%. The restructuring programme delivered cost savings of £9.8m in 2009 and the annualised rate as we enter 2010 is expected to amount to £14.5m.

2009 was characterised by a significant reduction in capital expenditure across the Group, including in ADE, as widespread reduction in customer demand left capacity available for medium-term development. Long lead-time projects which were started before the recession, most notably the installation of a new large HIP unit in Sweden, were, however, completed or largely completed in 2009.

Capital employed in ADE in 2009 was £244.2m (2008: £249.8m). The reduction reflects the effects of the restructuring programme, which included the closure of facilities and the removal of assets from service in a number of other locations, partly offset by investment to enhance the capabilities of the business. Net capital expenditure in 2009 was £19.1m (2008: £20.2m) which represents 1.1 times depreciation (2008: 1.2 times depreciation). Return on capital employed in 2009 was 10.1% (2008: 18.2%).

MARKETS

Aerospace demand declined at a steady rate throughout the year with after-market requirements falling in response to reduced flying hours by airlines. Business with OEM airframe and engine manufacturers remained solid, especially for wide-body programmes. Defence demand has remained good.

Power generation requirements softened as the year progressed and in Europe demand fell substantially in the second half. This impacted both heat treatment and hot isostatic pressing and reflects customer inventory adjustments and some push-back in major power station build programmes around the world.

Oil & gas suffered significant decline as global energy prices fell and with them exploration and production activity, although work for production activity started to strengthen towards the end of the year.

ADVANCED

ACHIEVEMENTS IN 2009

2009 saw the formation of the global Aerospace, Defence & Energy business. This has resulted in the realignment of some 63 facilities into a single, market-focused organisation targeted at meeting the requirements of major OEMs and their supply chains throughout the world. The ADE business has 34 Nadcap accredited facilities. Many facilities are also approved to the aerospace quality standard AS 9100. An important area of development in 2009 was to position the business to benefit from the impending growth in build programmes for the Airbus A380 and Boeing Dreamliner for airframe, engine and landing gear components.

ORGANISATION AND PEOPLE

The establishment of the ADE business required a number of organisational changes to enable the new market-focused approach to operate efficiently. At the same time, management implemented significant cost cutting measures, including the closure of six locations to deal with the effects of reduced demand. The majority of the processing capability and sales were transferred to other facilities. The objective has been to reduce the cost base and, at the same time, improve the efficiency of service. Although this resulted in a headcount reduction of 439 during the year and 489 since July 2008, the business is now positioned to be more effective in meeting customer requirements.

LOOKING AHEAD

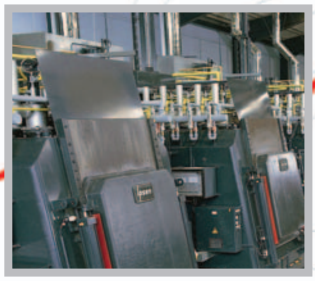
The key objective for ADE in 2010 is to realise the benefits of the new market-facing organisation and drive the expansion of its proprietary and differentiated technologies. The new market-facing organisation is targeted at improving the customer experience of Bodycote and increasing the business's understanding of the requirements of prime manufacturers. This, in turn, is expected to increase sales to existing clients and to improve the conversion rate of potential into actual business.

aerospace, defence & energy

ON TRACK – A COMPONENT JOURNEY

RAIL CLIPS
Rail clips are used to hold rail tracks to the sleepers. Heat treatment processing and corrosion resistant coating gives these clips the strength to hold the tracks in place under several hundred tonnes of train whilst being flexible and able to withstand the effects of weathering for many years.

Steel bar or strip is cut into pieces and hot forged into shapes and sizes required



The clips are heat treated to harden the steel and increase the yield strength for flexibility

Finally, the clips are Sherardized to improve their life expectancy against environmental corrosion, without reducing their fatigue life

End application – railway lines

BODYCOTE COMPONENT JOURNEYS

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Denotes the parts of the component journey undertaken by Bodycote

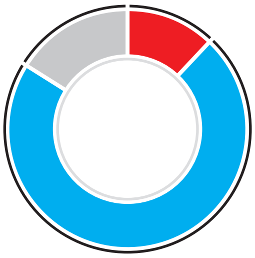
BUSINESS REVIEW - AUTOMOTIVE & GENERAL INDUSTRIAL
INCORPORATING SPECIALITY STAINLESS STEEL PROCESSES – S3P

REVENUE £245.9m
2008 : £331.7m

OPERATING LOSS £(13.3)m
2008 Profit : £29.8m

MARKETS

TURNOVER BY GEOGRAPHY



RESULTS

Automotive & General Industrial revenues were £245.9m in 2009, which compares to £331.7m in 2008, a reduction of 25.9%. In constant currencies revenues were down by 33.1%, reflecting the widespread reduction in manufacturing output in all geographies. Revenues benefited by 7.2% as a result of the weakness of sterling compared to 2008. Demand began to improve slowly in the fourth quarter of 2009, but had only a modest impact on the year as a whole.

Headline operating loss in AGI was £13.3m compared to a headline operating profit of £29.8m in 2008. Margins fell from 9.0% to minus 5.4%. The restructuring programme has been substantial and the AGI business realised savings of £20.6m in 2009. This is expected to increase to £28.5m in 2010.

Net capital expenditure in 2009 was £12.5m (2008: £34.9m), which represents 0.4 times depreciation (2008: 1.1 times depreciation). Return on capital employed in 2009 was minus 4.2% (2008: 7.9%). On average, capital employed in 2009 was £315.1m (2008: £377.6m). The major part of the reduction was due to the effects of the restructuring programme, including the various plant closures. The business is increasingly focusing on higher added-value activities.

MARKETS AND GEOGRAPHIES

The Automotive & General Industrial business serves an extensive variety of customers and has been impacted by the wide-ranging recession that began to affect Bodycote's business in the fourth quarter of 2008. This has only recently begun to abate, albeit at a modest pace. The largest reductions were in the heavy truck sector (down by 48.1%), followed by automotive (down by 29.0%). General industrial sectors were down by an average of 22.7%. Overall, the business recorded sales down by 25.9% compared to 2008, a notable part of which was the result of supply chain destocking.

In North America, automotive demand began to fall early in this recession (during the middle of 2008) and the year-on-year reduction in 2009 was 15.5%. Demand began to improve in the second half of 2009. General industrial sales declined by 17.7% in 2009 and have remained at these reduced levels in the latter part of 2009.

In Western Europe, sales in the automotive sector were down by over 40.0% and this had a significant impact on Bodycote's business, particularly in France, Germany and Italy. The most severe impact of the downturn, however, was felt in the heavy truck sector, in which Bodycote has a concentration in Sweden and Germany. Sales to this sector were down by approximately 60%, with only a modest recovery to date. Across Western Europe sales were down by 27.7% compared to 2008.

RELIABLE

The impact of the recession has been quite varied in Bodycote's emerging market territories. In Eastern Europe, the Czech Republic was down 40.5% year-on-year, reflecting its reliance on German manufacturing. By contrast, Polish sales declined by 30.9% as heavy machinery and mining demand was less severely impacted than automotive. In Brazil, sales are split broadly evenly between automotive and general industrial markets and, although year-on-year revenues were down 25.9%, sales have started to recover. In Asia (China and India) the downturn was short-lived and recovery is well underway. As a consequence, 2009 sales were only 5.2% below those of 2008.

ACHIEVEMENTS IN 2009

During the year, the Group has reinforced the geographically oriented management structure within the Automotive & General Industrial business. The nature of the markets has some distinct differences in each of the North American, Western European and emerging economies, particularly in the level of the maturity of thermal processing requirements. This, along with the typically local nature of customer requirements, means the business is organised to focus on geographic areas. As a consequence of reductions in demand, restructuring of the AGI's cost base has been critical and has been pursued vigorously.

The business has continued to increase capacity in several specialist technologies which have all suffered less than average reductions in demand during the downturn and, in some cases, sales have increased in 2009. Low pressure carburising, which is being used increasingly for high-end automotive gears, in both North America and Europe, recorded growth as new transmissions were introduced by power train manufacturers. 2009 also saw the first full year of production for Speciality Stainless Steel Processes (a sub-division of the AGI business) in southern Germany, to complement existing capability in the Netherlands, France and the USA. A new facility in Finland is now operational and able to service the wind energy market for deep case carburising of very large gears.

ORGANISATION AND PEOPLE

In July 2008, the AGI business employed 5,201 people, but by the end of 2009 this had been reduced to 3,505. At the same time, 19 facilities were shut permanently and in many locations equipment and production lines have been mothballed. In addition, many pieces of equipment from closed sites have been transferred to new locations or placed in storage for future use, as and when customer demand increases.

LOOKING AHEAD

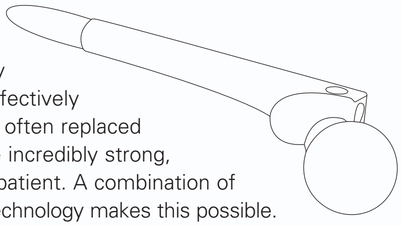
The major objectives for the Automotive & General Industrial business are to realise the full benefits of the extensive restructuring programme of 2009, expand the use of Bodycote's proprietary technologies and drive migration of technology from the developed to the emerging markets. Additionally, the business will continue to reduce the amount of low-return work it processes and increasingly focus on delivering value to customers.

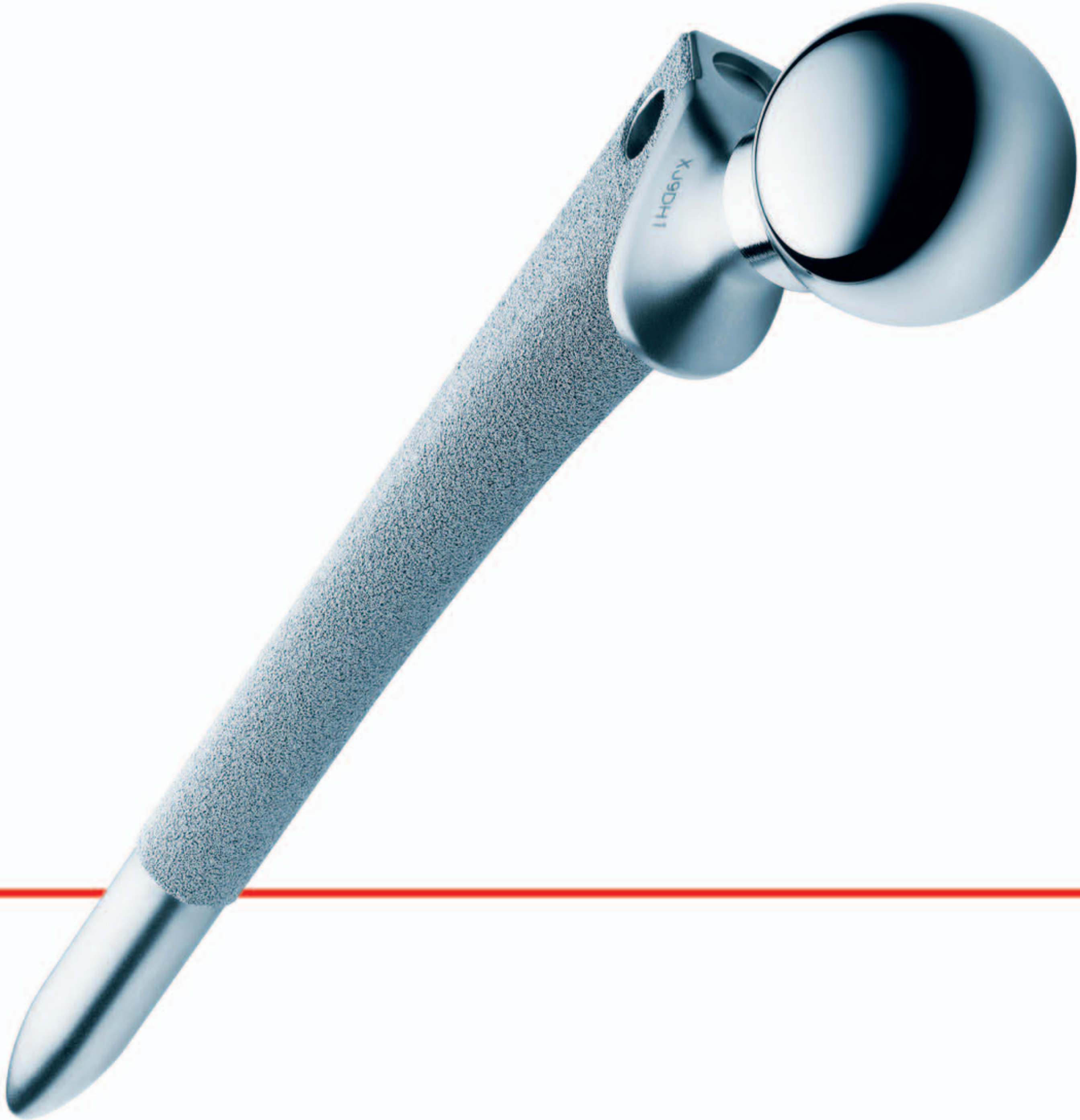
automotive & general industrial

INNER STRENGTH – A COMPONENT JOURNEY

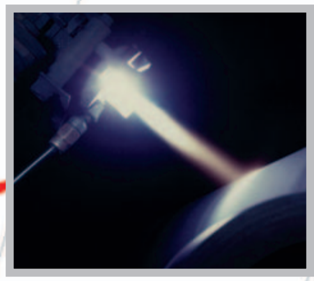
MEDICAL PROSTHESES

The stress on a hip or knee joint when a person jumps off a chair is equal to around 100 tonnes per square inch. Our bones, effectively composites, absorb such stresses regularly and effectively for much of our lifetime. When joints fail, they are often replaced with metal alloy implants. These implants must be incredibly strong, biocompatible, and able to last the lifetime of the patient. A combination of heat treatment, hot isostatic pressing and surface technology makes this possible.





Cobalt chromium alloy billets are investment cast to form implant shape



The castings are thermally sprayed with a biomedical coating to allow a bond to form between the implant and body tissue, promoting bone growth

The implants are then HIPed to eliminate porosity, improve fatigue life and enhance the bonding of the biocompatible coating

Solution and ageing heat treatment is used to strengthen the implant

End application – joint replacement

BODYCOTE COMPONENT JOURNEYS

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Denotes the parts of the component journey undertaken by Bodycote

FINANCE DIRECTOR'S REPORT

DAVID LANDLESS
Finance Director

FINANCIAL OVERVIEW

	2009[1] £m	2008[1] £m
Revenue	**435.4**	551.8
Headline operating profit	**8.0**	71.2
Amortisation of acquired intangible fixed assets	**(1.3)**	(1.3)
Impairment charge	**(31.5)**	(44.0)
Major facility closure costs	**(25.4)**	(77.6)
Operating loss	**(50.2)**	(51.7)
Net finance costs	**(4.3)**	(3.6)
Loss before tax	**(54.5)**	(55.3)

Group results for 2009 were severely impacted by the economic downturn, with revenue falling by 21.1% from £551.8m to £435.4m and, as a consequence, headline operating profit fell from £71.2m to £8.0m. To deal with the changed circumstances an impairment charge of £31.5m was made and a wide ranging restructuring of the Group's activities, aimed at better aligning the cost base with these lower demand levels, resulted in an exceptional charge for facility closures of £25.4m. In 2010 these restructuring initiatives, begun in 2008 and extended in 2009, can be expected to generate annualised savings of £43.0m for the Group, of which £36.2m are cash savings. Consequently the Group reported an operating loss for the year of £50.2m (2008: £51.7m).

Despite the much reduced headline operating profit, the Group was still able to report a positive operating cash flow of £15.5m (2008: £61.0m), mainly because net capital expenditure in 2009 fell to £32.2m compared to £74.9m in 2008. After deducting interest, tax and lump sum pension contributions, the Group reported a negative free cash flow of £14.8m (2008: positive £11.5m).

Bodycote begins 2010 with its funding position secured. Two of the three bank facilities were due to mature during 2010. These have been refinanced in line with the Group's funding requirements following the disposal of the Testing division and taking into account the cost of holding undrawn funds. Total funding now available to Bodycote under its committed facilities is £233.4m (2008: £359.8m).

ACCOUNTABLE

[1] From continuing operations

EXCEPTIONAL COSTS

The total exceptional costs charged to the income statement amounted to £58.2m (2008: £122.9m) and were made up of the following elements:

Amortisation of acquired intangible fixed assets £1.3m (2008: £1.3m)

The charge relates to the amortisation of intangible assets arising from acquisitions. There were no acquisitions during 2009 and, as a result, there was no change to the charge compared to 2008.

Impairment Charge £31.5m (2008: £44.0m)

The impairment charge arose as a result of the write-down of goodwill (£29.0m) and a further £2.5m arose in respect of the unwinding of the associate venture in Thailand. The Group tests goodwill semi-annually and the charge relates to goodwill for businesses that have been discontinued or where management has concluded that book value of goodwill was in excess of its recoverable amount. The largest impairment was for goodwill attributable to the 2001 Lindberg acquisition in the North American heat treatment business, amounting to £25.0m.

Major Facility Closure Costs £25.4m (2008: £77.6m)

	Income Statement Exceptional Charge			
	Total £m	Asset Write Down £m	Cash £m	Phasing of Cash spend £m
2008	**77.6**	42.7	34.9	2.1
2009	**25.4**	12.6	12.8	19.2
2010	**–**	–	–	17.7
2011 & later	**–**	–	–	8.7
Total	**103.0**	55.3	47.7	47.7

The major facility closure costs of £25.4m relate to the 2009 restructuring programme and includes asset write-downs of £12.6m and cash costs of £12.8m. The restructuring programme was started in 2008 in response to the economic downturn that began in the last quarter of that year. It became clear early in 2009 that the downturn was deeper than anticipated and additional restructuring initiatives were launched across the Group, with the most significant being in Brazil, France, Germany and Sweden. The total cost of the restructuring programme since 2008 has been £103.0m, of which £55.3m related to the write-down of assets and £47.7m to cash costs including redundancies, dismantling and site clean-up. As at 31 December 2009, £21.3m of the cash costs had been spent. Of the remaining £26.4m cash costs, £17.7m is expected to be spent in 2010 and £8.7m in 2011 and later. Of these costs, £6.2m is to cover redundancy payments, £10.7m for site closure and £9.5m for environmental remediation.

Annual savings compared to pre-restructuring base

	Total £m	Western Europe £m	North America £m	Emerging Markets £m
2009	30.4	16.1	11.1	3.2
2010	43.0	25.1	13.9	4.0

The restructuring initiatives delivered savings of £30.4m in 2009, of which £25.6m are cash savings. The level of savings will increase to £43.0m in 2010, as Bodycote sees the benefits of the completion of the restructuring programme.

Restructuring provisions outstanding at 31 December 2009 total £27.1m, being £26.4m related to the 2008/2009 programme and £0.7m related to environmental remediation from earlier initiatives.

OPERATING LOSS FROM CONTINUING OPERATIONS

After charging exceptional items of £58.2m (2008: £122.9m), the operating loss from continuing operations was £50.2m (2008: loss of £51.7m).

LOSS BEFORE TAX FROM CONTINUING OPERATIONS

Headline profit before tax for the continuing operations was £3.7m (2008: £67.6m). The loss before tax for the continuing operations was £54.5m (2008: loss of £55.3m).

Headline profit before tax is derived as follows:

	2009 £m	2008 £m
Headline operating profit[2]	**8.0**	71.2
Net finance charge	**(4.3)**	(3.6)
Headline operating profit before tax	**3.7**	67.6
Amortisation of acquired intangible fixed assets	**(1.3)**	(1.3)
Impairment charge	**(31.5)**	(44.0)
Major facility closure costs	**(25.4)**	(77.6)
Loss before tax	**(54.5)**	(55.3)

FINANCE CHARGE

The net finance charge from the continuing operations of the Group was £4.3m compared to £3.6m in 2008. The increase arose from a combination of higher average net debt and higher pension finance costs offset by lower interest rates.

[2] Operating profit pre-exceptional items.

TAXATION

Total taxation was a credit of £3.4m for the year compared to a credit of £17.2m for 2008. The effective tax rate for the Group of 6.2% resulted from the impact of blending profit-making jurisdictions with loss-making jurisdictions and of differing tax rates in each of the countries in which the Group operates (2008: 31.1%).

The headline tax rate on continuing operations for 2009 was 108.1% (2008:18.3%), being stated before amortisation of goodwill and acquired intangibles (both of which are generally not allowable for tax purposes) and before exceptional items. The unusual tax rate in 2009 results from the impact of combining the results of profit-making and loss-making entities that have different underlying tax rates and from the de-recognition of certain tax losses. A revival in economic conditions should enable utilisation and recognition of these tax losses in future years. The average underlying tax rates for Bodycote's profit and loss making subsidiaries were 28.8% and 24.9% respectively.

ASSOCIATED COMPANY – SSCP COATINGS SARL (SSCP)

SSCP is a highly leveraged private equity controlled business. Bodycote currently owns 24.4% of the share capital of SSCP, but the Group has previously fully impaired its equity and loans to this business. There is no impact in the Group's accounts in 2009 (2008: impairment charge of £12.1m).

DISCONTINUED OPERATIONS

Bodycote has not discontinued any business streams during 2009. In 2008, the Group sold its Testing division, which recorded sales of £164.9m and an operating profit of £19.9m in 2008.

EARNINGS PER SHARE

Basic headline earnings per share (as defined in note 10) decreased to 0.4p from 17.5p. Basic (loss)/earnings per share for the year are shown in the table below:

	2009 Pence	2008 Pence
Basic (loss)/earnings per share from:		
Continuing and discontinued operations	**(27.0)**	48.2
less discontinued operations	**–**	60.7
Continuing operations	**(27.0)**	(12.5)

DIVIDEND

The Board has recommended a final dividend of 5.35p (2008: 5.35p) bringing the total dividend to 8.30p per share (2008: 8.30p). In December 2008 an additional, special distribution of 40p per ordinary share (from the proceeds from the disposal of the Testing division) was paid in December 2008. The 2009 dividend is not covered by basic headline earnings per share, as defined in note 10 (2008: 2.1 times).

If approved by shareholders, the final dividend of 5.35p per share for 2009 will be paid on 7 May 2010 to all shareholders on the register at close of business on 9 April 2010.

CAPITAL STRUCTURE

The Group's balance sheet at 31 December 2009 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	461.8	–	461.8
Goodwill and intangible assets	118.8	–	118.8
Current assets and liabilities	109.9	(135.4)	(25.5)
Other non current assets and liabilities	4.1	(19.6)	(15.5)
Retirement benefit obligations	–	(15.0)	(15.0)
Deferred tax	56.9	(73.4)	(16.5)
Total before net debt	751.5	(243.4)	508.1
Net debt	19.6	(105.1)	(85.5)
Net assets as at 31 December 2009	**771.1**	**(348.5)**	**422.6**
Net assets as at 31 December 2008	1,158.7	(661.8)	496.9

Net assets decreased by £74.3m (15.0%) to £422.6m (2008: £496.9m). The major movements compared to 31 December 2008 were due to a decrease in property, plant and equipment (£71.5m), and goodwill and intangible assets (£35.6m), which were partly offset by an increase in net current assets (£41.7m).

The largest decrease in property, plant and equipment came from foreign exchange translation losses (£37.7m) as a consequence of the stronger sterling rates on 31 December 2009 compared to 31 December 2008, particularly for the Euro and the US Dollar. Furthermore, net capital expenditure of £32.2m was exceeded by depreciation of £50.9m, while asset write-downs, as part of the restructuring programme, accounted for £12.6m.

The decrease in the goodwill asset resulted largely from the impairment testing performed by management.

Large movements were reported for net current assets. The reduced level of trading activity in 2009 compared to 2008 meant that trade receivables and other receivables decreased by £37.3m and trade and other payables decreased by £25.7m. Current tax liabilities decreased by £22.2m because the 2008 figure included a taxation liability which was settled during 2009 in respect of gains on disposal of the US Testing business of £22.4m.

Net liabilities for derivative financial instruments decreased by £26.0m due to a combination of instrument maturity and changes in exchange and interest rates.

NET DEBT

Group net debt was £85.5m (2008: £64.7m). During the year, loans of £209.1m under committed facilities were repaid and as a consequence gross cash decreased by £238.8m to £19.6m. The Group continues to be able to borrow at competitive rates and, therefore, currently deems this to be the most effective means of funding.

CASH FLOW

The net decrease in cash and cash equivalents was £231.6m (2008: net increase of £209.4m), made up of net cash from operating activities of £11.0m, less investing activities of £27.3m and less cash used in financing activities of £215.3m, following the use of surplus cash balances to reduce debt.

The total cash generated by the Group during 2009 was £441.0m lower than last year. In 2008 the Group benefited from the £400.1m received from the disposal of the Testing division, of which £128.8m was distributed to shareholders as a special dividend. Furthermore, in 2009 the Group also suffered from lower cash generated from operating activities of £91.5m compared to 2008, mainly because the EBITDA for 2009 was lower by £73.7m (62.3% lower than 2008). This reduction in cash generation from operations was largely mitigated by lower net expenditure on capital expenditure and acquisitions (down £84.0m). The net cash outflow arising from loan repayments and new bank loans raised amounted to £192.8m.

There has been a continued focus on cash collection with debtor days at 31 December 2009 falling to 63 days from 68 days a year earlier.

Net interest payments for the year were £4.4m (2008: £8.0m) and tax payments were £24.4m (2008: £20.5m), of which £22.4m related to the disposal of the Testing division.

CAPITAL EXPENDITURE

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £32.2m (2008: £74.9m). The multiple of net capital expenditure to depreciation was 0.6 times (2008: 1.3 times), which was a reflection of the Group's response to the economic environment by reducing non-essential capital expenditure. A proportion of the capital expenditure was incurred to support the restructuring programme in the consolidation of plants and the re-installation of furnaces transferred from closed plants. However, to increase capacity the Group continued to invest in a small number of long-lead time projects such as the new large HIP unit in Surahammar (Sweden) and a new Corr-I-Dur plant in Krnov (Czech Republic).

BORROWING FACILITIES

At 31 December 2009, Bodycote had three committed bank facilities: £225.0m (2008: £225.0m), expiring August 2010; €125.0m (2008: €125.0m), expiring July 2013; and US$20.0m (2008: US$20.0m), expiring July 2010, totalling £348.4m (2008: £359.8m). At the same date, the three facilities were drawn £0.0m (2008: £194.8m), £96.2m (2008: £107.3m) and £6.5m (2008: £10.5m) respectively, totalling £102.7m (2008: £312.6m).

On 8 January 2010 the £225m Revolving Credit Facility was refinanced with a committed facility at a lower amount of £110m to reflect the Group's lower expected funding requirements, with a maturity date of 31 March 2013. In addition, on 18 February 2010, the US$20m Revolving Credit Facility was also refinanced to a maturity date of 31 March 2013.

CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, 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 Group's Board of Directors. The Group's policy is to maintain gearing, determined as the proportion of net debt to total capital, within defined parameters, allowing movement in the capital structure appropriate to the business cycle and corporate activity. The gearing ratio at 31 December 2009 was 20.2% (2008: 13.0%).

The Group's debt funding policy is to borrow centrally (where it is tax efficient to do so), using a mixture of short-term borrowings, longer-term loans and finance leases. These borrowings, together with cash generated from operations, are lent or contributed as equity to certain subsidiaries. The aim of the Group's funding policy is to ensure continuity of finance at reasonable cost, based on committed facilities from several sources, arranged with a spread of maturities. The current market for bank funding is restricted to shorter tenors than have been available in the past and, therefore, steps will be taken in due course to extend the maturity profile of the Group's funding (currently 3.3 years).

DEFINED BENEFIT PENSION ARRANGEMENTS

The Group has defined benefit pension obligations in the UK, Germany, Switzerland, Liechtenstein, USA and Brazil and cash lump sum obligations in France, Italy and Turkey, the entire liabilities for which are 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 the 131 current employee members. The deficit, as calculated by the scheme actuary at 31 December 2009, using the principles of IAS 19, is £3.7m (2008: £0.7m).

The Group's heat treatment business in Germany has inherited several small defined benefit arrangements. They are all unfunded and are closed to new members but the existing members continue to accrue benefits. The IAS 19 liability at 31 December 2009 was £3.5m (2008: £3.3m). In Liechtenstein the IAS 19 liability at 31 December 2009 was £0.2m (2008: £0.3m) and in Switzerland was £0.1m (2008: £0.1m). Arrangements in both countries are funded. In Sweden, the last remaining defined benefit arrangement was bought out in full in July 2009 at a cost of £1.5m. The Company now only has a defined contribution liability. In France, the Group operates 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 2009 was £5.7m (2008: £6.8m). Italy and Turkey also have unfunded cash lump sum obligations which are open to new members. The IAS 19 liability is £0.8m for Italy (2008: £0.8m) and £0.2m for Turkey (2008: £0.1m). The Group sponsors three defined benefit pension arrangements in the USA which were inherited with the acquisition of Lindberg and these had a total IAS 19 deficit at 31 December 2009 of £0.6m (2008: £1.2m). There is no further accrual of benefits. In Brazil, Bodycote operates a defined benefit plan for three senior members of staff. It is funded and the members continue to accrue benefits. At 31 December 2009 it had a deficit of £0.2m (2008: £0.2m surplus).

POST BALANCE SHEET EVENTS

On 8 January 2010, the Group concluded the refinancing of a new £110m Revolving Credit Facility replacing the larger, £225m facility, which was set to mature in August 2010. The lower facility size reflects the reduced borrowing requirement following the disposal of the Testing division in 2008. On 18 February 2010 the Group also concluded the refinancing of its $20m Revolving Credit Facility.

CHANGE IN ACCOUNTING POLICIES

The changes in accounting policies are detailed in the Accounting Policies on page 61 of this report.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this Group Review. The review includes an overview of the Group's financial position, its cash flows, liquidity position and borrowing facilities. In addition, there is a description of the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Group meets its working capital requirements through a combination of committed and uncommitted facilities and overdrafts. The overdrafts and uncommitted facilities are repayable on demand but the committed facilities are due for renewal as shown right.

There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future.

- US$20m Revolving Credit Facility maturing 31 March 2013
- £110m Revolving Credit Facility maturing 31 March 2013
- €125m Revolving Credit Facility maturing 31 July 2013

The current economic conditions create uncertainty, particularly over the levels of demand for the Group's services and the availability of bank and capital market finance in the future. However, 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.

After making enquiries, 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.

PRINCIPAL RISKS AND UNCERTAINTIES

Operational

Markets

The key risk faced by the Group is a reduction in end market demand. Forecasting this demand, given short visibility and the macro uncertainty faced by much of Bodycote's customer base, is difficult and means the Group must remain constantly ready to adapt to the changing environment. However, during 2009 the Group has demonstrated that it is able to react quickly to any change in external demand. Regular dialogue with customers and monitoring of macro-economic forecasts help alert the Group to likely changes in demand. A proportion of the workforce is employed on temporary contracts to ensure that the cost base can be changed quickly. Bodycote has excellent long-term relationships with its major customers and the Group's network of strategically located facilities ensures that it is the supplier of choice to these major manufacturers.

Commercial relationships

The Group benefits from many long-term and partnership agreements with key customers. Damage to, or loss of, any of these relationships may be detrimental to Group results, although management believe this is highly unlikely. Given that Bodycote's top ten customers account for less than 12% of sales, with the balance made up by many thousands of customers, revenue concentration risk is low and, therefore, there is no significant customer dependency.

Competitors
Bodycote's markets are fragmented, although less so in Aerospace, Defence & Energy, and this means that the actions of competitors are typically felt locally, rather than across the Group.

Human resources
People are Bodycote's greatest asset and also form its largest cost. The Group works hard at maintaining a respectful and trusting relationship with all employees. Individually tailored training and development is conducted to enhance employee effectiveness, and assessment prior to recruitment is rigorous. However, Bodycote is mindful that there must be strong control on people costs, which can be adjusted more easily in North America, the UK and some emerging economies, but much less so in continental Europe where the Group strives to keep a portion of its workforce flexible against a background of more restrictive employment laws.

Defined benefit pension arrangements
The Group provides retirement benefits for its former and current employees through a number of pension schemes in the UK and overseas. Future actuarial valuations and annual funding checks for these arrangements may require increased employer contributions, the level of which will depend on investment performance, mortality rates, annuity rates and changes in other actuarial assumptions. The arrangements in France, Italy and Turkey, which offer a lump sum payable on retirement, are not subject to mortality risk and are open to new and existing employees. The final salary scheme in the UK was closed to new entrants in 2001 but allows future accrual to its 131 active members. No new defined benefit schemes will be established, and other schemes in the Group have modest liabilities – for more detail refer to page 93.

Safety and health
The Group's work environment has numerous and varied risks. Bodycote strives to mitigate these by providing specific systems, equipment, training and supervision relating to different working environments. Risk is evaluated by internal and external resources so that it is continuously managed and mitigated.

Brand and reputation
As the world leader in the provision of thermal processing services, Bodycote is a valuable and well-known business-to-business brand. Any damage to the brand because of the breakdown of commercial relationships, non-compliance with laws and regulations, misuse of human or other resources in breach of the Group's corporate ethos could have an adverse impact on the business as a whole. For these reasons Bodycote has instituted an effective programme under which employees can and do use the Group's Open Door Policy to report legitimate concerns about business conduct to the most senior executives and Non-executive Directors.

Energy
An increase in energy cost is a risk which the Group is largely able to mitigate, although with some time lag, through price adjustments or surcharges. Bodycote expects to be able to continue this practice. An Energy Risk Management Committee operates to oversee the purchasing of all the Group's energy requirements.

Operations
The Group's stringent quality systems, along with internal and external audits and as well as customers' verification of results, minimises the risk of releasing into use work which is not in compliance with specification, which could arise as a result of system or human failure.

Environment
Bodycote is mindful of the need to reduce its impact on the environment to a minimum. Some of the Group's heat treatment plants use solvents and other hazardous chemicals in small quantities and, where such substances are used, there is the potential for ground contamination. Past exposures are provided for and remediated as and when required. The likelihood of future problems is mitigated by stringent procedures, typically under the requirement of ISO 14001 environmental systems.

Financial
The Group's treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk. Treasury activities have the objective of minimising risk and treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by the Board.

The Group uses a number of derivative instruments that are transacted, for risk management purposes only, by specialist treasury personnel. The use of financial instruments, including derivatives, is permitted when approved by the Board, where the effect is to minimise risk for the Group. Speculative trading of derivatives or other financial instruments is not permitted. There has been no significant change during the financial year, or since the end of the year, to the types or scope of financial risks faced by the Group. However, the Group no longer actively hedges the risk that foreign exchange rate movements have on the translation of overseas net assets as the Board has chosen to manage the sterling value of the Group's net debt in preference to the value of shareholders' funds. There is no significant change to the scope and management of the remaining financial risks faced by the Group.

Liquidity risk

Liquidity risk is defined as the risk that the Group might not be able to settle or meet its obligations on time or at a reasonable price. Liquidity risk arises as a result of mismatches between cash inflows and outflows from the business. This risk is monitored on a centralised basis through regular cash flow forecasting, a three-year rolling strategic plan, an annual budget agreed by the Board each December and a quarterly re-forecast undertaken during the financial year. To mitigate the risk, the resulting forecast net debt is measured against the liquidity headroom policy which, at the current net debt levels, requires committed facilities (plus term loans in excess of one year) to exceed net debt by 50%.

As at 31 December 2009, the Group had committed facilities of £348.5m (2008: £359.7m) which exceeded net debt of £85.5m (2008: £64.7m) by 307.6% (2008: 456.0%). The Group also uses uncommitted short-term bank facilities to manage short-term liquidity but these facilities are excluded from the liquidity headroom policy. The Group manages longer-term liquidity through committed bank facilities and will, if appropriate, raise funds on capital markets. Following the completion of the £110m Revolving Credit Facility and the completion of the US$20m Revolving and Letter of Credit Facility on 8 January 2010 and 18 February 2010 respectively, the Group's principal committed bank facilities have the following maturity dates:

- US$20m Revolving and Letter of Credit Facility 31 March 2013 (3.3 years)
- £110m Revolving Credit Facility 31 March 2013 (3.3 years)
- €125m Revolving Credit Facility 31 July 2013 (3.6 years)

In addition, cash management pooling, netting and concentration techniques are used to minimise borrowings.

As at 31 December 2009, the Group had reduced gross cash to £19.6m (2008: £258.4m), primarily as a result of sterling cash being used to repay currency gross debt during the year.

Interest rate risk

Interest rate risk arises on borrowings and cash balances (and derivative liabilities and assets) which are at floating interest rates. Changes in interest rates could have the effect of either increasing or decreasing the Group's net profit. Under the Group's interest rate management policy, the interest rates on each of the Group's major currency monetary assets and liabilities are managed to achieve the desired mix of fixed and variable rates for each major net currency exposure. These major currencies currently include the US Dollar, Euro, Sterling and Swedish Krona. Measurement of this interest rate risk and its potential volatility to the Group's reported financial performance is undertaken on a monthly basis and the Board uses this information to determine, from time to time, an appropriate mix of fixed and floating rates.

As at 31 December 2009, 3% of net financial liabilities were at fixed rates (2008: 23%). The decrease is primarily due to a change in the currency mix of the Group's interest rate derivatives and movements in exchange rates. The average tenor of the fixed rate derivatives and debt was 3.9 years (2008: 3.7 years).

Currency risk

Bodycote has operations in 27 countries and is therefore exposed to foreign exchange translation risk when the profits and net assets of these entities are consolidated into the Group accounts.

Nearly 88% of the Group's sales are in currencies other than sterling (EUR 41.1%, USD 28.0%, SEK 4.9% and BRL 4.4%). Cumulatively over the year, sterling was weaker than the prior year such that the sales for the year were £45.5m higher than if sales had been translated at the rates prevailing in 2008. Taking the 2009 sales by currency, a +/-10% movement in the 2009 cumulative average rates for all currencies versus sterling would have given rise to a £42.3m movement in sales. The impact on headline operating profit is affected by the mix of losses and profits in the various currencies. However, taking the 2009 operating profit mix, a +/- 10% movement in 2009 cumulative average rates for all currencies would have given rise to a £0.2m movement in headline operating profit.

It is Group policy not to hedge exposure for the translation of reported profits.

The Group's current translation policy is that currency net assets are not actively hedged. However, where appropriate, the Group will still match centrally held currency borrowings and financial derivatives to the net assets. The Group principally borrows in the US Dollar, Euro, Swedish Krona and Sterling, consistent with the location of the Group's assets. The Group recognises foreign exchange movements in equity for the translation of net investment hedging instruments and balances. As a result of the Group's change of translation policy, during the year sterling gross cash was used to repay currency debt. Accordingly at 31 December 2009, £28.2m of gross debt (2008: £321.6m) and £84.6m of foreign exchange and cross currency swap liabilities (2008: £90.5m) were in currencies other than sterling and gross cash of £0.1m (2008: £229.8m) and cross currency swap assets of £81.2m (2008: £60.2m) were in sterling.

Transaction foreign exchange exposures arise when entities within the Group enter into contracts to pay or receive funds in a currency different from the functional currency of the entity concerned. 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. Even though approximately 88% of the Group's sales are generated outside the UK, the nature of the business is such that cross border sales and purchases are limited and, other than interest, such exposures are immaterial for the Group.

Market risk sensitivity analysis

The Group has measured the estimated charge to the income statement and equity of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening in sterling against all other currencies from the applicable rates as at 31 December 2009, for all financial instruments with all other variables remaining constant. This analysis is for illustrative purposes only. The sensitivity analysis excludes the impact of market risks on net post employment benefit obligations.

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- changes in market interest rates only affect the income statement in relation to financial instruments with fixed interest if these are recognised at their fair value; and
- changes in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments.

Under these assumptions, a one percentage point fall or rise in market interest rates for all currencies in which the Group has variable net cash (and derivative assets) or net borrowings (and derivative liabilities) at 31 December 2009 would reduce or increase profit before tax by approximately £0.9m (2008: £0.7m). There is no material impact on equity.

Currency sensitivity

The currency risk sensitivity analysis is based on the assumption that changes in exchange rates affect the non-sterling financial assets and liabilities and the interest relating to those financial assets and liabilities.

Under this assumption, a 10% strengthening or weakening of sterling against all exchange rates at 31 December 2009 for non-sterling financial assets and liabilities would have reduced or increased profit before tax and equity (before tax effects) as follows:

£m	CHF	EUR	SEK	USD	Other	Total
Impact on equity	0.7	7.0	0.8	0.1	(0.1)	**8.5**
Profit before tax	–	0.3	–	0.1	0.1	**0.5**

Non-sterling financial liabilities offset the exchange rate impact on non-sterling net assets.

Counterparty risk

Counterparty risk encompasses settlement risk on derivative financial instruments and money market contracts and credit risk on cash, time deposits and money market funds. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure there is no significant concentration of credit risk. Group policy is to enter into such transactions only with counterparties with a long-term credit rating of A-/A3 or better. However, acquired businesses occasionally have dealings with banks with lower credit ratings. Business with such banks is moved as soon as practicable. The counterparties to the financial instruments transacted by the Group are major international financial institutions and, whilst these counterparties may expose the Group to credit losses in the event of non-performance, it considers the risk of material loss to be acceptable. The notional amounts of financial instruments used in interest rate and foreign exchange management do not represent the credit risk arising through the use of these instruments. The immediate credit risk of these instruments is generally estimated by the fair value of contracts with a positive value. The maximum exposure to credit risk for time deposits and other financial assets is represented by their carrying amount.

Credit risk

Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. To manage this risk, the Group periodically assesses the financial reliability of customers. The majority of the Group's trade receivables are due for maturity within 60 days.

Concentrations of credit risk with respect to trade receivables are limited. The Group has a diverse customer base of many tens of thousands of customers and is not reliant on any one business sector, end market or client. The largest customer represents less than 4% of total Group revenue. The Group's trade and other receivable balance as at 31 December 2009 amounted to £94.1m and the top 10 accounts amounted to approximately 12%. Bodycote's diverse client base provides the Group with balanced demand from a number of sectors. Management is mindful of the continuation of the difficult trading conditions being experienced in a number of sectors in which Bodycote trades and has reviewed the provisions for bad and doubtful debt accordingly.

D. F. Landless
Finance Director
25 February 2010

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

The Group takes its responsibilities as a good citizen seriously. The policies below explain how the Group has successfully implemented these.

PEOPLE

The strength of the Group primarily rests in its people and one of the key challenges for management is to ensure availability of appropriately qualified people to support its continued growth. Bodycote is fortunate to have a competent and committed international team that is well respected in technical and business circles. Most acquisitions are based on historical relationships with Bodycote personnel which is a testament to the integrity of the Group's people. The Board has established a remuneration policy which rewards performance while offering competitive base packages. In line with the policy of continuous improvement, the Group has added further resources in this area to assess management performance and to improve the succession pipeline for future business leadership. Bodycote's employment policies are non-discriminatory, complying with all current legislation to engender equal opportunity irrespective of race, gender, religion, disability, sexual orientation or nationality. Harassment is not tolerated.

ETHICAL STANDARDS

All Bodycote personnel are expected to apply a high ethical standard, consistent with an international UK-listed company.

COMPLIANCE WITH LAWS

Bodycote has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice.

COMPETITION

Bodycote aims to win business in a differentiated high-value manner. The Group does not employ unfair trading methods and it competes vigorously but fairly within the requirements of the applicable laws. Employees are prohibited from either giving or receiving any inducements.

RESPONSIBLE

CONFLICTS OF INTEREST

Directors and employees are expected to ensure that their personal interests do not at any time conflict with those of Bodycote. Shareholder employees are advised of and comply with share trading codes.

POLITICS

Bodycote does not make political donations.

SAFETY & HEALTH

Appropriate safety and health policies and procedures are in force in the Group. In 2004 the Group commenced reporting its performance internally in terms of lost time, frequency and severity of accidents in a uniform manner. As a result, each facility is now able to benchmark its safety and health performance and formulate strategies for improvements. Bodycote is committed to the highest practicable standards of safety and health management. Bonus payments to Directors and senior executives are, in part, dependent on achievement of these targets, which are now key performance indicators.

ENVIRONMENT

Bodycote operates modern, efficient equipment around the clock. The Group aggregates demand from a wide range of customers to maximise efficiency and minimise energy costs. By replacing under-utilised in-house thermal processing operations with Bodycote's state-of-the-art equipment, the overall amount of energy used by industry can be dramatically reduced, as is explained in the following two pages.

The replacement, where possible, of harmful materials has reduced the need for disposal of waste products. Additionally, the adoption of recuperative heating and closed water cooling systems has reduced energy consumption and emissions.

The success of Bodycote's processes in addressing these issues is key to its environmental credentials. The Group does not simply aim to minimise its own energy consumption, but also to effect substantial reductions in its customers' energy use.

The Group has begun to participate in carbon reduction schemes and is making the necessary preparations to enable disclosures on greenhouse gas emissions to be made in advance of the Climate Change Act 2008 and more generally for the Company to report on the sustainable and efficient use of energy and other resources.

...the Group does not simply aim to minimise its own energy consumption, but also to effect substantial reductions in its customers' energy use

CARING FOR OUR ENVIRONMENT

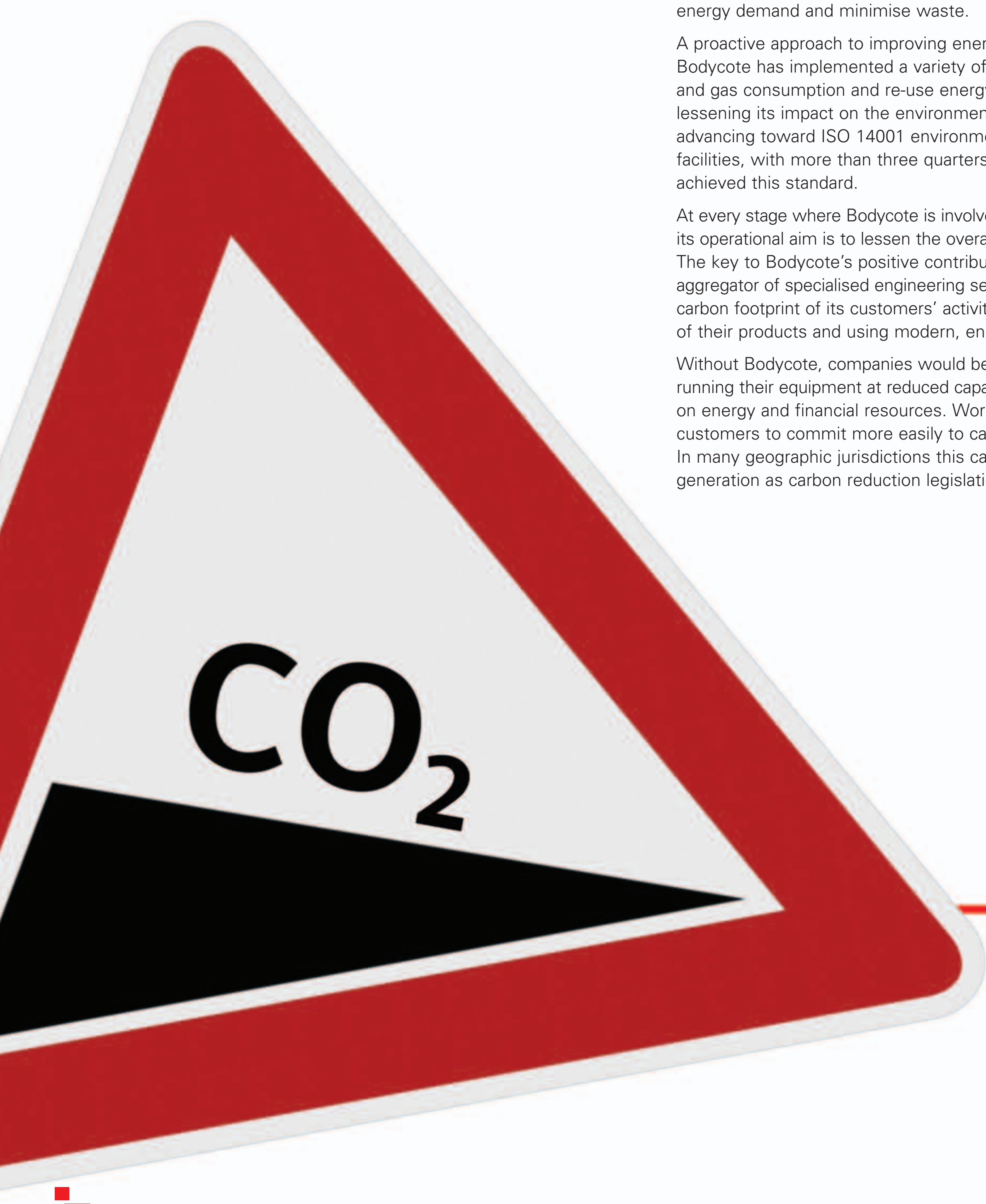
Bodycote is totally committed to achieving environmental best practice throughout its business activities, ensuring that these meet relevant laws and regulations, that they are acceptable to the community at large and that their environmental impact is reduced to a minimum. The Company recognises that the pursuit of economic growth and a healthy environment are closely linked.

Ever at the forefront of technology, Bodycote was one of the first thermal processing companies to use microprocessor controls to tightly control furnace atmosphere and emissions and introduced its first load-forecasting systems over 20 years ago to reduce peak energy demand and minimise waste.

A proactive approach to improving energy efficiency means that Bodycote has implemented a variety of systems to reduce water and gas consumption and re-use energy. This continuing focus on lessening its impact on the environment has resulted in Bodycote advancing toward ISO 14001 environmental accreditation at all its facilities, with more than three quarters of the Group having already achieved this standard.

At every stage where Bodycote is involved in the manufacturing cycle, its operational aim is to lessen the overall impact on the environment. The key to Bodycote's positive contribution lies in efficiency. As an aggregator of specialised engineering services, Bodycote reduces the carbon footprint of its customers' activities by increasing the lifespan of their products and using modern, energy efficient equipment.

Without Bodycote, companies would be using older technology and running their equipment at reduced capacity, both of which are a drain on energy and financial resources. Working with Bodycote enables customers to commit more easily to carbon reduction initiatives. In many geographic jurisdictions this can lead to additional value generation as carbon reduction legislation is brought into force.



HOW CAN ENERGY INTENSIVE THERMAL PROCESSING BE ENVIRONMENTALLY FRIENDLY?

When you first consider the science of thermal processing from an environmental point of view, you may ask the question, 'How can such an energy intensive process help the environment?'

However, if we consider a world without heat treatments, HIP or coatings the advantages become immediately apparent. Take an average car, for example – whether diesel, petrol, electric or gas, all need parts that are heat treated, HIPed and coated. For the wheels to turn, bearings are needed, yet few people realise that it is thanks to heat treatment that the humble wheel bearing lasts the lifetime of the car and beyond. Certainly, better design and improved lubricants assist with this extended life, but without heat treatment a wheel bearing would be lucky to last a week. The same applies to gearboxes, final drives, engines and, in fact, all the moving parts of the vehicle.

But it does not end there. Modern thermal processing techniques have allowed design engineers and manufacturers to use much lighter materials, such as aluminium, and have significantly prolonged component lifetimes. By treating the aluminium used for castings and suspension components, the weight of the vehicle is reduced, which in turn leads to reduced fuel consumption and improved efficiency. Without thermal processing, the average car would weigh substantially more and require frequent replacement of parts due to wear resulting in more mining, more transport, more machining, more waste – in short, a significant environmental impact.

So, whilst thermal processing is an energy intensive business, it is a vital part of the manufacturing chain and its use saves the energy it consumes many times over. The alternative would require the use of energy on such a scale that many of the things that we consider an essential part of modern day life would be economically unviable.

DIRECTORS' REPORT

The Directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2009.

The Chairman's Statement, the Chief Executive's Review, the Finance Director's Report, and all the information contained on pages 8 to 55 together comprise the Directors' Report for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company is a holding company with subsidiaries carrying on business in the provision of thermal processing services. The activities and locations of the principal subsidiary undertakings are set out on pages 109 and 110.

GROUP REVIEW

The Group Review, which encompasses:

- the Chairman's Statement,
- the Chief Executive's Review,
- Strategy and Objectives,
- Business Performance and Key Performance Indicators,
- Business Overview,
- Business Review,
- the Finance Director's Report; and
- Corporate Responsibility and Sustainability

is provided on pages 8 to 37 of this annual report.

This is a review of the development of the businesses of the Group, the financial performance during the year ended 31 December 2009, key performance indicators and a description of the principal risks and uncertainties facing the Group, and information about the use of financial instruments. The Group review has been prepared solely to assist the shareholders in assessing the Group's strategies and the potential of those strategies. It should not be relied on by any other party for any other purpose. Forward-looking statements have been made by the Directors in good faith using information available up to the date of this report and such statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks. Since the end of the financial year, with the exception of the re-financing as detailed on page 32, no important events affecting the business of the Group have occurred.

DIVIDENDS

The Board is recommending a final dividend of 5.35p per ordinary share making a total for the year of 8.30p per share (2008: 8.30p). The final dividend, if approved, will be paid on 7 May 2010 to shareholders on the register at the close of business on 9 April 2010.

SHARE CAPITAL

The Company's issued ordinary share capital as at 31 December 2009 was £32.5m and during the year was increased by the issue of 636,588 ordinary shares between 30 April and 9 December 2009 for a total consideration of £383,297 in connection with the Company's executive share incentive schemes. At the Annual General Meeting on 27 April 2009 the shareholders authorised the Company to purchase up to 18,753,112 of its own shares. This authority expires at the conclusion of the forthcoming Annual General Meeting to be held on 28 April 2010, at which time a further authority will be sought from shareholders.

CAPITAL STRUCTURE

Details of the authorised and issued share capital are shown in note 25. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 28 and shares held by the Bodycote Employee Benefit Trust abstain from voting and waive dividend. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. The appointment and replacement of Directors is governed by the Company's Articles of Association, the Combined Code, the Companies Act and related legislation. The Articles of Association may be amended by a special resolution of shareholders. The powers of the Directors are described in the Corporate Governance statement on page 40. Under the Articles of Association the Company has authority to issue ordinary shares with a nominal value of £1,619,586. There are also a number of other agreements that take effect, alter, crystallise or terminate upon a change of control of the Company following a takeover bid such as commercial contracts, bank loan agreements, property lease agreements, employment contracts and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole, and the Directors are not aware of any agreements between the Company and themselves or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

DIRECTORS

The current Directors and their biographical details are listed on page 55 and all served throughout the year. Messrs J.D. Hubbard and D.R. Sleight both retired on 27 April 2009 at the Annual General Meeting. Messrs D.F. Landless and J.A. Biles are retiring by rotation, and both being eligible, offer themselves for re-election by shareholders at the forthcoming Annual General Meeting. The service agreement for Mr Landless is terminable by 12 months' notice. Mr Biles does not have a service agreement with the Company and his appointment is terminable by six months' notice.

PROPOSALS FOR RE-ELECTION

Messrs Landless and Biles were re-elected by shareholders in 2007 and 2008 respectively and, in accordance with the Articles of Association, now stand for re-election by the shareholders of the Company. The Board recommends to shareholders that they re-elect the two directors offering themselves for re-election. The performance of Mr Biles as a non-executive director was evaluated in October 2009 by the Chairman, who confirms that his performance continues to be effective and that he has continued throughout to demonstrate commitment to the roles of Non-executive Director and Chairman of the Audit Committee. The performance of Mr Landless as Group Finance Director was evaluated in January 2010 by the Chief Executive, who confirms that his performance continues to be effective.

DIRECTORS' INTERESTS IN CONTRACTS & SHARES

Details of the Executive Directors' service contracts and details of the Directors' interests in the Company's shares, share option schemes and share incentive plans are shown in the Board Report on Remuneration on pages 46 to 53. No Director has had any dealings in any shares or options in the Company since 31 December 2009. Qualifying third party indemnity provision (as defined by section 234 of the Companies Act 2006) has remained in force for the Directors for the year ended 31 December 2009 and, as at the date of this report, remains in force for the benefit of the current Directors in relation to certain losses and liabilities which they may incur (or have incurred) to third parties in the course of their duties. Apart from these exceptions, none of the Directors had a material interest in any contract of significance in relation to the Company and its subsidiaries at any time during the financial year.

POTENTIAL CONFLICTS OF INTEREST

During 2008 the duties owed by directors to a company were codified and extended by the Companies Act 2006 so that directors not only had to declare actual conflicts of interests in transactions as they arose but also had a duty to avoid such conflicts whether real or potential. Potential conflicts of interest could arise where a single director owes a fiduciary duty to more than one organisation (a 'Situational Conflict') which typically will be the case where a non-executive director holds directorships in more than one company.

In order to ensure that each Director was complying with the new duties, each Director provided the Company with a formal declaration to disclose what Situational Conflicts affected him. The Board reviewed the declarations and approved the existence of each declared Situational Conflict until October 2010 and permitted each affected Director to attend and vote at Bodycote Directors' meetings, on the basis that each such Director continued to keep Bodycote's information confidential, and provided overall that such authorisation remained appropriate and in the interests of shareholders. Where such authorisation becomes inappropriate or not in the interests of Bodycote shareholders, the Chairman, or the Nomination Committee, can revoke an authorisation. No such revocations have been made.

EMPLOYMENT

The Group recognises the value that can be added to its future profitability and strength by the efforts of employees. The commitment of employees to excel is key to the Group's continued success. Through their attendance at, or participation in strategy, production, safety and health meetings at site level, employees are kept up to date with the performance and progress of the Group, the contribution to the Group made by their site and are advised of safety and health issues. The Group publishes in eleven languages, via the Group extranet, an electronic magazine for all staff detailing the Group's activities, performance and some of its personalities and has also featured the Group's open door policy under which employee concerns can be voiced on a confidential basis. Approximately 1,800 Bodycote employees are connected to the Bodycote Extranet, which improves knowledge of Group activities, and assists greatly with technology exchange and co-ordination. It is the Group's policy to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities, and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled the Group, where practicable, will seek to continue the employment and arrange appropriate training. An equal opportunities policy is in operation in the Group.

RESEARCH AND DEVELOPMENT

Product development and quality improvement at all Group companies is a continuous process. The Group has a policy of deploying the best technology available and actively seeking improvements. It also conducts research programmes with its customers.

DONATIONS

Charitable donations during the year net of income tax amounted to £2,750 (2008: £11,050). There were no political contributions in 2008 or 2009.

DIRECTORS' REPORT
CONTINUED

CREDITORS' POLICY
Group operating companies are responsible for agreeing the terms and conditions under which business transactions are conducted. It is Group policy that payments to suppliers are made in accordance with the terms agreed, provided that these suppliers have also complied with applicable terms and conditions. Creditor days at the year end for the Company were 46 days (2008: 45 days).

SHAREHOLDERS
An analysis of the Company's shareholders and the shares in issue at 18 February 2010 and details of the interests of major shareholders in voting shares notified to the Company pursuant to chapter 5 of the Disclosure and Transparency Rules are given on page 111.

AUDITORS
In accordance with the provisions of section 489 of the Companies Act 2006, a resolution for the reappointment of Deloitte LLP as Auditors is to be proposed at the forthcoming Annual General Meeting. Each of the persons who is a Director at the date of approval of this Annual Report confirms that:-

- so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and;
- each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This statement is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

ANNUAL GENERAL MEETING
The 2010 Annual General Meeting will be held on 28 April 2010 in accordance with the notice being sent to Shareholders with this report.

By order of the Board:

Springwood Court
Springwood Close
Tytherington Business Park
Macclesfield
Cheshire
SK10 2XF

J. R. Grime
Secretary
25 February 2010

CORPORATE GOVERNANCE STATEMENT

COMPLIANCE WITH 2008 COMBINED CODE
Bodycote complies with the provisions of The Combined Code on Corporate Governance published by the UK Financial Reporting Council in June 2008 ('the Code'), save that the Board has taken the view that generally it is the responsibility of the Chief Executive and the Finance Director to manage relationships with institutional investors. The Chairman also meets institutional investors to discuss overall strategy, governance and any concerns that shareholders may have. Only where these more usual channels of communication have failed would the Board expect the Senior Independent or other Non-executive Directors to become involved, notwithstanding that the Code specifies attendance of the Senior Independent Non-executive Director at meetings with major shareholders. Regular feedback by the Company's advisers on investor meetings and results presentations is circulated to all Directors.

Apart from this distinct area, Bodycote was in compliance with the provisions of the Code throughout 2009.

OPERATION OF THE CODE
Taken together with the Audit Committee Report, the Nomination Committee Report and the Board Report on Remuneration presented on pages 43 to 53, this statement explains how Bodycote has applied the principles of good corporate governance set out in the Code.

LEADERSHIP
The Board is responsible to shareholders for good corporate governance, setting the Company's strategic objectives, values and standards and ensuring the necessary resources are in place to achieve the objectives.

The Board met on ten occasions during 2009 including a specific meeting to review and update the Company's long-term strategy.

The Board of Directors comprises six members, of whom four are Non-executive Directors and two are Executive Directors led by the Company's part-time Non-executive Chairman, Mr A.M. Thomson, who also chairs the Nomination Committee. The Chief Executive is Mr S.C. Harris and the Senior Independent Non-executive Director is Mr J. Vogelsang, who also chairs the Remuneration Committee. The Audit Committee is chaired by Mr J.A. Biles. Brief biographical details of all Directors are given on page 55.

The Board makes visits to UK and overseas facilities. Certain defined powers and issues are reserved for the Board to decide, inter alia:

- Strategy
- Approval of financial statements and circulars
- Capital projects, acquisitions and disposals
- Annual budgets
- Directors' appointments, service agreements, remuneration and succession planning
- Policies for financial statements, treasury, safety, health and environment, donations
- Committees' terms of reference
- Board and committee chairmen and membership
- Investments
- Equity and bank financing
- Internal control and risk management
- Corporate governance
- Key external and internal appointments and
- Employee share incentives and the UK Pension Scheme.

In advance of Board meetings Directors are supplied with up-to-date information about the trading performance of each operating location, the Group's overall financial position and its achievement against prior year, budgets and forecasts. They are also supplied with the latest available information on safety, health and environmental and risk management issues and details of the safety and health performance of the Group, and each Division, in terms of severity and frequency rates for accidents at work.

Where required, a Director may seek independent professional advice, the cost of which is reimbursed by the Company. All Directors have access to the Company Secretary and they may also address specific issues to the Senior Independent Non-executive Director. In accordance with the Articles of Association, all newly appointed Directors and any who have not stood for re-election at one of the two previous Annual General Meetings, if eligible, must submit themselves for re-election. Non-executive Directors, including the Chairman, are appointed for fixed terms not exceeding three years from the date of first election by shareholders, after which the appointment may be extended by mutual agreement. A statement of the Directors' responsibilities is set out on page 54. The Board also operates three committees. These are the Nomination Committee, the Remuneration Committee and the Audit Committee.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board considers that Messrs J.A. Biles, J. Vogelsang and Dr K. Rajagopal are all independent for the purposes of the Code.

COMMITMENT

Attendance of Directors at regular scheduled meetings of the Board and its Committees is shown in the table below.

Director	Full Board	Audit Committee	Remuneration Committee	Nomination Committee
	Eligable to attend & attended			
A.M. Thomson	10	–	7	3
S.C. Harris	10	–	–	3
J. Vogelsang	10	4	7	3
J.A. Biles	10	4	7	3
K. Rajagopal	10	4	7	3
D.F. Landless	10	–	–	–
J.D. Hubbard	3	–	–	–
D.R. Sleight	3	–	–	–

All Directors attended the maximum number of Board or Committee meetings that they were scheduled to attend. In addition by invitation Messrs Thomson, Harris and Landless attended the whole or part of the Audit, Nomination and Remuneration Committee meetings.

PERFORMANCE EVALUATION

Messrs S.C. Harris and D. F. Landless were appraised internally in February and January 2010 respectively. In October 2009 the Board carried out its own evaluation of the Board as a whole, and the evaluation of Board Committees. The Remuneration and Audit Committees reviewed their own performance in December 2009 and the Nomination Committee reviewed its performance in October 2009.

Led by the Senior Independent Non-executive Director, the Directors have carried out an evaluation of the Chairman's performance.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has applied Principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the Group's significant risks, including risks arising out of Bodycote's corporate and social engagement. The Board continuously and regularly reviews the process, which has been in place from the start of 2000 to the date of approval of this report and which is in accordance with Internal Control: Guidance for Directors on the Combined Code published in September 1999 and which is in accordance with revised guidance on internal control published October 2005.

The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management systems.

It is based principally on reviewing reports from management and from internal audit to consider whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging these review responsibilities.

The Group prepares a comprehensive annual budget which is closely monitored and updated quarterly. The Group's authority matrix clearly sets out authority limits for those with delegated responsibility and specifies what can only be decided with central approval.

The Internal Audit department monitors the Group's internal financial control system and its reviews are conducted on the basis of plans approved by the Audit Committee, to which Internal Audit reports are submitted on a regular basis.

Each Division provides assurance on specified financial and non-financial controls and these are reported twice-yearly to the Audit Committee.

During 2009, in compliance with provision C2.1, the Board also performed a specific assessment for the purpose of this annual report. The assessment considered all significant aspects of internal control arising during the period covered by the report including the work of Internal Audit. In addition, the President of each of the Divisions reported on the existing internal control procedure and any failings or weaknesses. They identified and made an assessment of the risks affecting the businesses they control, in each case with the assistance of input from those reporting directly to them. Such risks were measured against their own stated objectives, and actions for any improvements were scheduled against a timetable for later verification by Internal Audit. The Board also conducted a review of risks which principally affected the head office functions and reviewed these with the Group Finance Director, Group Financial Controller, Group Treasurer and the Head of Tax. The risk areas reviewed included pensions, information services, treasury, investor relations, capital expenditure, acquisitions, intellectual property, insurance, human resources, financial control, external reporting and succession planning. No significant previously unidentified risks were uncovered as part of this process, and the necessary actions have been or are being taken to remedy any significant failings or weaknesses identified as part of the reviews.

INVESTOR RELATIONS

The Chief Executive and Finance Director regularly talk with and meet institutional investors, both individually and collectively, and this has enabled institutional investors to increase their understanding of the Group's strategy. The business of the Annual General Meeting comprises a review of the Group's operations for the benefit of shareholders attending. In addition, since 1998, internet users have been able to view up-to-date news on the Group and its share price via the Bodycote website at www.bodycote.com. Users of the website can access news of all recent announcements and copies of results presentations and can enrol to hear live presentations. On a regular basis, Bodycote's financial advisers, corporate brokers and financial public relations consultants provide the Directors with opinion surveys from analysts and investing institutions following visits and meetings with the Chief Executive and Finance Director. As stated on page 40 the Chairman and Senior Independent Non-executive Director are available to discuss any issues not resolved by the Chief Executive and Finance Director. On specific issues, such as the introduction of long-term incentive and share matching schemes in 2006 and changes thereto in 2009, and in 2008 the return of cash, the Company will seek the views of leading investors.

By order of the Board:

J. R. Grime
Secretary
25 February 2010

Springwood Court
Springwood Close
Tytherington Business Park
Macclesfield
Cheshire
SK10 2XF

REPORT OF THE NOMINATION COMMITTEE

ROLE OF THE NOMINATION COMMITTEE

The Nomination Committee is a sub-committee of the Board whose purpose is to advise the Board on the appointment and, if necessary, dismissal of Executive and Non-executive Directors. The full terms of reference of the Nomination Committee are provided on the Company's website.

COMPOSITION OF THE NOMINATION COMMITTEE

The Nomination Committee comprises all the independent Non-executive Directors together with the Chairman and Chief Executive. The quorum necessary for the transaction of business is two, each of whom must be an independent Non-executive Director.

The Chairman acts as the Chairman of the Committee, although the Chairman may not chair the Committee when it is dealing with the matter of succession to the Chairmanship of the Company.

Only members of the Committee have the right to attend the Committee meetings. However, other individuals and external advisers may be invited to attend for all or part of any meeting as and when appropriate.

The Company Secretary is secretary to the Committee.

The Committee has the authority to seek any information that is required from any officer or employee of the Company or its subsidiaries. In connection with its duties, the Committee is authorised by the Board to take such independent advice (including legal or other professional advice, at the Company's expense) as it considers necessary, including requests for information from, or commissioning investigations by external advisers.

MAIN ACTIVITIES OF THE NOMINATION COMMITTEE

The Nomination Committee met three times in 2009. Mr A.M. Thomson chairs the Nomination Committee which also comprises Messrs J.A. Biles, J. Vogelsang, S.C. Harris and Dr K. Rajagopal. The former chief executive, Mr J.D. Hubbard, also served on the Committee until his retirement on 27 April 2009.

The meetings in 2009 discussed succession planning at all senior levels within the Company and reviewed and authorised potential conflicts of interest. In October 2009 the Nomination Committee, with both Executive Directors in attendance, carried out a formal evaluation of the Board and Nomination Committee's performance, and reviewed the Board's size and composition, the frequency of and process for meetings, risk management and financial control and the objectives for the Board in 2010.

On behalf of the Committee:

A. M. Thomson
Chairman of the Nomination Committee
25 February 2010

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is a sub-committee of the Board whose main role is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal controls. The Committee's responsibilities are set out in written terms of reference which include all matters indicated by the Disclosure and Transparency Rules and the Code, which are available for inspection on the Company's website and include:

- reviewing the form and content of interim and full year accounts and results announcements of the Company, interim management statements and any other formal announcements relating to the Company's financial performance, including monitoring their integrity and reviewing significant reporting issues and judgements contained therein, and recommending them to the Board for approval;
- reviewing the Group's systems of risk management and internal financial control;
- monitoring and reviewing the effectiveness of the Company's internal audit function and considering regular reports from Internal Audit on internal financial controls and risk management;
- considering the appointment, re-appointment or changing of external auditors and overseeing the process for their selection and making recommendations to the Board on their appointment which will be put to the shareholders for their approval at a General Meeting and to approve their remuneration and terms of engagement;
- agreeing the nature and scope of the external auditor's work and considering their reports on the Company's accounts, reports to shareholders and their evaluation of the systems of internal financial control and risk management; and
- monitoring and reviewing the external auditors' independence, objectivity and effectiveness, taking into account professional and regulatory requirements.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee comprises Messrs J.A. Biles, J. Vogelsang and Dr K. Rajagopal who are all independent Non-executive Directors. Their biographical details are set out on page 55 and their remuneration is shown on page 50. The Chairman of the Audit Committee since 16 August 2007 has been Mr J.A. Biles, who was appointed a Director on that date, following a recommendation from the Nomination Committee. The Audit Committee Chairman is considered to have recent and relevant financial experience. Mr Biles is a chartered accountant, who served as a plc finance director (FKI plc from 1998 to 2004 and Chubb Security plc from 1991 to 1997) and is currently also the Chairman of the Audit Committees of Charter International plc (2005) and Hermes Fund Managers Limited (2005). The Company Secretary is secretary to the Audit Committee. The Chairman, Chief Executive, Finance Director, Senior Internal Auditor, Group Financial Controller, Group Treasurer, Head of Tax, other senior finance personnel and external auditors attend Audit Committee meetings as appropriate by invitation.

MAIN ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met four times during 2009, and in February 2010 to consider this financial report and all Committee members attended the maximum number of meetings they were scheduled to attend.

The Committee also meets separately with the Senior Internal Auditor and with the external auditors, without management being present, after the end of most formal meetings.

In addition, the Committee Chairman has preparatory meetings with the external auditors and, where necessary, with Group senior management, prior to committee meetings.

At their meetings, the Audit Committee considers an agenda of items including the minutes of the last meeting and a list of action points from previous meetings, to ensure that these are progressed. In addition, a number of specific items were reviewed:

- At their February and July meetings, the Audit Committee reviewed respectively the preliminary and interim announcements of results and the draft reports and accounts for the financial year and the half year. On these occasions the Committee reviewed reports from the external auditors, identifying any accounting or judgemental items requiring its attention (including approval of the processes, assumptions and outcomes to assess fair values and impairments) and commenting on risk management and control matters.
- A quarterly report from the Senior Internal Auditor was presented at each meeting and the findings discussed. During the year the plan for the ensuing year's work was considered.
- The external auditors also presented their audit plan at the December and April meetings covering scope of work to be done and during the year there was a detailed review of their management letter covering the auditors' findings in respect of 2008.
- The Audit Committee has also been presented with an update on material litigation in which the Group is involved.
- At each meeting an update is presented of any new accounting developments and requirements and any changes in corporate governance arrangements that may affect the Group.
- On a regular basis, the Committee reviewed papers on liquidity, banking arrangements and the going concern assumptions for preparation of the financial statements. This response to the current global financial and economic circumstances, which affects all businesses, took account of the impact on the Bodycote business of the current financial and economic environment. The Committee's activities supported the Directors in their assessment of the going concern position of the Group, which is set out on page 30.

During 2009 the Audit Committee also:

- assessed the independence of the external auditors;
- having reviewed the effectiveness of the audit, the performance and capabilities of the External Auditors and having taken into account their tenure of office from 2002 and when the position was last open for tender, recommended to the Board to reappoint the Auditors and agreed their fees;
- approved the Group's accounting policies;
- approved the management representations to the Auditors;
- reviewed arrangements for reporting and investigating fraud and employee concerns;
- reviewed the effectiveness of internal controls and risk management process;
- reviewed the terms of reference for the Audit Committee; and
- assessed the Committee's own effectiveness.

INDEPENDENCE OF EXTERNAL AUDITORS

The Audit Committee has put in place safeguards to ensure that the independence of the audit is not compromised. In this respect, the Audit Committee reviewed:

- the external auditors' plan for the current year, noting the role of the senior statutory audit partner, who signs the audit report and who, in accordance with the professional rules, has not held office for more than five years, and any changes in the key audit staff;
- the arrangements for day-to-day management of the audit relationship; and
- the overall extent of non-audit services provided by the external auditors as referred to below.

The policy in respect of services provided by the external auditors is as follows:

- Audit related services. The external auditors are invited to provide services where their position as auditors renders them best placed to undertake the work. This includes reporting and certification connected with borrowings, shareholders and other circulars, regulatory requirements and work in respect of acquisitions and disposals.
- Tax consulting. Where the external auditors are best suited to carry out the work they are asked to do so. This particularly applies to work relating to tax compliance. Major exercises and any work where conflicts would arise are put out to tender.
- General consulting work. In general and where conflicts arise, the work is not awarded to the external auditors and is put out to tender.
- There are no contractual restrictions on who the Audit Committee can choose as external auditors.

INTERNAL AUDIT

Internal Audit independently reviews the risk and control processes operated by management. It carries out independent audits in accordance with an internal audit plan which is agreed with the Audit Committee before the start of the financial year. This plan takes account of the risk management framework surrounding major business risks in each operation and provides a high degree of financial and geographical coverage. Internal Audit reports include recommendations to improve internal controls together with agreed managerial action plans to resolve issues raised. Internal audit follows up the implementation of recommendations and reports progress to senior management and the Audit Committee. The effectiveness of the Internal Audit function is reviewed and discussed on an annual basis with the Group Financial Controller and Senior Internal Auditor.

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its items of reference and has ensured the independence and objectivity of the external auditors.

On behalf of the Audit Committee:

J. A. Biles
Audit Committee Chairman
25 February 2010

BOARD REPORT ON REMUNERATION

The Remuneration Committee is responsible for remuneration policies that aim to create value for shareholders.

Remuneration structures and packages therefore include competitive basic salaries, a high potential for variable pay that is clearly linked with superior performance and absolute value delivered in the business, with key business value drivers used as a basis for measuring performance and a significant proportion of variable pay in restricted conditional shares.

This report sets out the policy and disclosures on Directors' remuneration as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 issued under the Companies Act 2006 (the 'Act'), the Listing Rules and the Combined Code, in accordance with the Act, a resolution to approve this report will be proposed at the forthcoming Annual General Meeting of the Company. The vote will have advisory status in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration. The Chairman of the Remuneration Committee will be available at the Annual General Meeting to answer questions about Directors' remuneration.

The sections of this report dealing with Directors' emoluments paid, pensions and share options and incentives have been audited. The remaining sections are not subject to audit.

THE REMUNERATION COMMITTEE

The Committee determines the remuneration of Executive Directors and senior executives, and the terms of the service contracts and all other terms and conditions of employment of the Executive Directors.

The Committee's full terms of reference are available on the Group's website. The members of the Remuneration Committee during 2009 were J. Vogelsang (Chairman), J.A. Biles, A.M. Thomson and Dr K. Rajagopal. During the year, the Committee has taken advice from Ernst & Young LLP to provide independent advice on remuneration. In addition, the Company received actuarial and other pensions advice from KPMG LLP in relation to the management of risk arising from the UK final salary pension scheme.

None of the Committee has any personal financial interest (other than as shareholders), conflict of interest, cross-directorships or day-to-day involvement in the running of the Business.

REMUNERATION POLICY

The Committee aims to provide a remuneration policy consistent with the Group's overall business strategy and thereby attract and retain high calibre executives, align executives' rewards with the creation of shareholder value and motivate executives to achieve and maintain challenging levels of company and individual performance. Market rates are determined by reference to other companies of similar size, activities and complexity. At the same time, policy in this area is sensitive to the remuneration structure within the Group. The Committee keeps both the fixed and variable elements of each Executive Director's and senior executive's overall package under review. In recent years, the Committee has progressively increased the proportion of variable as opposed to fixed element of pay, so that currently the total potential from variable performance related pay is now substantially in excess of basic pay.

The Committee also considers the targets set for the variable element of Executive Directors' and senior executives' remuneration which at all times aim to encourage appropriate behaviours and deliver exceptional and sustainable financial performance measured against the Group's strategic plans. With this in mind, during the year the Committee conducted a review of the long-term incentive arrangements last amended in 2006 as the business is now significantly different to when the Bodycote Incentive Plan ('BIP') and the Bodycote Share Match Plan ('BSMP') were first introduced. Following the review it was decided to:

- undertake a period of consultation with major shareholders on what the Committee considered to be the most appropriate performance conditions for future awards under the BIP, more detail on which is included in the section headed Bodycote Incentive Plan; and
- propose changes to the current structure of the BSMP so as to (i) permit executives to make additional contributions out of their own monies (up to 40% of their base salary) and (ii) change the performance conditions to be applied to the matching awards. The necessary amendments to the BSMP are to be put to shareholders for approval at the Annual General Meeting and are set out below and in the notice of meeting sent to shareholders with this annual report.

FIXED ELEMENTS OF PAY

The fixed elements of remuneration are salaries, pensions and other benefits.

Basic salary

The basic salaries for each Executive Director and the senior executives are reviewed annually by the Committee and are determined by taking into account the responsibilities and performance of the individual, having regard to current market practice. In the light of the difficult economic conditions and historic low level of inflation the Committee has decided in consultation with the Executive Directors that there will be no increase in basic salaries in 2010 for Executive Directors.

Pension

The Committee reviews the pension arrangements for the Executive Directors to ensure that the benefits provided are consistent with those provided by other similar companies.

Mr Harris joined the Group's defined contribution arrangement from 1 November 2008 and receives contributions from the Group at a rate of 22% of basic salary. In addition, in the event of death a death-in-service benefit of eight times basic salary will become payable.

The pension for Mr Landless is provided under the Group's UK contributory defined benefit pension scheme which has a normal retirement age of 65 and which is closed to new members. Increases in his pensionable salary are capped under this scheme at 3% per annum. As a consequence Mr Landless receives an additional contribution of 16% of salary to a defined contribution arrangement. The defined benefit scheme also provides lump sum death-in-service benefits and pension benefits based on final pensionable salary.

Arrangements for Mr Hubbard, who retired as a Director on 27 April 2009 were for a contribution to a defined contribution arrangement of 16% of his basic salary (including any payments being made by the Group into the Group's US 401k retirement plan) from January 2007 to April 2009.

An analysis of the accrued pension entitlements for Mr Landless under the final salary scheme during 2009 is given on page 53.

Other fixed elements

The Company provides other benefits in line with market practices. These include the provision of a company car (or an allowance in lieu), private medical insurance for the Executive Directors and their families, relocation assistance where appropriate, and long-term disability insurance.

VARIABLE ELEMENTS OF PAY

There are essentially three variable elements of pay.

Annual bonuses

As a consequence of the unprecedented economic uncertainty that began in late 2008 and continued into 2009, Group profits in 2009 fell a long way short of budget and 2008 profits, so the Committee took the decision that in 2009 a bonus would only be payable to the Executive Directors and senior executives in respect of performance against safety measures up to a maximum of 10% of basic pay. As a result, each of the Executive Directors received a cash bonus of 5% of basic salary.

The Committee's intention is that for 2010 an annual bonus of up to 100% of basic salary will be payable to all Executive Directors and senior executives, subject to meeting targets based upon Group and individual performance. For those senior executives with divisional responsibilities, part of the performance-related bonus is based on their relevant sphere of responsibility.

Share awards

Bodycote Incentive Plan ('BIP')

The Company operates the BIP under which Executive Directors and senior executives are rewarded for the delivery of the Company's strategic plan. As a result of the business now being significantly different in terms of size, focus and strategy since the BIP was first introduced, the Committee informally consulted shareholders during the year regarding changes to the performance measures that they believed should apply to future BIP awards. Following the consultation, awards will be based upon two performance measures, over a three year period:

- half of the award will be subject to a return on capital employed ('ROCE') performance condition; and
- half of the award will be subject to an earnings per share ('EPS') performance condition.

Each of the measures is to be calculated independently and failure to achieve a pre-determined minimum EPS level will mean that no part of the award will vest. A sliding scale will apply between minimum and maximum levels.

For awards made in previous years, the performance targets will not change and vesting of awards will remain subject to an economic profit target.

Following completion of the performance period, the Remuneration Committee has determined that none of the BIP awards made in 2007 shall vest.

Deferred share awards

Bodycote Share Match Plan ('BSMP')

The Company operates the BSMP which provides a link between the Company's short and long-term incentive arrangements. The BSMP allows the grant of awards of matching shares to participants on an annual basis. Under the existing terms of the plan, annual bonus up to the value of 20% of base salary may be deferred into Company shares for three years.

Under the BSMP, the maximum level of matching is calculated by reference to the gross bonus deferral on a one to one basis subject to the achievement of a robust and challenging ROCE target. Details of the awards under the BSMP are noted on page 52. This includes details of the joining award made to S.C. Harris in October 2008 which is subject to the same performance criteria as the other awards made under the BSMP.

Following completion of the performance period, the Remuneration Committee has determined that none of the share match awards made in 2007 shall vest.

Shareholder approval is being sought to allow participants to purchase additional shares for deferral from salary or other monies to bring their overall annual contribution up to a total amount equal to 40% of their base salary, subject to annual Remuneration Committee approval. The Committee intends to allow such a level of investment in 2010 subject to shareholder approval of the new matching plan.

For the matching awards to be made in 2010, it is proposed that whilst the level of match will be the same, subject to shareholder approval, the ROCE performance condition will be replaced with an absolute Total Shareholder Return (TSR) measure (i.e. share price plus dividends).

Historic arrangements

In addition to the above, the following are legacy plans which were superseded by the BIP and BSMP in 2006.

The Bodycote Short Term Stock Bonus Plan ('STSBP')

Under the STSBP, Executive Directors and senior executives received the maximum awards as a consequence of Bodycote in 2005 being in the upper quartile of TSR achieved by companies within the FTSE 350 Engineering & Machinery Index and certain other comparator companies. The shares that constitute this award vested in March 2009 at the end of the holding period, and the awards were enhanced by an amount reflecting dividends paid on the award shares over the three-year period. No further awards will be made under the STSBP following the introduction of the BIP and BSMP.

Details of the shares awarded to Directors under the STSBP are noted on page 51.

Option Arrangements

The Committee also manages share incentive schemes established between 1994 and 2003. Following adoption of the BIP no further share options have been granted to Executive Directors and staff pursuant to the 2003 executive share option scheme, but share options granted before this decision will continue to be capable of exercise. At the time each scheme was approved by shareholders, institutional guidelines were followed and latterly leading investors were consulted. All outstanding share options are now capable of exercise because the relevant performance criteria were achieved.

The market price of Bodycote's ordinary shares at 31 December 2009 was £1.59, the range during 2009 was £1.04 to £1.98 and the average was £1.45. Details of the outstanding share options granted to D. F. Landless are provided on page 51.

TOTAL SHAREHOLDER RETURN (TSR)

The graph on page 53 illustrates the Company's TSR performance since 2004 relative to the FTSE All Share Industrial Index of which the Company is a component part. This sector is considered the most appropriate comparator group over the five-year period to December 2009. In line with market practice the calculation for TSR assumes reinvestment of dividends and is based on data provided by Datastream.

SERVICE CONTRACTS

It is the Company's policy that Executive Directors have service contracts with a one-year notice period. All the Executive Directors have service agreements which are terminable by one year's notice by the employer at any time, and by payment of one year's remuneration in lieu of notice by the employer, and by one year's remuneration in the event of a change in control of the Company (save for Mr Harris where the change of control provision does not apply). Legally appropriate factors would be taken into account to mitigate any compensation payment, covering basic salary, annual incentives and benefits, which may arise on the termination of employment of any Executive Director, other than payments made on a change in control or for payments in lieu of notice. Mr Harris' service agreement is dated 6 October 2008 and Mr Landless' contract is dated 26 September 2001.

EXECUTIVE DIRECTORS' SHAREHOLDING RETENTION POLICY

In 2005 the Committee introduced a shareholding retention policy under which Executive Directors and other senior executives are required, within five years of that date or commencement of employment if later, to build up a shareholding in the Company. In respect of Executive Directors the requirement is to hold at least 100% of basic salary.

EXTERNAL APPOINTMENTS

The Company believes that there are benefits to the individual and the Company for Executive Directors holding one non-executive directorship in another organisation, provided that they do not conflict with the Company's interests. Provided the Executive Director's performance is not impaired, he can retain the fees earned in connection with such an appointment.

In the financial year, Mr Harris earned £25,333 from one external appointment.

NON-EXECUTIVE DIRECTORS

The remuneration of Non-executive Directors is determined by the Chairman and the Executive Directors. Remuneration for the Chairman is determined by the whole Board (excluding the Chairman). Remuneration for the Chairman and Non-executive Directors takes into account the time commitments and duties and responsibilities involved. The Chairman and each Non-executive Director hold letters of appointment for terms of three years (or 41 months in respect of the Chairman). Each is terminable under the Company's Articles of Association, the Act, the Director's resignation or otherwise on six months' notice (twelve months in the case of the Chairman) if termination occurs before expiry of the term.

To determine the fees it pays to Non-executive Directors, the Board takes into account the need to attract individuals of appropriate calibre and expertise, the fees paid to Non-executive Directors by other companies of a similar size and the time commitment attached to each appointment. The Board keeps fees under review. The Chairman and Non-executive Directors are not entitled to any pension or other employment benefits or to participate in any incentive scheme.

Approved by the Board:

J. Vogelsang
Chairman of the Remuneration Committee
25 February 2010

BOARD REPORT ON REMUNERATION
CONTINUED

EMOLUMENTS DURING THE YEAR – AUDITED

	Basic salary and fees £000	Benefits £000	Annual Bonus £000	Total 2009 £000	Total 2008 £000
Executive Directors					
S. C. Harris	400	23	20	**443**	112
D. F. Landless	268	27	13	**308**	468
	668	50	33	**751**	580
Non-executive Directors					
A. M. Thomson	130	–	–	**130**	108
J. Vogelsang	46	–	–	**46**	45
J. A. Biles	47	–	–	**47**	46
K. Rajagopal	40	–	–	**40**	11
Directors retiring in the year					
J. D. Hubbard (retired 27 April 2009)	135	5	–	**140**	706
D. R. Sleight (retired 27 April 2009)	67	4	–	**71**	353
	1,133	59	33	**1,225**	1,849

DIRECTORS' INTERESTS – AUDITED

The beneficial interest of the Directors and their families in the ordinary shares of the Company are detailed below.

Ordinary Shareholdings	31 December 2009 or date of leaving if earlier Number of Ordinary Shares	31 December 2008 Number of Ordinary Shares
Executive Directors		
S. C. Harris	**98,048**	84,221
D. F. Landless	**156,024**	38,244
Non-executive Directors		
A. M. Thomson	**41,841**	31,841
J. Vogelsang	**–**	–
J. A. Biles	**23,157**	23,157
K. Rajagopal	**17,368**	17,368
Directors retiring in the year		
J. D. Hubbard	**728,762**	680,693
D. R. Sleight	**120,696**	99,622

None of the Directors has a beneficial interest in the shares of any other Group Company, or non-beneficial interest in the Company or any other Group Company.

SHARE OPTIONS - AUDITED

	Options as at 1 January 2009	Lapsed	Exercised in year	Options at 31 December 2009 (or date of cessation of office if earlier)	Option price (pence) at date of grant	Prices (pence) at date of exercise	Date from which exercisable from	Expiry date
D. F. Landless	8,021	8,021	–	–	370.26	–	26/04/2002	26/04/2009
Directors retiring in the year								
J. D. Hubbard	40,107	40,107	–	–	370.26	–	26/04/2002	26/04/2009
	26,738	26,738	–	–	292.19	–	14/12/2002	14/12/2009
	12,834	–	–	12,834	231.42	–	20/05/2003	02/05/2010
	16,042	–	–	16,042	203.37	–	24/04/2004	24/04/2011
D. R. Sleight	8,021	8,021	–	–	370.26	–	26/04/2002	26/04/2009

The performance criteria are set out in the Option Arrangements section on page 48.

SHORT TERM STOCK BONUS PLAN – AUDITED

	At 1 January 2009	Awarded in year[1]	Vested in year	At 31 December 2009 (or date of cessation of office)	Market price at award date	Vesting date
D. F. Landless	44,811	937	45,748	–	£2.58	March 2009
Directors retiring in the year						
J. D. Hubbard	67,737	1,417	69,154	–	£2.58	March 2009
D. R. Sleight	33,555	703	34,258	–	£2.58	March 2009

[1]These additional awards take into account the interim dividend for the financial year ended 31 December 2008

DIRECTORS' INTERESTS UNDER THE BODYCOTE INCENTIVE PLAN – AUDITED

	Interests as at 1 January 2009	Awarded in year	Vested in year	Interests as at 31 December 2009 (or date of cessation of office)	Market price at award date	Vesting date
S. C. Harris	–	514,138	–	514,138	£1.56	Feb 2012
D. F. Landless	82,905	–	145,083	–	£2.59	May 2009
	76,784	–	–	76,784	£2.94	May 2010
	132,275	–	–	132,275	£1.89	March 2011
	–	344,215	–	344,215	£1.56	Feb 2012
Directors retiring in the year						
J. D. Hubbard	125,322	–	–	125,322	£2.59	May 2009
	110,420	–	–	110,420	£2.94	May 2010
	206,349	–	–	206,349	£1.89	March 2011
D. R. Sleight	62,083	–	–	62,083	£2.59	May 2009
	87,078	–	–	87,078	£2.94	May 2010
	100,529	–	–	100,529	£1.89	March 2011

DIRECTORS' INTERESTS UNDER THE BODYCOTE SHARE MATCH PLAN – AUDITED

	Interests as at 1 January 2009	*Awarded in year	As at 31 December 2009 (or date of cessation of office)	Market price at award date	Earliest Vesting date
S. C. Harris	**145,474	–	145,474	£1.40	March 2012
	–	23,437	23,437	£1.87	March 2012
D. F. Landless	3,380	–	3,380	£2.93	May 2010
	8,252	–	8,252	£1.79	March 2011
	–	4,480	4,480	£1.87	March 2012
Directors retiring in the year					
J. D. Hubbard	21,793	–	21,793	£2.93	May 2010
	42,915	–	42,915	£1.79	March 2011
D. R. Sleight	20,907	–	20,907	£1.79	March 2011

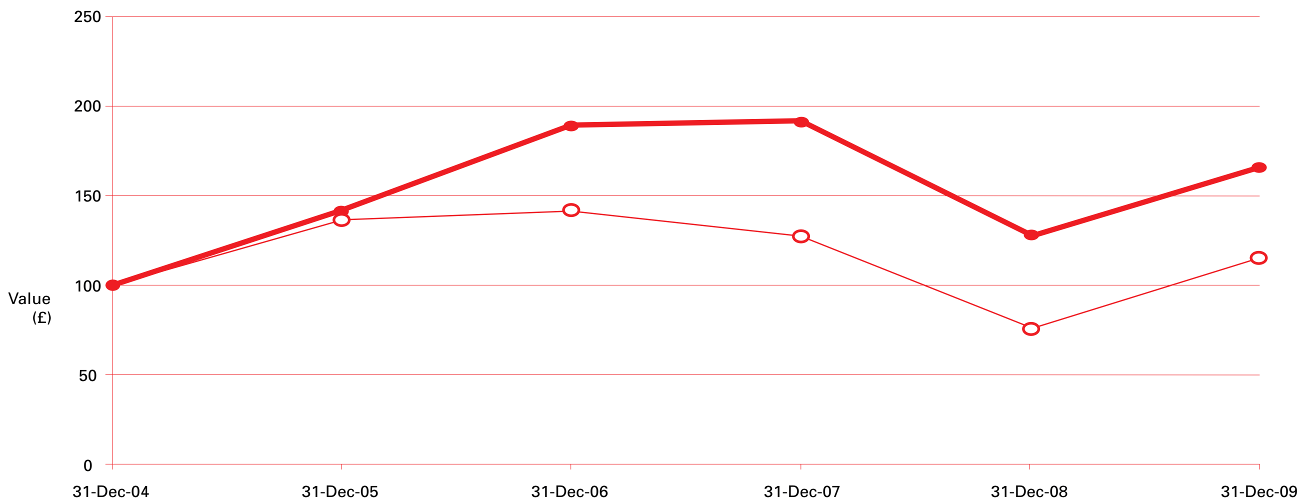
* Shares acquired via investment of the net of tax annual bonus under the BSMP are eligible for a matching award by reference to the gross amount invested.

** This award relates to the joining award made in November 2008 following S C Harris' appointment as Chief Executive Designate.

DIRECTORS' PENSIONS – AUDITED

Director	Accrued Annual Pension at 01/01/09 £000	Transfer value at 01/01/09 £000	Real Increase in Accrued Annual Pension £000	Inflation £000	Increase in Accrued Annual Pension £000	Transfer value of real increase in accrued Annual Pension (less Members' Contributions) £000	Real Increase in Transfer Value Less Members' Contributions £000	Member's Contributions £000	Accrued Annual Pension at 31/12/09 £000	Transfer Value at 31/12/09 £000
D. F. Landless	32	434	4.4	0	4.4	43	76	15	37	561
D. R. Sleight*	77	1,392	3.0	0	3.0	44	69	5	80	1,466

TOTAL SHAREHOLDER RETURN (TSR)



This graph looks at the value, by 31/12/09, of £100 invested in Bodycote plc on 31/12/04 compared with that of £100 invested in the FTSE All Share Industrials. The points plotted are the values at financial year-ends.

Bodycote plc   FTSE All Share Industrials

Source: Datastream

* Calculated as at 31 December 2009 but only covering accrual up to 27 April 2009 when he retired as a Director.

RESPONSIBILITY OF DIRECTORS

RESPONSIBILITY OF DIRECTORS FOR THE PREPARATION OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report, the Board Report on Remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Chairman's Statement, the Chief Executive's Review, the Finance Director's Report, all the information contained on pages 8 to page 55 together comprise the Directors' Report for the year ended 31 December 2009. It includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 25 February 2010 and is signed on its behalf by:

S. C. Harris
Chief Executive

D. F. Landless
Finance Director

BOARD OF DIRECTORS & ADVISERS

BOARD OF DIRECTORS

Executive Directors

S. C. Harris - Chief Executive
Appointed a Director on 1 November 2008 and Chief Executive from 12 January 2009. Executive Director at Spectris plc from 2003 to 2008 and at Powell Duffryn plc from 1995 to 2003. Prior to this he held several senior positions in APV Inc. in the United States from 1984 to 1995. Member of the Nomination Committee. A Chartered Engineer.

D. F. Landless - Finance Director
Appointed Finance Director and joined the Group in 1999. From 1989 to 1997 served as Finance Director in UK and US divisions of Courtaulds Plc. Finance Director of Courtaulds Coatings (Holdings) Limited from 1997 to 1999. A Chartered Management Accountant.

Non-executive Directors

A. M. Thomson - Chairman
Appointed a Director in 2007. Chairman of Hamsard 3054 Ltd (Polypipe), and Senior Independent Non-executive Director of Johnson Matthey plc and Non-executive Director of Alstom SA. Senior Vice-President and President-elect of the Institute of Chartered Accountants of Scotland. Served as Finance Director of Smiths Group plc from 1995 to 2006 and of Rugby Group plc from 1992 to 1995. Member of the Remuneration Committee and Chairman of the Nomination Committee. A Chartered Accountant.

J. Vogelsang - Senior Independent Non-executive Director – Netherlands
Appointed a Director in 2003. Non-executive Director of Metex SA (2007). President of Technology at Basell Polyolefins (2001 to 2002), President of Montell Polyolefins Europe (1999 to 2001), Vice-President Shell Chemical Europe and Africa (1994 to 1999) and Chief Executive of the Shell Companies in Sweden (1992 to 1994). Chairman of the Remuneration Committee and member of the Audit and Nomination Committees. A Chemical Engineer.

J. A. Biles
Appointed a Director in 2007. Non-executive Director of Charter International plc (2005), Hermes Fund Managers Limited (2005) and of ArmorGroup International plc (2004 to 2008). Finance Director of FKI plc from 1998 to 2004 and Group Finance Director of Chubb Security PLC (1991 to 1997). Chairman of the Audit Committee and member of the Remuneration and Nomination Committees. A Chartered Accountant.

K. Rajagopal
Appointed a Director on 24 September 2008. Non-executive Director of W.S. Atkins plc (2008) and Spirax-Sarco Engineering plc (2009). Member of UK Council for Science and Technology, and the Audit Commission. Executive Director of BOC Group plc (2000 to 2006) and Chief Executive of BOC Edwards (1998 to 2006) and Non-executive Director of Foseco plc (2005 to 2008). Member of the Audit, Remuneration and Nomination Committees. A Mechanical Engineer.

SECRETARY AND REGISTERED OFFICE

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Macclesfield
Cheshire
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Registered Number 519057 England and Wales

ADVISERS

Auditors
Deloitte LLP

Principal Bankers
HSBC Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Svenska Handelsbanken AB, Lloyds TSB Bank plc, Bayerische Hypo und Vereinsbank AG, ING Bank NV and Scotiabank Europe plc

Solicitors
Eversheds LLP

Brokers & Financial Advisers
Credit Suisse Securities (Europe) Limited

Registrars
Capita Registrars Limited, Huddersfield

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BODYCOTE PLC

We have audited the group financial statements of Bodycote plc for the year ended 31 December 2009, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Statement of Changes in Equity, the Statement of Accounting Policies and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. We have also audited the information in the Board Report on Remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Board Report on Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Group Review in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

OTHER MATTER

We have reported separately on the parent company financial statements of Bodycote plc for the year ended 31 December 2009.

Sharon Fraser, Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Manchester, UK
25 February 2010

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £m	2008 £m	Note
Revenue			
Existing operations	**435.4**	541.4	
Acquisitions	**–**	10.4	
Revenue - continuing operations	**435.4**	551.8	1
Operating (loss)/profit			3
Existing operations	**(50.2)**	(54.7)	
Acquisitions	**–**	3.0	
Operating loss - continuing operations	**(50.2)**	(51.7)	
Operating profit prior to exceptional items	**8.0**	71.2	
Amortisation of acquired intangible fixed assets	**(1.3)**	(1.3)	
Impairment charge	**(31.5)**	(44.0)	
Major facility closure costs	**(25.4)**	(77.6)	
Operating loss - continuing operations	**(50.2)**	(51.7)	
Investment revenue	**1.5**	4.9	5
Finance costs	**(5.8)**	(8.5)	6
Loss before taxation	**(54.5)**	(55.3)	
Taxation	**3.4**	17.2	7
Loss for the year - continuing operations	**(51.1)**	(38.1)	
Discontinued operations			
Profit for the year - discontinued operations	**–**	188.8	8
(Loss)/profit for the year	**(51.1)**	150.7	
Attributable to:			
Equity holders of the parent	**(50.1)**	149.8	
Minority interest	**(1.0)**	0.9	
	(51.1)	150.7	

(Loss)/earnings per share			10
	Pence	Pence	
From continuing operations:			
Basic	**(27.0)**	(12.5)	
Diluted	**(27.0)**	(12.5)	
From continuing and discontinued operations:			
Basic	**(27.0)**	48.2	
Diluted	**(27.0)**	48.1	

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2009

	2009 £m	2008 £m	Note
Non-current assets			
Goodwill	**107.9**	141.6	11
Other intangible assets	**10.9**	12.8	12
Property, plant and equipment	**461.8**	533.3	13
Interests in associates and other investments	**0.5**	8.2	14
Finance lease receivables	**0.5**	0.7	16
Deferred tax asset	**56.9**	52.5	21
Derivative financial instruments	**0.1**	–	20
Trade and other receivables	**3.0**	3.0	17
	641.6	752.1	
Current assets			
Inventories	**11.6**	14.0	15
Finance lease receivables	**0.4**	0.4	16
Derivative financial instruments	**0.6**	1.8	20
Trade and other receivables	**91.1**	128.4	17
Cash and cash equivalents	**19.6**	258.4	17
Assets held for sale	**6.2**	3.6	18
	129.5	406.6	
Total assets	**771.1**	1,158.7	
Current liabilities			
Trade and other payables	**93.2**	118.9	23
Dividends payable	**5.5**	9.4	9
Current tax liabilities	**11.4**	33.6	
Obligations under finance leases	**0.7**	1.2	22
Borrowings	**6.0**	16.3	19
Derivative financial instruments	**4.0**	26.3	20
Provisions	**21.3**	27.2	24
	142.1	232.9	
Net current (liabilities)/assets	**(12.6)**	173.7	
Non-current liabilities			
Borrowings	**96.8**	302.9	19
Retirement benefit obligations	**15.0**	14.9	30
Deferred tax liabilities	**73.4**	78.3	21
Obligations under finance leases	**1.6**	2.7	22
Derivative financial instruments	**0.4**	5.2	20
Provisions	**11.7**	15.5	24
Other payables	**7.5**	9.4	23
	206.4	428.9	
Total liabilities	**348.5**	661.8	
Net assets	**422.6**	496.9	
Equity			
Share capital	**32.5**	32.4	25
Share premium account	**176.0**	175.7	
Own shares	**(7.3)**	(10.9)	
Other reserves	**134.1**	137.3	
Hedging and translation reserves	**26.3**	31.1	
Retained earnings	**58.7**	126.4	
Equity attributable to equity holders of the parent	**420.3**	492.0	
Minority interests	**2.3**	4.9	
Total equity	**422.6**	496.9	

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 25 February 2010. They were signed on its behalf by:

S. C. Harris
D. F. Landless } Directors

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £m	2008 £m	Note
Net cash from operating activities	**11.0**	102.5	26
Investing activities			
Purchases of property, plant and equipment	**(35.3)**	(77.1)	
Proceeds on disposal of property, plant and equipment and intangible assets	**4.3**	4.6	
Purchases of intangible fixed assets	**(1.2)**	(2.4)	
Acquisition of investment in an associate	**–**	(5.6)	
Acquisition of subsidiaries/purchase of minority interest	**(0.5)**	(29.3)	
Disposal of subsidiaries/associates	**6.9**	400.1	
Lump sum contribution to pension scheme	**(1.5)**	(21.0)	
Net cash (used in)/received from investing activities	**(27.3)**	269.3	
Financing activities			
Interest received	**2.1**	12.5	
Interest paid	**(6.5)**	(20.5)	
Dividends paid	**(20.0)**	(154.3)	
Dividends paid to a minority shareholder	**(0.1)**	(0.1)	
Repayments of bank loans	**(231.9)**	(6.0)	
Payments of obligations under finance leases	**(1.5)**	(2.6)	
New bank loans raised	**41.1**	8.0	
New obligations under finance leases	**0.2**	0.3	
Proceeds on issue of ordinary share capital	**0.4**	0.2	
Own shares purchased/settlement of share options	**0.9**	0.1	
Net cash used in financing activities	**(215.3)**	(162.4)	
Net (decrease)/increase in cash and cash equivalents	**(231.6)**	209.4	
Cash and cash equivalents at beginning of year	**249.5**	34.3	
Effect of foreign exchange rate changes	**(1.6)**	5.8	
Cash and cash equivalents at end of year	**16.3**	249.5	

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £m	2008 £m
Exchange differences on translation of foreign operations	**(4.8)**	14.2
Actuarial losses on defined benefit pension schemes	**(3.3)**	(11.4)
Tax on items taken directly to equity	**0.9**	2.2
Net (expenses)/income recognised directly in equity	**(7.2)**	5.0
(Loss)/profit for the year	**(51.1)**	150.7
Total recognised income and expense for the year	**(58.3)**	155.7
Attributable to:		
Equity holders of the parent	**(57.3)**	154.8
Minority interests	**(1.0)**	0.9
	(58.3)	155.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital £m	Share premium £m	Own shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Minority interests £m	Total equity £m
1 January 2008	32.4	305.0	(11.0)	6.0	16.9	140.7	490.0	6.6	496.6
Premium arising on issue of equity shares (net of expenses)	–	0.3	–	–	–	–	0.3	–	0.3
Return of capital to shareholders and redemption of B shares	–	(129.6)	–	128.7	–	–	(0.9)	–	(0.9)
Acquired in the year/ settlement of share options	–	–	0.1	–	–	–	0.1	–	0.1
Share-based payments	–	–	–	2.6	–	–	2.6	–	2.6
Exchange differences on translation of overseas operations	–	–	–	–	183.3	–	183.3	0.8	184.1
Movement on hedges of net investments	–	–	–	–	(169.1)	–	(169.1)	–	(169.1)
Dividends paid	–	–	–	–	–	(154.9)	(154.9)	(0.1)	(155.0)
Net profit for the year	–	–	–	–	–	149.8	149.8	0.9	150.7
Purchase of minority interest	–	–	–	–	–	–	–	0.5	0.5
Sale of minority interest	–	–	–	–	–	–	–	(3.8)	(3.8)
Other items taken directly to equity	–	–	–	–	–	(9.2)	(9.2)	–	(9.2)
31 December 2008	**32.4**	**175.7**	**(10.9)**	**137.3**	**31.1**	**126.4**	**492.0**	**4.9**	**496.9**
Premium arising on issue of equity shares	**0.1**	**0.3**	**–**	**–**	**–**	**–**	**0.4**	**–**	**0.4**
Return of capital to shareholders and redemption of B shares	**–**	**–**	**–**	**0.7**	**–**	**(0.7)**	**–**	**–**	**–**
Acquired in the period/ settlement of share options	**–**	**–**	**0.9**	**–**	**–**	**–**	**0.9**	**–**	**0.9**
Share-based payments	**–**	**–**	**2.7**	**(3.9)**	**–**	**0.9**	**(0.3)**	**–**	**(0.3)**
Exchange differences on translation of overseas operations	**–**	**–**	**–**	**–**	**(63.1)**	**–**	**(63.1)**	**(0.2)**	**(63.3)**
Movement on hedges of net investments	**–**	**–**	**–**	**–**	**58.3**	**–**	**58.3**	**–**	**58.3**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(15.4)**	**(15.4)**	**(0.1)**	**(15.5)**
Net loss for the year	**–**	**–**	**–**	**–**	**–**	**(50.1)**	**(50.1)**	**(1.0)**	**(51.1)**
Purchase of minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Other items taken directly to equity	**–**	**–**	**–**	**–**	**–**	**(2.4)**	**(2.4)**	**–**	**(2.4)**
31 December 2009	**32.5**	**176.0**	**(7.3)**	**134.1**	**26.3**	**58.7**	**420.3**	**2.3**	**422.6**

During the prior year the Group issued £129.4m of B shares out of the share premium account. The B shares could be converted into deferred shares with a negligible value in return for a dividend of 40p per share or redeemed for 40p per share in cash. £0.2m of associated costs were charged to the share premium account.

321.9 million B shares were redeemed on 16 December 2008, including 70.3 million B shares which had been converted into deferred shares and, as a result, £128.7m was transferred from retained earnings to a capital redemption reserve. A further 1.7 million shares were redeemed in 2009.

Included in other reserves is the capital redemption reserve arising on redemption of the Group's B shares of £129.4m (2008: £128.7m). The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2009 2,100,427 (2008: 2,490,760) 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 (see note 28).

GROUP ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the group financial statements comply with article 4 of EU IAS Regulation as adopted for use in the EU.

The Group has adopted Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB (IFRIC). Individual standards and interpretations have to be adopted by the European Commission (EC) and the process leads to a delay between the issue and adoption of new standards and in some cases amendment by the EC.

International Financial Reporting Standards are subject to ongoing amendment by the IASB and subsequent endorsement by the EC and are therefore subject to change.

The financial statements have been prepared on the historical cost basis, with the exception of accounting for share-based payments and certain financial instruments. The principal accounting policies adopted are set out below.

ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in the financial statements.

IAS 1 (revised 2007)

Presentation of financial statements. IAS 1 (revised 2007) has introduced a number of changes in the format and content of the financial statements.

Specifically, IAS 1 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement, or when the entity reclassifies items in the financial statements. During the current year, the Group adopted IFRS 8 'Operating Segments'. However, the Directors consider that because the adoption of the standard has no impact on the balance sheet, no presentation of a third balance sheet is required.

IFRS 8

Operating Segments. IFRS 8 is a disclosure Standard that has resulted in a re-designation of the Group's reportable segments (see note 2).

Amendments to IFRS 7

Financial Instruments: Disclosures. The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

GOING CONCERN

The Directors have at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Finance Director's Report on page 30.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred, in which case appropriate provision is made for impairment.

GROUP ACCOUNTING POLICIES
CONTINUED

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. If after restatement, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is recognised on the completion of services rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

THE GROUP AS LESSEE

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

THE GROUP AS LESSOR

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

FOREIGN CURRENCIES

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) which are recognised initially in the Statement of Recognised Income and Expense and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling-denominated assets and liabilities.

BORROWING COSTS

Borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets.

GOVERNMENT GRANTS

Government grants relating to property, plant and equipment are treated as deferred income and released to profit and loss over the expected useful lives of the assets concerned.

OPERATING PROFIT

Operating profit is stated after charging restructuring costs, goodwill impairment, amortisation of acquired intangible assets and after the post-tax share of results of associates but before investment income and finance costs. Amounts presented in the income statement for acquisitions relate to businesses acquired during the current or prior year.

DISCONTINUED OPERATIONS

In accordance with IFRS 5, non-current assets held for sale and discontinued operations, the Group has separately disclosed the results of the Testing division as discontinued following the disposal of the business in October 2008.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of the scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all of part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, less their residual values, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	2%
Leasehold property	over the period of the lease
Fixtures and fittings	10% - 20%
Plant and machinery	5% - 20%
Motor vehicles	20% - 33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Assets in the course of construction are carried at cost less any recognised impairment loss. Depreciation commences when the assets are ready for their intended use.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade Receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade Payables

Trade payables are not interest-bearing and are stated at their nominal value.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the customer or counterparty; or
- default or delinquency in payments

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 66 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, in particular interest rate swaps, foreign currency swaps and forward exchange contracts, to manage the financial risks arising from the business activities and the financing of those activities. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised as assets and liabilities measured at their fair value on the balance sheet date. Changes in the fair value of any derivative instruments that do not fulfil the criteria for hedge accounting contained in IAS 39 are recognised immediately in the income statement. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

HEDGE ACCOUNTING

The Group uses foreign currency debt and cross currency swaps to hedge its exposure to changes in the underlying net assets of overseas operations arising from foreign exchange rate movements.

The Group maintains documentation of the relationship between the hedged item and the hedging instrument at the inception of a hedging transaction together with the risk management objective and the strategy underlying the designated hedge. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges.

Note 20 sets out the details of the fair values of the derivative instruments used for hedging purposes.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash Flow Hedge

Cash flow hedging matches the cash flows of hedged items against the corresponding cash flow of the derivative. The effective part of any gain or loss on the derivative is recognised directly in equity and the hedged item is accounted for in accordance with the policy for that financial instrument. Any ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Net Investment Hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. To the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised in the Statement of Recognised Income and Expense and accumulated in the hedging and translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Gains and losses accumulated in equity are included in the income statement in the event that the foreign operation is disposed of.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account, the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 which were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled employee benefits reserve. Fair value is measured by use of a Black-Scholes model.

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Provisions for environmental liabilities

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. The provision is reviewed annually.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of Goodwill and Fixed Assets

Determining whether goodwill and fixed assets are impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Retirement Benefit Schemes

Accounting for retirement benefit schemes under IAS 19 requires an assessment of the future benefits payable in accordance with actuarial assumptions, which are set out in note 30.

GENERAL INFORMATION

Bodycote plc is a company incorporated in the United Kingdom under the Companies Acts 1948 to 1980. The address of the registered office is given on page 55. The nature of the Group's operations and its principal activities are set out on page 38 of the Directors' Report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in the Foreign Currencies accounting policy above.

At the date of authorisation of these financial statements, the following Standards and Interpretations that are expected to impact on the Group but which have not been applied in these financial statements, were in issue but not yet effective.

- IFRS 2 (amended) Share-based payment
- IAS 39 (amended) Financial Instruments: Recognition and Measurement
- IAS 27 (amended) Consolidated and separate financial statements
- IFRS 3 (amended) Business combinations
- Improvements to IFRS's 2009 (April 2009)
- IAS 28 (amended) Investments in associates
- IFRIC 17 Distributions of non-cash assets to owners
- IFRS 1 (amended)/IAS 27 (amended) Cost of an investment in a subsidiary, jointly controlled entity or associate

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group, except for the treatment of acquisition of subsidiaries and associates when IFRS 3 (amended 2008), IAS 27 (amended 2008) and IAS 28 (amended 2008) come into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009.

The impact of all other standards and interpretations not yet adopted is not expected to be material.

1. Revenue

	2009 £m	2008 £m
Continuing operations		
Heat treatment and metal joining, hot isostatic pressing and surface technology services	**435.4**	551.8
Other operating income	**3.7**	6.0
Investment revenue (see note 5)	**1.5**	4.9
	440.6	562.7
Discontinued operations		
Testing services	**–**	166.3
Total Revenue (as defined in IAS 18, Revenue)	**440.6**	729.0

2. Business and geographical segments

The Group has adopted IFRS 8 'Operating Segments' with the effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required the Group to identify two sets of segments (business and geographical), using a risks and returns approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed. As a result the comparative year has have been restated to reflect the revised segmental analysis determined by the Group.

The Group's reportable segments have been determined in accordance with the reorganisation activity finalised since the interim report, focusing on key market sectors as opposed to service product. Principally, this split the Group into two business areas being:

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

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

- Western Europe
- North America; and
- Emerging Markets

Revenue by country	2009 £m	2008 £m
USA	**123.0**	137.0
France	**74.9**	90.5
UK	**52.7**	68.3
Germany	**50.2**	67.3
Others	**134.6**	188.7
Total Revenue - continuing operations	**435.4**	551.8

2. Business and geographical segments continued

Group	ADE 2009 £m	AGI 2009 £m	Head Office and eliminations 2009 £m	Consolidated 2009 £m	Discontinued operations (Testing) 2009 £m	Total Group 2009 £m
Revenue						
Total revenue	189.5	245.9	–	435.4	–	435.4
Result						
Segment result prior to exceptional items	24.7	(13.3)	–	11.4	–	11.4
Unallocated corporate expenses	–	–	(3.4)	(3.4)	–	(3.4)
Headline operating profit/(loss)	24.7	(13.3)	(3.4)	8.0	–	8.0
Amortisation of acquired intangible fixed assets	(0.6)	(0.7)	–	(1.3)	–	(1.3)
Impairment charge	(5.0)	(25.7)	(0.8)	(31.5)	–	(31.5)
Major facility closure costs	0.9	(25.9)	(0.4)	(25.4)	–	(25.4)
Segment result	20.0	(65.6)	(4.6)	(50.2)	–	(50.2)
Investment revenue				1.5		
Finance costs				(5.8)		
Loss before taxation				(54.5)		
Taxation				3.4		
Loss for the year				(51.1)		

Inter-segment sales are not material in either year.
The Group does not rely on any major customers.

Aerospace, Defence & Energy	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total ADE 2009 £m
Revenue				
Total revenue	91.3	97.4	0.8	189.5
Result				
Headline operating profit/(loss)	11.7	13.3	(0.3)	24.7
Amortisation of acquired intangible fixed assets	(0.3)	(0.3)	–	(0.6)
Impairment charge	–	(5.0)	–	(5.0)
Major facility closure costs	(1.0)	1.9	–	0.9
Segment result	10.4	9.9	(0.3)	20.0

Automotive & General Industrial	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total AGI 2009 £m
Revenue				
Total revenue	176.2	30.7	39.0	245.9
Result				
Headline operating profit/(loss)	(10.1)	0.6	(3.8)	(13.3)
Amortisation of acquired intangible fixed assets	(0.1)	–	(0.6)	(0.7)
Impairment charge	(3.0)	(20.0)	(2.7)	(25.7)
Major facility closure costs	(16.9)	0.1	(9.1)	(25.9)
Segment result	(30.1)	(19.3)	(16.2)	(65.6)

2. Business and geographical segments continued

Group	ADE 2008 £m	AGI 2008 £m	Head Office and eliminations 2008 £m	Consolidated 2008 £m	Discontinued operations (Testing) 2008 £m	Total Group 2008 £m
Revenue						
Total revenue	220.1	331.7	–	551.8	164.9	716.7
Result						
Segment result prior to exceptional items	45.5	29.8	–	75.3	20.5	95.8
Unallocated corporate expenses	–	–	(4.1)	(4.1)	–	(4.1)
Headline operating profit/(loss)	45.5	29.8	(4.1)	71.2	20.5	91.7
Amortisation of acquired intangible fixed assets	(0.5)	(0.8)	–	(1.3)	(0.6)	(1.9)
Impairment charge	(5.7)	(26.2)	(12.1)	(44.0)	–	(44.0)
Major facility closure costs	(19.0)	(58.6)	–	(77.6)	–	(77.6)
Disposal of Testing business	–	–	–	–	199.3	199.3
Segment result	20.3	(55.8)	(16.2)	(51.7)	219.2	167.5
Investment revenue				4.9		
Finance costs				(8.5)		
Loss before taxation				(55.3)		
Taxation				17.2		
Profit for the year from discontinued operations				188.8		
Profit for the year				150.7		

Aerospace, Defence & Energy	Western Europe 2008 £m	North America 2008 £m	Emerging markets 2008 £m	Total ADE 2008 £m
Revenue				
Total revenue	110.7	109.0	0.4	220.1
Result				
Headline operating profit/(loss)	26.1	19.9	(0.5)	45.5
Amortisation of acquired intangible fixed assets	(0.3)	(0.2)	–	(0.5)
Impairment charge	(2.1)	(3.6)	–	(5.7)
Major facility closure costs	(2.5)	(16.5)	–	(19.0)
Segment result	21.2	(0.4)	(0.5)	20.3

Automotive & General Industrial	Western Europe 2008 £m	North America 2008 £m	Emerging markets 2008 £m	Total AGI 2008 £m
Revenue				
Total revenue	243.6	33.6	54.5	331.7
Result				
Headline operating profit	27.5	0.7	1.6	29.8
Amortisation of acquired intangible fixed assets	(0.1)	–	(0.7)	(0.8)
Impairment charge	(13.1)	(3.8)	(9.3)	(26.2)
Major facility closure costs	(37.3)	(17.6)	(3.7)	(58.6)
Segment result	(23.0)	(20.7)	(12.1)	(55.8)

2. Business and geographical segments continued

Other Information

Group	ADE 2009 £m	AGI 2009 £m	Discontinued operations (Testing) 2009 £m	Head Office and eliminations 2009 £m	Consolidated 2009 £m
Capital additions	21.3	14.3	–	0.9	36.5
Depreciation and amortisation	17.9	32.3	–	0.7	50.9
Impairment losses recognised in income	5.9	38.7	–	0.8	45.4
Balance sheet					
Assets:					
Segment assets	331.2	464.2	–	(24.8)	770.6
Interests in associates and other investments	–	0.5	–	–	0.5
Consolidated total assets	331.2	464.7	–	(24.8)	771.1
Liabilities:					
Segment liabilities	75.2	134.1	–	139.2	348.5
Segment net assets/(liabilities)	256.0	330.6	–	(164.0)	422.6

Aerospace, Defence & Energy	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total ADE 2009 £m
Capital additions	14.5	6.8	–	21.3
Depreciation and amortisation	9.5	8.3	0.1	17.9
Impairment losses recognised in income	(0.2)	6.1	–	5.9
Balance sheet				
Assets:				
Segment assets	162.6	166.9	1.7	331.2
Interests in associates and other investments	–	–	–	–
Consolidated total assets	162.6	166.9	1.7	331.2
Liabilities:				
Segment liabilities	35.9	39.1	0.2	75.2
Segment net assets	126.7	127.8	1.5	256.0

Automotive & General Industrial	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total AGI 2009 £m
Capital additions	7.9	1.7	4.7	14.3
Depreciation and amortisation	24.6	2.9	4.8	32.3
Impairment losses recognised in income	11.5	20.2	7.0	38.7
Balance sheet				
Assets:				
Segment assets	334.0	58.6	71.6	464.2
Interests in associates and other investments	0.5	–	–	0.5
Consolidated total assets	334.5	58.6	71.6	464.7
Liabilities:				
Segment liabilities	102.4	14.6	17.1	134.1
Segment net assets	232.1	44.0	54.5	330.6

2. Business and geographical segments continued

Group	ADE 2008 £m	AGI 2008 £m	Discontinued operations (Testing) 2008 £m	Head Office and eliminations 2008 £m	Consolidated 2008 £m
Capital additions	19.4	46.4	1.7	2.0	79.5
Depreciation and amortisation	15.6	34.2	10.6	0.2	60.6
Impairment losses recognised in income	14.1	58.9	–	12.1	85.1
Balance sheet					
Assets:					
Segment assets	403.1	541.5	–	205.9	1,150.5
Interests in associates and other investments		–	8.2	–	8.2
Consolidated total assets	403.1	549.7	–	205.9	1,158.7
Liabilities:					
Segment liabilities	95.2	169.4	–	397.2	661.8
Segment net assets/(liabilities)	307.9	380.3	–	(191.3)	496.9

Aerospace, Defence & Energy	Western Europe 2008 £m	North America 2008 £m	Emerging markets 2008 £m	Total ADE 2008 £m
Capital additions	11.9	7.5	–	19.4
Depreciation and amortisation	7.8	7.7	0.1	15.6
Impairment losses recognised in income	4.1	10.0	–	14.1
Balance sheet				
Assets:				
Segment assets	179.1	220.2	3.8	403.1
Interests in associates and other investments	–	–	–	–
Consolidated total assets	179.1	220.2	3.8	403.1
Liabilities:				
Segment liabilities	39.4	55.3	0.5	95.2
Segment net assets	139.7	164.9	3.3	307.9

Automotive & General Industrial	Western Europe 2008 £m	North America 2008 £m	Emerging markets 2008 £m	Total AGI 2008 £m
Capital additions	32.1	2.8	11.5	46.4
Depreciation and amortisation	26.5	3.0	4.7	34.2
Impairment losses recognised in income	35.7	11.6	11.6	58.9
Balance sheet				
Assets:				
Segment assets	417.1	48.3	76.1	541.5
Interests in associates and other investments	0.6	–	7.6	8.2
Consolidated total assets	417.7	48.3	83.7	549.7
Liabilities:				
Segment liabilities	140.7	13.3	15.4	169.4
Segment net assets	277.0	35.0	68.3	380.3

3. Operating (loss)/profit

	Existing operations 2009 £m	**Acquisitions 2009 £m**	**Continuing operations 2009 £m**	Existing operations 2008 £m	Acquisitions 2008 £m	Continuing operations 2008 £m
Revenue	**435.4**	**–**	**435.4**	541.4	10.4	551.8
Cost of sales	**(321.5)**	**–**	**(321.5)**	(371.0)	(6.0)	(377.0)
Gross profit	**113.9**	**–**	**113.9**	170.4	4.4	174.8
Other operating income	**3.7**	**–**	**3.7**	6.0	–	6.0
Distribution costs	**(18.4)**	**–**	**(18.4)**	(20.0)	(0.3)	(20.3)
Other administration expenses*	**(90.9)**	**–**	**(90.9)**	(88.2)	(1.0)	(89.2)
Other operating expenses	**(0.3)**	**–**	**(0.3)**	–	(0.1)	(0.1)
Amortisation of acquired intangible fixed assets*	**(1.3)**	**–**	**(1.3)**	(1.3)	–	(1.3)
Impairment charge*	**(31.5)**	**–**	**(31.5)**	(44.0)	–	(44.0)
Major facility closure costs*	**(25.4)**	**–**	**(25.4)**	(77.6)	–	(77.6)
Operating (loss)/profit	**(50.2)**	**–**	**(50.2)**	(54.7)	3.0	(51.7)

*Administration expenses (total £149.1m, 2008: £212.1m).

	2009 £m	2008 £m
Exceptional items comprise:		
Amortisation of acquired intangible fixed assets	**1.3**	1.3
Impairment of goodwill	**29.0**	31.9
Major facility closure costs	**25.4**	77.6
Impairment of investment in/loan due from associate	**2.5**	12.1
	58.2	122.9

Further details of these items are included in the Finance Director's Report on pages 26 to 33.

(Loss)/profit for the year has been arrived at after charging/(crediting):

	2009 £m	2008 £m
Continuing and discontinued operations		
Net foreign exchange losses/(gains)	**0.3**	(0.2)
Depreciation of property, plant and equipment	**48.5**	57.8
Impairment of loan due from associate	**–**	12.1
Amortisation of acquired intangible fixed assets	**1.3**	1.9
Impairment of goodwill	**29.0**	31.9
(Profit)/loss on disposal of property, plant and equipment	**(0.1)**	0.1
Staff costs (see note 4)	**199.2**	317.6
Auditors' remuneration for audit services (see page 73)	**0.8**	0.9

3. Operating (loss)/profit continued

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	2009 £m	2008 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**0.7**	0.8
Total audit fees	**0.8**	0.9
Tax services	**0.1**	0.1
All other services (corporate finance services relating to the disposal of the Testing business)	**–**	1.2
	0.9	2.2

In addition to the amounts shown above, the auditors received fees of £5,000 (2008: £9,000) for the audit of the Group's pension schemes.

Fees paid to the Company's auditor, Deloitte LLP, and its associates for services other than statutory audit of the Company are not disclosed in subsidiaries' accounts since the consolidated accounts of the subsidiaries' parent, Bodycote plc, are required to disclose non-audit fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the Audit Committee Report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

4. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2009 Number	2008 Number
Continuing and discontinued operations		
ADE:		
Western Europe	**1,044**	1,141
North America	**1,047**	1,618
Emerging Markets	**10**	7
AGI:		
Western Europe	**2,214**	2,899
North America	**370**	230
Emerging Markets	**1,280**	1,594
Testing - discontinued	**–**	3,000
Head office	**55**	63
	6,020	10,552

	2009 £m	2008 £m
Their aggregate remuneration comprised:		
Wages and salaries	**162.4**	266.5
Social security costs	**32.2**	43.7
Other pension costs	**4.6**	7.4
	199.2	317.6

Disclosure of individual directors' remuneration, share interests, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Listing Rules of the Financial Services Authority are shown in the tables in the Board Report on Remuneration on pages 46 to 53 and form part of these financial statements.

5. Investment revenue

	Continuing operations		Discontinued operations		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£m	£m	**£m**	£m	**£m**	£m
Interest on bank deposits	**1.3**	2.9	**–**	0.8	**1.3**	3.7
Interest on derivative financial instruments	**–**	1.1	**–**	–	**–**	1.1
Other interest receivable	**0.2**	0.9	**–**	–	**0.2**	0.9
	1.5	4.9	**–**	0.8	**1.5**	5.7

All investment revenue relates to loans and receivables.

6. Finance costs

	Continuing operations		Discontinued operations		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£m	£m	**£m**	£m	**£m**	£m
Interest on bank overdrafts and loans*	**3.0**	5.8	**–**	6.8	**3.0**	12.6
Interest on obligations under finance leases	**0.3**	0.3	**–**	–	**0.3**	0.3
Interest on derivative financial instruments	**0.1**	–	**–**	–	**0.1**	–
Interest on pension scheme liabilities	**5.1**	3.0	**–**	1.5	**5.1**	4.5
Return on pension assets	**(3.8)**	(2.2)	**–**	(1.3)	**(3.8)**	(3.5)
Other finance charges*	**1.1**	1.6	**–**	0.2	**1.1**	1.8
Total finance costs	**5.8**	8.5	**–**	7.2	**5.8**	15.7

* Amounts arising on financial liabilities measured at amortised cost.

7. Taxation

	Continuing operations		Discontinued operations		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£m	£m	**£m**	£m	**£m**	£m
Current taxation - charge for the year	**2.0**	12.9	**–**	23.6	**2.0**	36.5
Current taxation - adjustments in respect of previous years	**1.8**	0.2	**–**	0.3	**1.8**	0.5
Deferred tax (see note 21)	**(7.2)**	(30.3)	**–**	0.1	**(7.2)**	(30.2)
	(3.4)	(17.2)	**–**	24.0	**(3.4)**	6.8

UK corporation tax is calculated at 28.0% (2008: 28.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Of the total charge to current tax, approximately £Nil (2008: £2.0m) related to profits arising in the Testing business, which was disposed of during 2008. A tax charge of £Nil (2008: £21.9m) arose on the disposal of the various subsidiaries which comprised the business. The charge for the year can be reconciled to the profit per the income statement as follows:

	2009	2008
	£m	£m
(Loss) / profit before tax:		
Continuing operations	**(54.5)**	(55.3)
Discontinued operations	**–**	212.8
	(54.5)	157.5
Tax at the UK corporation tax rate of 28.0% (2008: 28.5%)	**(15.3)**	44.9
Tax effect of expenses that are not deductible in determining taxable profit	**11.8**	20.2
Tax effect of non-taxable disposal proceeds	**–**	(39.2)
Deferred tax assets not recognised	**6.3**	1.7
Tax settlements in respect of prior years	**–**	(8.6)
Tax effect of other adjustments in respect of previous years	**1.6**	(2.2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(7.8)**	(10.0)
Tax (credit)/expense for the year	**(3.4)**	6.8

The tax credit on items taken directly to equity is £0.9m (2008: £2.2m).

8. Discontinued operations

The Testing business was sold on 17 October 2008.
The results of the discontinued operations included in the consolidated income statement were as follows:

	2009 £m	Period ended 17 October 2008 £m
Revenue	–	164.9
Expenses	–	(151.4)
Profit before tax	–	13.5
Attributable tax expense	–	(2.1)
Profit on disposal of discontinued operations	–	199.3
Attributable tax expense	–	(21.9)
Net profit attributable to discontinued operations	–	188.8

During the year, the Testing business contributed £Nil (2008: £5.2m) to the Group's net cash from operating activities, paid £Nil (2008: £12.7m) in respect of investing activities and received £Nil (2008: £16.7m) in respect of financing activities. A profit of £Nil (2008: £199.3m) arose on the disposal of the Testing business, being the proceeds of disposal less the carrying amount of the division's net assets and attributable goodwill and costs of disposal. The effect of discontinued operations on segment results is disclosed in note 2.

9. Dividends

	2009 £m	2008 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2008 of 5.35p (2007: 5.25p) per share	**9.9**	16.7
B share special dividend or redemption for the year ended 31 December 2008 of 40.00p per share	**0.7**	128.8
Interim dividend for the year ended 31 December 2009 of 2.95p (2008: 2.95p) per share	**5.5**	9.4
	16.1	154.9
Proposed final dividend for the year ended 31 December 2009 of 5.35p (2008: 5.35p) per share	**10.1**	10.0

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

10. (Loss)/earnings per share

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

	2009 £m	2008 £m
(Loss)/earnings		
(Loss)/earnings for the purpose of basic (loss)/earnings per share being net (loss)/profit attributable to equity holders of the parent	**(50.1)**	149.8

	2009 Number	2008 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**185,557,762**	310,936,573
Effect of dilutive potential ordinary shares:		
Share options	**16,466**	239,456
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**185,574,228**	311,176,029

From continuing operations

	2009 £m	2008 £m
(Loss)/earnings		
Net (loss)/profit attributable to equity holders of the parent	**(50.1)**	149.8
Adjustments to exclude profit for the year from discontinued operations	**–**	(188.8)
Loss from continuing operations for the purpose of basic (loss)/earnings per share excluding discontinued operations	**(50.1)**	(39.0)

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

10. (Loss)/earnings per share continued

	2009 Pence	2008 Pence
(Loss)/earnings per share from continuing and discontinued operations:		
Basic	**(27.0)**	48.2
Diluted	**(27.0)**	48.1

	2009 Pence	2008 Pence
Earnings per share from discontinued operations:		
Basic	**–**	60.7
Diluted	**–**	60.7

	2009 pence	2008 pence
Loss per share from continuing operations:		
Basic	**(27.0)**	(12.5)
Diluted	**(27.0)**	(12.5)

	2009 £m	2009 £m
Headline earnings		
Net (loss)/profit attributable to equity holders of the parent	**(50.1)**	149.8
Add back:		
Impairment charge	**31.5**	40.1
Amortisation of acquired intangible fixed assets	**1.2**	1.2
Major facility closure costs	**18.1**	52.0
Profit for the year - discontinued operations	**–**	(188.8)
Headline earnings	**0.7**	54.3

	2009 Pence	2008 Pence
Earnings per share from headline earnings:		
Basic	**0.4**	17.5
Diluted	**0.4**	17.4

11. Goodwill

	2009 £m	2008 £m
Cost		
At 1 January	**180.3**	230.0
Exchange differences	**(2.1)**	11.8
Recognised on acquisition of subsidiaries	**–**	24.9
Adjustment on acquisition of minority interest	**(0.9)**	–
Derecognised on disposal of subsidiaries	**–**	(86.4)
At 31 December	**177.3**	180.3
Accumulated impairment		
At 1 January	**38.7**	17.0
Exchange differences	**1.7**	0.3
Impairment losses for the year	**29.0**	31.9
Derecognised on disposal of subsidiaries	**–**	(10.5)
At 31 December	**69.4**	38.7
Carrying amount	**107.9**	141.6

Goodwill acquired in a business combination is allocated, at acquisition, to the business units that are expected to benefit from that business combination. Following the adoption of IFRS 8, as disclosed in note 2, the Group has restated the allocation of goodwill, matching the updated cash generating units applicable to the new structure. After recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	2009 £m	2008 £m
ADE:		
Western Europe	**27.4**	28.8
North America	**36.9**	55.4
AGI:		
Western Europe	**18.0**	21.6
North America	**15.2**	24.5
Emerging Markets	**10.4**	10.5
Head Office	**–**	0.8
	107.9	141.6

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for those calculations are the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The rate used to discount the forecast cash flows for all cash generating units is 9.5% (2008: 9.4%). The recoverable amount is the sum of the discounted cash flows over a fifteen year period.

The Group prepares cash flow forecasts based on management estimates for the next five years. The expected sales reflect management's expectation of how sales will develop at this point in the economic cycle. The expected profit margin reflects management's experience of each cash generating unit's profitability at the forecast level of sales and incorporates the impact of the restructuring programme, where appropriate. Cash flows after five years are based on an estimated growth rate of 3.1% (2008: 3.1%), being the historical weighted average growth in GDP in the markets that the Group operates in. This rate does not exceed the average long-term growth rate for the relevant markets.

The Group has conducted a sensitivity analysis on the impairment test of each cash generating unit's carrying value. A cut in the sales growth rate by seven percentage points would result in the carrying value of goodwill for the Group being reduced to its recoverable amount.

Goodwill was impaired for heat treatment locations across the Group as a result of the current uncertain market conditions. The most significant impairments were made in locations in the North American Automotive & General Industrial and North American Aerospace, Defence & Energy divisions.

12. Other intangible assets

	Software £m	Other intangible assets acquired through business combinations £m	Total £m
Cost			
At 1 January 2008	7.4	14.7	22.1
Exchange differences	2.1	1.9	4.0
Additions	2.4	–	2.4
Acquired on acquisition of subsidiaries	0.1	–	0.1
Recategorisation	0.1	–	0.1
Disposals	(0.2)	–	(0.2)
Disposed on disposal of subsidiaries	(0.5)	(5.6)	(6.1)
At 1 January 2009	**11.4**	**11.0**	**22.4**
Exchange differences	**(0.7)**	**(0.5)**	**(1.2)**
Additions	**1.2**	**–**	**1.2**
Disposals	**(0.2)**	**–**	**(0.2)**
At 31 December 2009	**11.7**	**10.5**	**22.2**
Amortisation			
At 1 January 2008	4.6	3.2	7.8
Exchange differences	1.5	0.3	1.8
Charge for the year	1.0	1.9	2.9
Recategorisation	0.3	–	0.3
Impairment loss	0.2	–	0.2
Disposals	(0.2)	–	(0.2)
Disposed on disposal of subsidiaries	(0.3)	(2.9)	(3.2)
At 1 January 2009	**7.1**	**2.5**	**9.6**
Exchange differences	**(0.5)**	**–**	**(0.5)**
Charge for the year	**1.1**	**1.3**	**2.4**
Disposals	**(0.2)**	**–**	**(0.2)**
At 31 December 2009	**7.5**	**3.8**	**11.3**
Carrying amount			
At 31 December 2009	**4.2**	**6.7**	**10.9**
At 31 December 2008	4.3	8.5	12.8

The amortisation periods for intangible assets are:

	Years
Software	3 to 5
Customer relationships	10 to 15
Membership lists	15
Non-compete arrangements	2 to 5
Trade names	3

Intangible assets are amortised on a straight-line basis and the amortisation is recognised within administration expenses.

13. Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost or valuation							
At 1 January 2008	167.2	18.6	11.8	645.7	37.5	27.5	908.3
Additions	6.2	0.5	0.9	36.5	3.4	29.6	77.1
Acquisition of subsidiaries	0.4	0.1	0.5	9.0	0.7	0.1	10.8
Exchange differences	43.6	3.9	0.7	155.2	7.2	9.5	220.1
Reclassified as held for sale	(5.8)	–	–	–	–	–	(5.8)
Recategorisation	4.2	(1.7)	1.9	25.7	5.2	(24.8)	10.5
Disposals	(2.7)	–	–	(18.5)	(1.3)	(0.1)	(22.6)
Disposal of subsidiaries	(12.3)	(10.3)	(10.8)	(82.2)	(14.3)	(1.2)	(131.1)
At 1 January 2009	**200.8**	**11.1**	**5.0**	**771.4**	**38.4**	**40.6**	**1,067.3**
Additions	**0.7**	**–**	**0.2**	**13.2**	**0.9**	**20.3**	**35.3**
Exchange differences	**(15.0)**	**(0.4)**	**0.2**	**(50.0)**	**(2.3)**	**(3.6)**	**(71.1)**
Reclassified as held for sale	**(9.8)**	**–**	**–**	**(4.0)**	**(0.6)**	**(1.2)**	**(15.6)**
Recategorisation	**25.7**	**(9.1)**	**16.8**	**(8.4)**	**2.4**	**(27.4)**	**–**
Disposals	**(3.7)**	**–**	**(0.5)**	**(25.2)**	**(2.4)**	**(0.4)**	**(32.2)**
At 31 December 2009	**198.7**	**1.6**	**21.7**	**697.0**	**36.4**	**28.3**	**983.7**
Accumulated depreciation and impairment							
At 1 January 2008	34.6	9.4	3.8	324.3	27.3	–	399.4
Charge for the year	4.6	0.7	0.7	48.6	3.2	–	57.8
Acquisition of subsidiaries	–	–	0.3	5.6	0.5	–	6.4
Impairment loss	7.9	0.1	–	32.0	0.3	0.6	40.9
Exchange differences	10.4	2.2	–	80.5	5.5	0.1	98.7
On assets reclassified as held for sale	(2.3)	–	–	–	–	–	(2.3)
Recategorisation	6.7	–	0.3	(1.5)	4.9	–	10.4
Eliminated on disposals	(0.6)	–	–	(17.1)	(1.2)	–	(18.9)
Eliminated on disposal of subsidiaries	(2.9)	(8.6)	(2.9)	(33.5)	(10.5)	–	(58.4)
At 1 January 2009	**58.4**	**3.8**	**2.2**	**438.9**	**30.0**	**0.7**	**534.0**
Charge for the year	**5.5**	**0.1**	**0.9**	**39.8**	**2.2**	**–**	**48.5**
Impairment loss	**8.1**	**–**	**0.2**	**5.2**	**0.2**	**0.2**	**13.9**
Exchange differences	**(4.5)**	**(0.2)**	**0.3**	**(27.3)**	**(1.7)**	**–**	**(33.4)**
On assets reclassified as held for sale	**(6.8)**	**–**	**–**	**(3.9)**	**(0.6)**	**(0.6)**	**(11.9)**
Recategorisation	**8.7**	**(3.4)**	**6.8**	**(13.2)**	**1.1**	**–**	**–**
Eliminated on disposals	**(3.4)**	**–**	**(0.2)**	**(23.1)**	**(2.2)**	**(0.3)**	**(29.2)**
At 31 December 2009	**66.0**	**0.3**	**10.2**	**416.4**	**29.0**	**–**	**521.9**
Carrying amount							
At 31 December 2009	**132.7**	**1.3**	**11.5**	**280.6**	**7.4**	**28.3**	**461.8**
At 31 December 2008	142.4	7.3	2.8	332.5	8.4	39.9	533.3

The carrying amount of leased assets is £7.4m (2008: £8.6m).

The Group has pledged land and buildings having a carrying amount of approximately £3.2m (2008: £3.6m) to secure banking facilities granted to the Group.

At 31 December 2009 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £6.7m (2008: £15.9m).

In addition to the above, property, plant and equipment amounting to £5.8m (2008: £3.6m) has been classified as held for sale.

Impairment losses of £12.1m relating to the restructuring programme are recognised within exceptional items.

14. Subsidiaries, associates and other investments

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on pages 109 and 110.

The Group's significant associate is disclosed in note 3 of the Company Financial Staetments on page 105.

	2009 £m	2008 £m
Aggregated amounts relating to associates		
Total assets	**94.5**	132.1
Total liabilities	**170.6**	189.5
Revenues	**60.0**	72.9
Loss	**(24.2)**	(14.8)

Amounts recognised in the income statement and in the balance sheet are as follows:

	2009 £m	2008 £m
Operating profit	**–**	–
less: Interest	**–**	–
less: Tax	**–**	–
Share of results of associates prior to impairment	**–**	–
Interest in associates	**–**	7.6
Sundry investments	**0.5**	0.6

The Group's share of the results of associates of £5.9m (2008: £3.6m) has not been recognised as the Board considers that the investments are fully impaired.

During the year the small associate business in Thailand was sold back to the associate partners resulting in a £2.5m loss, which was recognised in the 2009 interim report.

15. Inventories

	2009 £m	2008 £m
Raw materials	**9.0**	11.3
Work-in-progress	**2.4**	2.4
Finished goods and goods for resale	**0.2**	0.3
	11.6	14.0

16. Finance lease receivables

	Minimum lease payments 2009 £m	Minimum lease payments 2008 £m	Present value of minimum lease payments 2009 £m	Present value of minimum lease payments 2008 £m
Amounts receivable under finance leases:				
Within one year	**0.4**	0.4	**0.4**	0.4
In the second to fifth years inclusive	**0.5**	0.8	**0.5**	0.7
	0.9	1.2	**0.9**	1.1
Less: unearned finance income	**–**	(0.1)		
Present value of minimum lease payments receivable	**0.9**	1.1		

	2009 £m	2008 £m
Analysed as:		
Non-current finance lease receivables (recoverable after 12 months)	**0.5**	0.7
Current finance lease receivables (recoverable within 12 months)	**0.4**	0.4
	0.9	1.1

The present value of minimum lease payments is denominated in the following currencies:

	2009 £m	2008 £m
Euro	**0.6**	0.7
US Dollar	**0.3**	0.4
	0.9	1.1

The Group has enterered into finance leasing arrangements with SSCP Coatings Sàrl, an associated company, for 3 PVD machines. The average term of finance leases entered into is 7 years. Unguaranteed residual values of assets leased under finance leases at the balance sheet date are £0.9m (2008: £1.1m). The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted approximates to 4.5% (2008: 4.5%). The fair value of the Group's finance lease receivables at 31 December 2009 is estimated at £0.9m (2008: £1.1m). The lease receivables are secured on the related assets.

The maximum exposure to credit risk of finance lease receivables for the current and prior period is the carrying amount as the Group has no allowance for doubtful debts. The finance lease receivables are not past due and are not impaired in the current and prior year.

17. Other financial assets

Trade and other receivables

	2009 £m	2008 £m
Amounts falling due within one year:		
Amount receivable for the supply of services	**71.9**	107.1
Other debtors and prepayments	**19.2**	21.3
	91.1	128.4
Amounts falling due after more than one year:		
Other debtors and prepayments	**3.0**	3.0

The average credit period given to customers for the supply of services is 66 days (2008: 68 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £8.1m (2008: £8.4m). This allowance has been determined by reference to past default experience.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

17. Other financial assets continued

Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Further disclosure of the Group's financial instrument risk management activities is set out in the Finance Director's Report on pages 26 to 33.

Included in the Group's trade receivable balance are debtors with a carrying amount of £16.6m (2008: £30.5m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired receivables:

	2009 £m	2008 £m
Amounts overdue by up to 1 month	**12.2**	20.0
Amounts overdue by 1-2 months	**2.1**	5.8
Amounts overdue by 2-3 months	**0.6**	1.6
Amounts overdue by more than 3 months	**1.7**	3.1
	16.6	30.5

Movement in the allowance for doubtful debts:

	2009 £m	2008 £m
Balance at 1 January	**8.4**	7.2
Impairment losses recognised	**3.0**	4.3
Allowance acquired with subsidiaries	**–**	0.1
Amounts written off as uncollectable	**(1.2)**	(1.7)
Impairment losses reversed	**(1.5)**	(1.8)
Allowance disposed with subsidiaries	**–**	(1.5)
Exchange differences	**(0.6)**	1.8
	8.1	8.4

In determining the recoverability of a trade receivable the Group considers any change in the quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £10.1m (2008: £10.5m). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables:

	2009 £m	2008 £m
3-12 months	**3.4**	6.2
Over 12 months	**6.7**	4.3
	10.1	10.5

17. Other financial assets continued

Cash and bank balances

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value. A breakdown of significant bank and cash balances by currency is as follows:

	2009 **£m**	2008 £m
Sterling	**0.1**	229.8
Euro	**8.1**	17.7
Polish Zloty	**2.8**	2.2
Swedish Krona	**2.4**	1.2
US Dollar	**2.2**	2.0
Czech Republic Koruna	**0.7**	0.9
Swiss Franc	**0.7**	0.5
Japanese Yen	**0.5**	0.1
Chinese Yuan	**0.4**	0.5
Brazilian Real	**0.2**	0.7
Canadian Dollar	**0.2**	0.7
Danish Krone	**0.1**	0.5
Other	**1.2**	1.6
Total bank and cash balances	**19.6**	258.4

18. Assets held for sale

As a result of the restructuring programme a number of Group assets are currently held for sale. They comprise the following:

	2009 **£m**	2008 £m
Property, plant and equipment	**5.8**	3.6
Inventories	**0.1**	–
Receivables	**0.3**	–
	6.2	3.6

It is expected that the disposal of these assets will be completed during 2010. The assets held for sale are analysed between operating segments as follows:

	2009 **£m**	2008 £m
Western Europe ADE	**0.9**	0.2
North American ADE	**0.6**	1.9
Western Europe AGI	**2.4**	0.4
North American AGI	**0.7**	0.9
Emerging Markets AGI	**1.6**	–
Head office	**–**	0.2
	6.2	3.6

19. Borrowings

	2009 £m	2008 £m
Borrowings at amortised cost		
Bank overdrafts	**3.3**	8.9
Non cumulative redeemable preference shares	**–**	0.7
Loans	**99.5**	309.6
	102.8	319.2
The borrowings are repayable as follows:		
On demand or within one year	**6.0**	16.3
In the second year	**0.2**	194.8
In the third to fifth years	**96.3**	107.7
After five years	**0.3**	0.4
	102.8	319.2
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(6.0)**	(16.3)
Amount due for settlement after 12 months	**96.8**	302.9

Analysis of borrowings by currency:

	Sterling £m	**Euro £m**	**US Dollar £m**	**Swedish Krona £m**	**Swiss Franc £m**	**Other currencies £m**	**Total £m**
At 31 December 2009							
Bank overdrafts	**1.2**	**1.0**	**0.3**	**0.7**	**–**	**0.1**	**3.3**
Loans	**75.0**	**14.5**	**2.6**	**7.0**	**–**	**0.4**	**99.5**
	76.2	**15.5**	**2.9**	**7.7**	**–**	**0.5**	**102.8**
At 31 December 2008							
Bank overdrafts	–	7.7	0.4	0.5	–	0.3	8.9
Non cumulative redeemable preference shares	0.7	–	–	–	–	–	0.7
Loans	–	120.8	152.9	22.5	9.8	3.6	309.6
	0.7	128.5	153.3	23.0	9.8	3.9	319.2

	2009 %	2008 %
The weighted average interest rates paid were as follows:		
Bank overdrafts and loans	**1.6**	4.5

Loans and finance leases of £3.0m (2008: £4.6m) were arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

19. Borrowings continued

The Directors estimate the fair value of the Group's borrowings as follows:

	2009 £m	2008 £m
Bank overdrafts	**3.3**	8.9
Non cumulative redeemable preference shares	**–**	0.7
Loans	**99.5**	309.6

The other principal features of the Group's borrowings are as follows:

(i) Bank overdrafts are repayable on demand. No overdrafts are secured.

(ii) The Group has three principal loans which are secured by upstream guarantees provided by subsidiaries:

(a) Drawings of £Nil (2008: £194.8m) under a Revolving Credit Facility of £225m. This unsecured facility commenced on 22 August 2005 for a period of five years. The multi currency drawings under this facility carry an interest rate of between 0.50% and 0.75% above LIBOR (the margin at 31 December 2009 was 0.50%).

(b) Drawings of £96.2m (2008: £107.3m) under a Revolving Credit Facility of €125m. This unsecured facility commenced on 31 July 2006 for a period of seven years. The Euro drawings under this facility carry an interest rate of between 0.80% and 1.10% above LIBOR (the margin at 31 December 2009 was 0.8%).

(c) Letters of credit and loan drawings of £6.5m (2008: £10.5m) under a Revolving Credit and Letter of Credit Facility of $20m. This unsecured facility commenced on 17 August 2007 for a period of three years. The US Dollar drawings and Letter of Credit fees under this facility carry a margin/fee of between 0.50% and 0.75% above LIBOR (the margin/fee at 31 December 2009 was 0.50%).

At 31 December 2009 the Group had available £245.8m (2008: £47.1m) of undrawn committed borrowing facilities.

All borrowings are classified as financial liabilities measured at amortised cost.

20. Derivative financial instruments

Currency derivatives that are designated and effective as hedging instruments carried at fair value

Asset/(liability)	Notional amount 2009 £m	Fair value 2009 £m	Notional amount 2008 £m	Fair value 2008 £m
Current				
Forward foreign exchange contracts	**1.3**	**0.1**	(50.4)	1.6
Cross currency swaps - fixed/fixed	**31.2**	**0.2**	46.1	(17.1)
Cross currency swaps - floating/floating	**39.3**	**(3.3)**	39.7	(9.0)
Energy contracts	**1.7**	**(0.4)**	–	–
	73.5	**(3.4)**	35.4	(24.5)
Non-current				
Forward foreign exchange contracts	**0.7**	**–**	–	–
Cross currency swaps - fixed/fixed	**10.7**	**(0.3)**	2.1	(0.2)
Cross currency swaps - floating/floating	**–**	**–**	20.5	(5.0)
Energy contracts	**0.1**	**–**	–	–
	11.5	**(0.3)**	22.6	(5.2)
Total				
Forward foreign exchange contracts	**2.0**	**0.1**	(50.4)	1.6
Cross currency swaps - fixed/fixed	**41.9**	**(0.1)**	48.2	(17.3)
Cross currency swaps - floating/floating	**39.3**	**(3.3)**	60.2	(14.0)
Energy contracts	**1.8**	**(0.4)**	–	–
	85.0	**(3.7)**	58.0	(29.7)

20. Derivative financial instruments continued

The Group utilises currency derivatives to hedge material future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are primarily denominated in the currencies of the Group's principal markets. The unrecognised gains and losses were not material in either 2009 or 2008.

Fair value is determined using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The Group's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk) and floating rate borrowings (cash flow risk). From time to time the Group will use interest rate derivative contracts to manage its exposure to interest rate movements within Group policy. However at the balance sheet date the Group had no interest rate derivative contracts.

In addition, energy derivatives have been used in Sweden to fix forward electricity prices, however this position is expected to unwind in 2010.

At the balance sheet date the Group had entered into foreign currency denominated cross currency swaps that were designated as a hedging instrument for the purposes of hedging the translation of its foreign operations. The contracts are entered into either with both currencies at floating interest rates (generally based on 3 month LIBOR interest rates) or both currencies at fixed interest rates. The details are:

Asset/(liability)	Sterling 2009 £m	Euro 2009 £m	US Dollar 2009 £m	Swedish Krona 2009 £m	Danish Krone 2009 £m	Swiss Franc 2009 £m	Czech Koruna 2009 £m	Total fair value 2009 £m
Forward foreign exchange contracts	**(0.1)**	**1.9**	**(1.5)**	**–**	**–**	**–**	**(0.2)**	**0.1**
Fixed/fixed	**41.9**	**(35.5)**	**–**	**–**	**–**	**(6.5)**	**–**	**(0.1)**
Floating/floating	**39.3**	**(33.8)**	**–**	**(3.5)**	**(3.0)**	**(2.3)**	**–**	**(3.3)**
Energy contracts	**–**	**–**	**–**	**(0.4)**	**–**	**–**	**–**	**(0.4)**
Total	**81.1**	**(67.4)**	**(1.5)**	**(3.9)**	**(3.0)**	**(8.8)**	**(0.2)**	**(3.7)**
On demand or within one year	**70.4**	**(59.2)**	**(0.8)**	**(3.9)**	**(3.0)**	**(6.7)**	**(0.2)**	**(3.4)**
In the second year	**10.7**	**(8.2)**	**(0.7)**	**–**	**–**	**(2.1)**	**–**	**(0.3)**
	81.1	**(67.4)**	**(1.5)**	**(3.9)**	**(3.0)**	**(8.8)**	**(0.2)**	**(3.7)**

Asset/(liability)	Sterling 2008 £m	Euro 2008 £m	US Dollar 2008 £m	Swedish Krona 2008 £m	Danish Krone 2008 £m	Canadian Dollar 2008 £m	Swiss Franc 2008 £m	Singapore Dollar 2008 £m	Total fair value 2008 £m
Forward foreign exchange contracts	(50.4)	1.2	50.1	(4.8)	–	3.0	–	2.5	1.6
Fixed/fixed	48.2	(53.1)	–	(4.8)	–	(3.0)	(4.6)	–	(17.3)
Floating/floating	60.2	(56.0)	–	(3.5)	(6.5)	(3.2)	(5.0)	–	(14.0)
Total	58.0	(107.9)	50.1	(13.1)	(6.5)	(3.2)	(9.6)	2.5	(29.7)
On demand or within one year	35.4	(85.7)	50.1	(13.1)	(3.2)	(3.2)	(7.3)	2.5	(24.5)
In the second year	22.6	(22.2)	–	–	(3.3)	–	(2.3)	–	(5.2)
	58.0	(107.9)	50.1	(13.1)	(6.5)	(3.2)	(9.6)	2.5	(29.7)

Additional information on financial instruments is given in the Finance Director's Report on pages 26 to 33.

21. Deferred tax

The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation £m	Tax losses £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 January 2008	64.9	(2.2)	(6.4)	(11.7)	44.6
Credit to income	(8.4)	(7.9)	(0.2)	(13.7)	(30.2)
Credit to equity	–	–	(2.1)	(0.1)	(2.2)
Acquisition of subsidiaries	0.6	(0.1)	–	(0.8)	(0.3)
Disposal of subsidiaries	(1.7)	1.2	0.3	6.0	5.8
Transfers	–	1.1	–	0.2	1.3
Exchange differences	15.7	(1.4)	(0.5)	(7.0)	6.8
At 1 January 2009	**71.1**	**(9.3)**	**(8.9)**	**(27.1)**	**25.8**
(Credit)/charge to income	**(6.0)**	**(12.7)**	**5.8**	**5.7**	**(7.2)**
Credit to equity	**–**	**–**	**(0.8)**	**(0.1)**	**(0.9)**
Transfers	**(5.4)**	**9.3**	**(0.4)**	**(1.8)**	**1.7**
Exchange differences	**(5.5)**	**0.4**	**0.2**	**2.0**	**(2.9)**
At 31 December 2009	**54.2**	**(12.3)**	**(4.1)**	**(21.3)**	**16.5**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2009 £m	2008 £m
Deferred tax liabilities	**73.4**	78.3
Deferred tax assets	**(56.9)**	(52.5)
	16.5	25.8

At the balance sheet date, the Group has unused tax losses of £177.1m (2008: £115.0m) available for offset against future profits. A deferred tax asset has been recognised in respect of £83.4m (2008: £42.2m) of such losses, based on management forecasts of future taxable profits against which the assets can be recovered in the relevant jurisdictions. No deferred tax asset has been recognised in respect of the remaining £93.7m (2008: £72.8m) of such losses. All recognised losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £525.8m (2008: £601.9m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. Temporary differences arising in connection with interests in associates and joint ventures are insignificant. The deferred tax liabilities not provided at 31 December 2009 are significantly reduced from the previous year as a result of a change to UK tax legislation which largely exempts from UK tax, overseas dividends received on or after 1 July 2009. Temporary differences at 31 December 2009 represent only the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings may still result in a tax liability, principally as a result of dividend withholding taxes levied by the overseas tax jurisdictions in which these subsidiaries operate.

22. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Amounts payable under finance leases:				
Within one year	**1.0**	1.5	**0.7**	1.2
In the second to fifth years inclusive	**1.5**	2.8	**1.2**	2.3
After five years	**0.4**	0.4	**0.4**	0.4
	2.9	4.7	**2.3**	3.9
Less: future finance charges	**(0.6)**	(0.8)		
Present value of lease obligations	**2.3**	3.9		
Analysed as:				
Amount due for settlement after 12 months			**1.6**	2.7
Amount due for settlement within 12 months (shown as current liabilities)			**0.7**	1.2
			2.3	3.9

The present value of minimum lease payments is denominated in the following currencies:

	2009	2008
Euro	**0.5**	1.4
Sterling	**0.7**	0.8
Danish Krone	**0.6**	0.8
US Dollar	**0.5**	0.7
Other	**–**	0.2
	2.3	3.9

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3.7 years. For the year ended 31 December 2009, the average effective borrowing rate was 7.8% (2008: 7.8%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

23. Other financial liabilities

Trade and other payables

	2009 £m	2008 £m
Amounts falling due within one year:		
Trade creditors	**29.9**	42.6
Other taxes and social security	**14.7**	16.1
Other creditors	**11.4**	16.0
Accruals and deferred income	**37.2**	44.2
	93.2	118.9
Amounts falling due after more than one year:		
Other creditors	**7.5**	9.4

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days (2008: 53 days).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Less than 1 year 2009 £m	1-2 years 2009 £m	2-5 years 2009 £m	5+ years 2009 £m	Total 2009 £m
Non-interest bearing	**114.5**	**9.2**	**4.8**	**5.2**	**133.7**
Finance lease liability	**0.9**	**0.9**	**0.5**	**0.5**	**2.8**
Bank loans and overdrafts	**117.4**	**0.2**	**0.3**	**0.3**	**118.2**
Derivative financial instruments	**77.5**	**11.5**	**–**	**–**	**89.0**
	310.3	**21.8**	**5.6**	**6.0**	**343.7**

	Less than 1 year 2008 £m	1-2 years 2008 £m	2-5 years 2008 £m	5+ years 2008 £m	Total 2008 £m
Non-interest bearing	146.1	11.6	7.4	5.9	171.0
Finance lease liability	1.5	1.5	1.2	0.5	4.7
Bank loans and overdrafts	337.6	0.1	0.4	0.4	338.5
Derivative financial instruments	175.5	28.9	–	–	204.4
	660.7	42.1	9.0	6.8	718.6

Of the £118.2m (2008: £338.5m) bank loan and overdraft outflows disclosed above, £Nil (2008: £194.8m) and £96.2m (2008: £107.3m) of bank loans are drawn under committed facilities maturing on 22 August 2010 and 31 July 2013 respectively. The overdrafts are on-demand and largely part of pooling arrangements, which include offsetting cash balances. Of the £89.0m (2008: £204.4m) derivative financial instrument outflows disclosed above, £85.1m (2008: £174.0m) are matched by derivative cash inflows.

24. Provisions

	Restructuring £m	Restructuring Environ-mental £m	Environ-mental £m	Total £m
At 1 January 2009	24.2	10.7	7.8	42.7
Increase in provision	15.7	0.2	0.2	16.1
Release of provision	(3.1)	–	–	(3.1)
Utilisation of provision	(17.8)	(1.4)	(0.2)	(19.4)
Exchange difference	(1.4)	–	(1.9)	(3.3)
At 31 December 2009	**17.6**	**9.5**	**5.9**	**33.0**
Included in current liabilities				21.3
Included in non-current liabilities				11.7
				33.0

The restructuring provision relates to the remaining costs associated with the closure of various Heat Treatment sites. Further details are contained in the Finance Director's Report.

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. In the current year the environmental provision has been 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.

Cash outflows in respect of these liabilities are expected to occur within 5 years.

25. Share capital

	2009 £m	2008 £m
Authorised:		
248,947,368 (2008: 248,947,368) ordinary shares of 17 3/11p each	**43.0**	43.0
325,000,000 (2008: 325,000,000) B shares of 40p each	**130.0**	130.0
Issued and fully paid:		
188,167,712 (2008: 187,531,124) ordinary shares of 17 3/11p each	**32.5**	32.4

B shares (Non cumulative redeemable preference shares of 40p each):

	Number of shares	£m
At 1 January 2009	**1,658,625**	**0.7**
Purchased and cancelled	**(1,658,625)**	**(0.7)**
At 31 December 2009	–	–

	£m
Share capital classified as equity at 31 December 2009	**32.5**
Share capital classified as debt at 31 December 2009	**–**
Total share capital at 31 December 2009	**32.5**

During 2008 the Group issued £129.4m of B shares out of the share premium account. The B shares could be converted into deferred shares with a negligible value in return for a dividend of 40p per share or redeemed for 40p per share in cash.

26. Notes to the cash flow statement

	2009 £m	2008 £m
(Loss)/profit for the year	**(51.1)**	150.7
Adjustments for:		
Investment revenues - continuing and discontinued	**(1.5)**	(5.7)
Finance costs - continuing and discontinued	**5.8**	15.7
Taxation - continuing and discontinued	**(3.4)**	6.8
Depreciation of property, plant and equipment	**48.5**	57.8
Amortisation of intangible assets	**2.4**	2.9
(Profit)/loss on disposal of property, plant and equipment	**(0.1)**	0.1
Share-based payments	**(0.1)**	2.6
Impairment charge	**31.5**	44.0
Major facility closure costs	**12.6**	42.7
Gain on disposal of discontinued operations	**–**	(199.3)
EBITDA*	**44.6**	118.3
Decrease in inventories	**1.4**	1.5
Decrease in receivables	**29.2**	2.3
Decrease in payables	**(21.6)**	(16.8)
(Decrease)/increase in provisions	**(5.9)**	30.6
Cash generated by operations	**47.7**	135.9
Cash outflow from settlement of derivative financial instruments	**(12.3)**	(12.9)
Income taxes paid	**(24.4)**	(20.5)
Net cash from operating activities	**11.0**	102.5

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

Cash and cash equivalents comprise cash at bank (including bank overdrafts) and other short-term highly liquid investments with a maturity of three months or less.

27. Operating lease arrangements - the group as lessee

	2009 £m	2008 £m
Minimum lease payments under operating leases recognised as an expense	**14.1**	11.6

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 £m	2008 £m
Within one year	**8.1**	9.5
In the second to fifth years inclusive	**20.0**	23.3
After five years	**12.0**	13.6
	40.1	46.4

Operating lease payments represent rentals payable by the Group for certain of its land and buildings, fixtures and fittings and motor vehicles.

28. Share-based payments - Equity-settled share option scheme

The Company operates 3 share option schemes in relation to Group employees. Options are exercisable at the middle market closing price for the working day prior to the date of grant and are exercisable 3 years from the date of grant if stated performance criteria have been met. Options lapse if not exercised within ten years (7 years for the 1996 scheme) of the date of grant or if the participant leaves Group employment.

Details of the share options outstanding during the year are as follows.

Date of grant	Option price in pence	Exercise period	No. of options outstanding 2009	No. of options outstanding 2008
Apr-99	370.26	2002-2009	–	167,108
Dec-99	292.19	2002-2009	–	58,823
May-00	231.42	2003-2010	**245,316**	324,985
Apr-01	203.37	2004-2011	**471,391**	572,975
Sep-02	125.76	2005-2009 *	–	25,349
Sep-02	125.76	2005-2012	**139,032**	295,495
Sep-03	147.27	2006-2013	**410,581**	568,067
			1,266,320	2,012,802

Shares under option marked* have been purchased in the market from previously issued share capital and are held by the trustees of the Bodycote International Employee Benefit Trust.

Movements in share options are summarised as follows:

	Number of shares under option 2009	Weighted average exercise price 2009 pence	Number of shares under option 2008	Weighted average exercise price 2008 pence
Outstanding at beginning of year	**2,012,802**	**197.04**	2,732,035	210.50
Exercised during the year	**(261,937)**	**132.13**	(244,173)	152.06
Expired during the year	**(484,545)**	**267.24**	(475,060)	322.56
Outstanding and exercisable at the end of the year	**1,266,320**	**183.95**	2,012,802	197.04

The weighted average share price at the date of exercise for share options exercised during the year was 132.13 pence. The options outstanding at 31 December 2009 had a weighted average exercise price of 183.95 pence, and a weighted average remaining contractual life of 2.1 years. The average share price during the year was 145.17 pence.

The inputs into the Black-Scholes model are as follows:

		2009	2008
Weighted average share price	pence	**157.5**	157.5
Weighted average exercise price	pence	**157.5**	157.5
Expected volatility	%	**42.7**	42.7
Expected life	years	**3.0**	3.0
Risk-free rate	%	**4.0**	4.0
Expected dividends	%	**4.3**	4.3

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total income of £0.1m (2008: expenses of £2.6m) related to equity-settled share-based payment transactions.

29. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in the Company's separate financial statements.

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group, namely SSCP Coatings S.à.r.l. and Thai Induction Services Company Ltd:

	Sale of goods and services		Purchase of goods and services		Amounts owed by related parties		Amounts owed to related parties	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Associates	**3.3**	3.1	**0.2**	0.2	**18.0**	18.2	**–**	–

Sales of goods and services includes payments received from finance leases (see note 16), the provision of management services and interest receivable. All transactions were made at arm's length.

The amounts outstanding will be settled in cash, none of which are secured. No guarantees have been given or received. £17.0m (2008: £16.0m) of provisions have been made for doubtful debts of which £1.0m (2008: £14.9m) was expensed during the year in respect of the amounts owed by related parties.

During the year the small associate business in Thailand was sold back to the associate partners resulting in a cash inflow of £6.9m. As a result of the termination of the agreement the Group reported a loss of £2.5m.

The remuneration of the Board of Directors, who are considered key management personnel of the Group was as follows:

	2009	2008
	£m	£m
Short-term employee benefits	**1.2**	1.9
Share-based payments	**0.4**	0.3
	1.6	2.2

Further information about the remuneration of the individual directors is provided in the Board Report on Remuneration on pages 46 to 53.

30. Retirement benefit obligations

The Group operated a number of pension schemes and provided leaving service benefits to certain employees during the year. The defined benefit obligation less fair value of assets at the end of the year and total expense recognised in the income statement are summarised below as follows:

Defined benefit schemes

	2009 £m	2008 £m
UK Scheme	**3.7**	0.7
Non-UK schemes	**11.3**	14.2
	15.0	14.9

Total expense recognised in income statement

	2009 £m	2008 £m
UK Scheme	**1.2**	1.5
Non-UK schemes	**0.4**	0.4
	1.6	1.9

Further details of the Group's defined benefit arrangements are given in the Finance Director's Report on page 29.

UK Scheme

The Company sponsors the Bodycote UK Pension Scheme which is a funded defined benefit arrangement for certain UK employees. The last full actuarial valuation of the scheme was carried out by a qualified independent actuary as at 6 April 2008 and updated on an approximate basis to 31 December 2009.

The contributions made by the employer over the financial year have been £1.0m, comprising £0.7m in respect of benefit accrual and £0.3m in respect of ongoing expense. This level of contribution has been reviewed following the triennial valuation of the Scheme completed as at 6 April 2008 and it is expected that the deficit will be extinguished by December 2016.

It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside of the profit and loss account and in the Statement of Recognised Income and Expense.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2009 £m	2008 £m
Defined benefit obligation at start of year	**63.7**	61.0
Current service cost	**0.8**	1.1
Interest cost	**3.8**	3.4
Contributions by plan participants	**0.4**	0.6
Actuarial loss/(gain)	**7.3**	(0.6)
Benefits paid, death in service insurance premiums and expenses	**(2.4)**	(1.8)
Defined benefit obligation at end of year	**73.6**	63.7

Reconciliation of opening and closing balances of the fair value of plan assets

	2009 £m	2008 £m
Fair value of assets at start of year	**63.0**	47.6
Expected return on assets	**3.4**	3.0
Actuarial gain/(loss)	**4.5**	(10.7)
Contributions by employer	**1.0**	24.1
Contributions by plan participants	**0.4**	0.6
Benefits paid, death in service insurance premiums and expenses (including age related rebate)	**(2.4)**	(1.6)
Fair value of assets at end of year	**69.9**	63.0

30. Retirement benefit obligations continued

Total expense recognised in the income statement

	2009 **£m**	2008 £m
Current service cost	**0.8**	1.1
Interest on pension scheme liabilities	**3.8**	3.4
Expected return on pension scheme assets	**(3.4)**	(3.0)
Total expenses	**1.2**	1.5

The cumulative amount of actuarial losses recognised in the Statement of Income and Expense since adoption of IAS 19 is £13.0m.

Assets

	2009 **£m**	2008 £m	2007 £m
Equities (including property)	**26.0**	22.1	29.2
Bonds (including Gilts)	**38.7**	14.9	11.7
Treasury Bonds	**–**	21.0	–
Cash	**0.1**	0.6	0.5
With profits insured policy	**0.6**	0.3	1.5
Hedge funds	**4.5**	4.1	4.7
	69.9	63.0	47.6

None of the fair value of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

Expected long-term rates of return
The expected long-term return on cash is equal to bank base rate at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities and property have been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.

The expected long-term rates of return are as follows:

	2009 **% per annum**	2008 % per annum	2007 % per annum
Equities	**7.3**	6.6	7.4
Bonds	**5.3**	4.8	5.0
Treasury Bonds	**–**	5.5	–
With profits insured policy	**5.3**	4.8	5.1
Hedge funds	**7.3**	6.6	7.4
Cash	**0.5**	1.5	5.5
Overall for scheme	**6.1**	5.7	6.7

Actual return on plan assets
The actual return on the plan assets for the year ended 31 December 2009 was 12.5%.

30. Retirement benefit obligations continued

Assumptions

	2009 % per annum	2008 % per annum	2007 % per annum
Inflation	**3.70**	3.15	3.35
Salary increases	**3.00**	3.00	3.00
Rate of discount	**5.70**	6.00	5.60
Allowance for pension in payment increases of RPI or 5% p.a. if less	**3.60**	3.10	3.35
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	**3.70**	3.15	3.65
Mortality – current pensioners			
Actuarial tables used	**Pa 92 YOB MC 1% underpin**	Pa 92 YOB MC 1% underpin	Pa 92 YOB MC
Life expectancy for members currently aged 65	22.5	22.5	21.9
Mortality – future pensioners			
Actuarial tables used	**Pa 92 YOB MC 1% underpin**	Pa 92 YOB MC 1% underpin	Pa 92 YOB MC
Life expectancy at age 65 for members currently aged 40	24.0	24.0	23.2

Impact of changes to assumptions

The impact of changes to certain assumptions on the current deficit and the 2010 charge to the income statement on the UK scheme is shown in the table below:

	Impact on current deficit £m	**Impact on 2010 charge to income statement £m**
Change in discount rate by 0.25% (decrease in rate increases liability)	3.7	0.1
Change in inflation assumption by 0.25% (increase in rate increases liability)	2.6	0.2
Life expectancy increased by 1 year (increases liability)	1.6	0.1

Present value of defined benefit obligations, fair value of assets and deficit

	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligation	**73.6**	63.7	61.0
Fair value of plan assets	**(69.9)**	(63.0)	(47.6)
Deficit in the scheme	**3.7**	0.7	13.4

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2009 is that recognised in the balance sheet.

The best estimate of contributions to be paid into the plan for the year ending 31 December 2010 is £1.1m.

Amounts for the current and previous four years

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of assets	**(69.9)**	(63.0)	(47.6)	(43.9)	(37.7)
Present value of defined benefit obligation	**73.6**	63.7	61.0	67.2	59.5
Deficit in the scheme	**3.7**	0.7	13.4	23.3	21.8
Loss/(gain) from experience adjustment on plan liabilities	**–**	0.4	(0.1)	–	0.4
Experience adjustment on plan assets	**4.5**	(10.7)	(0.8)	0.7	4.5

30. Retirement benefit obligations continued

Combined non-UK disclosures

The Group operates schemes in the USA, Brazil and continental Europe. In the US there are three defined benefit pension arrangements. These are Metallurgical Inc Pension Plan, Combined Bodycote Pension Plan and the Supplemental Retirement Plan. All are closed to new accrual. The last full actuarial valuation of these schemes was carried out by a qualified independent actuary as at 1 January 2008 (31 December 2008 for the for the Metallurgical Plan) and updated on an approximate basis to 31 December 2009. Contributions made by the Company over the year were $0.5m. The Group also operates a defined benefit scheme for 3 employees in Brazil.

In Europe the Group operates defined benefit pension, post retirement and long-service arrangements for certain employees in France, Germany, Italy, Turkey, (all of which are unfunded), Sweden, Switzerland and Liechtenstein. The liability in Sweden was settled during 2009 and the figures below reflect this.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2009 **£m**	2008 £m
Defined benefit obligation at start of year	**22.6**	14.6
Current service cost	**0.5**	0.5
Interest cost	**1.3**	1.1
Actuarial loss	**0.9**	4.2
Benefits paid, death in service insurance premiums and expenses	**(2.7)**	(1.2)
Settlement	**(1.0)**	(2.5)
Employee contributions	**0.1**	0.2
Exchange rate (gain)/loss	**(1.9)**	5.7
Defined benefit obligation at end of year	**19.8**	22.6

Reconciliation of opening and closing balances of the fair value of plan assets

	2009 **£m**	2008 £m
Fair value of assets at start of year	**8.4**	4.1
Expected return on assets	**0.4**	0.5
Actuarial gain	**0.6**	2.9
Contributions by employer	**0.5**	0.4
Contributions by employees	**0.1**	0.2
Benefits paid, death in service insurance premiums and expenses	**(0.8)**	(0.2)
Settlements	**–**	(1.8)
Exchange rate (loss)/gain	**(0.7)**	2.3
Fair value of assets at end of year	**8.5**	8.4

Total expense recognised in the income statement

	2009 **£m**	2008 £m
Current service cost	**0.5**	0.5
Interest on pension scheme liabilities	**1.3**	1.1
Expected return on pension scheme assets	**(0.4)**	(0.5)
Settlement gain	**(1.0)**	(0.7)
Total expenses	**0.4**	0.4

The cumulative amount of actuarial losses recognised in the statement of recognised income and expenses since adoption of IAS 19 is £0.9m.

30. Retirement benefit obligations continued

Assets

	2009 £m	2008 £m	2007 £m
Equities	**0.9**	1.3	1.4
Bonds	**0.7**	0.8	0.5
Cash	**0.9**	–	0.1
Insurance contracts - Brazil	**1.0**	0.6	0.5
Insurance contracts - Switzerland and Liechtenstein	**5.0**	5.7	1.6
	8.5	8.4	4.1

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

Expected long-term rates of return
The expected long-term return on assets vary by country and each reflect the respective expected future market rates or returns on assets underlying insurance contracts where relevant.

Actual return on plan assets
The actual return on the plan assets for the year ending 31 December 2009 was 5%.

Assumptions for 2009

	Salary increases % per annum	**Rate of discount % per annum**	**Inflation % per annum**	**Pension increases % per annum**
USA	n/a	6.00	n/a	n/a
Brazil	6.59	11.19	4.50	n/a
France	3.80	5.00	2.00	n/a
Germany	2.50	5.10	n/a	1.75
Sweden	n/a	n/a	n/a	n/a
Italy	n/a	4.25	2.00	n/a
Turkey	n/a	11.00	4.80	n/a
Liechtenstein	2.50	3.25	n/a	n/a
Switzerland	3.00	3.25	n/a	n/a

Present value of defined benefit obligations, fair value of assets and deficit

	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligation	**19.8**	22.6	14.6
Fair value of plan assets	**(8.5)**	(8.4)	(4.1)
Deficit in the scheme	**11.3**	14.2	10.5

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2009 is that recognised in the balance sheet.

Amounts for the current and previous four years

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of assets	**(8.5)**	(8.4)	(4.1)	(3.7)	(1.9)
Present value of defined benefit obligation	**19.8**	22.6	14.6	14.5	10.0
Deficit in the scheme	**11.3**	14.2	10.5	10.8	8.1
(Loss)/gain on experience on plan liabilities	**(0.3)**	(3.7)	(0.9)	0.6	(1.6)
Gain on experience on plan assets	**0.6**	2.9	0.1	0.3	–
(Loss)/gain from effects of changing assumptions	**(0.7)**	(0.5)	(1.2)	0.3	–

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2009 is that recognised in the balance sheet. The only funded plans are those operated in USA, Brazil, Switzerland and Liechtenstein (Sweden having been settled in 2009). The best estimate of contributions to be paid into the plans for the year ending 31 December 2010 is £0.35m.

FIVE YEAR SUMMARY

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Revenue					
Existing operations	**435.4**	551.8	465.2	413.9	384.4
Discontinued operations	**–**	164.9	175.3	144.7	88.0
Revenue - continuing and discontinued operations	**435.4**	716.7	640.5	558.6	472.4
Profit for continuing and discontinued operations:					
Headline operating profit	**8.0**	91.7	91.3	79.7	67.8
Share of results of associates' interest and tax	**–**	–	–	(0.6)	(0.8)
Amortisation and impairment of goodwill and intangible fixed assets	**(32.8)**	(33.8)	(9.1)	(7.0)	(6.0)
Impairment of investment in associate	**–**	(12.1)	–	(8.3)	–
Major facility closure costs	**(25.4)**	(77.6)	(5.4)	(5.0)	–
Change to pension scheme rules	**–**	–	4.1	–	–
Bid response costs	**–**	–	(2.1)	–	–
Profit on disposal of operations	**–**	199.3	–	–	–
(Loss)/profit before interest and tax	**(50.2)**	167.5	78.8	58.8	61.0
Net interest payable	**(4.3)**	(10.0)	(10.3)	(12.2)	(8.3)
(Loss)/profit before taxation	**(54.5)**	157.5	68.5	46.6	52.7
Taxation	**3.4**	(6.8)	(14.7)	(2.7)	(11.8)
(Loss)/profit after taxation	**(51.1)**	150.7	53.8	43.9	40.9
Minority interests	**1.0**	(0.9)	(1.0)	(0.8)	(0.2)
Profit attributable to the equity holders of the parent	**(50.1)**	149.8	52.8	43.1	40.7
Headline earnings per share (pence)	**0.4**	17.5	16.6	17.3	14.6
Dividends per share (pence)	**8.3**	8.3	8.0	7.0	6.4
Assets employed					
Intangible fixed assets	**118.8**	154.4	227.3	212.3	157.9
Tangible fixed assets	**461.8**	533.3	508.9	448.4	442.9
Other assets and liabilities	**(72.5)**	(126.1)	(41.4)	(45.9)	(58.7)
	508.1	561.6	694.8	614.8	542.1
Financed by					
Share capital	**32.5**	32.4	32.4	32.2	32.1
Reserves	**387.8**	459.6	457.6	417.3	400.0
Shareholders' funds	**420.3**	492.0	490.0	449.5	432.1
Minority interests	**2.3**	4.9	6.6	4.4	1.4
Net borrowings	**85.5**	64.7	198.2	160.9	108.6
Capital Employed	**508.1**	561.6	694.8	614.8	542.1
Net assets per share (pence)	**223.4**	262.4	151.4	139.5	134.5
Return on capital employed:					
Headline operating profit (continuing and discontinued operations) divided by average capital employed	**1.5**	12.6	13.9	13.8	12.9

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2009

	2009 £m	2008 £m	Note
Fixed assets			
Tangible fixed assets	**2.9**	2.6	2
Investments	**395.1**	411.0	3
	398.0	413.6	
Current assets			
Debtors			
– due within one year	**22.6**	20.4	4
– due after one year	**70.3**	86.3	4
Cash at bank and in hand	**2.8**	3.5	
	95.7	110.2	
Current liabilities			
Creditors : Amounts falling due within one year	**(13.4)**	(23.2)	5
Net current assets	**82.3**	87.0	
Total assets less current liabilities	**480.3**	500.6	
Creditors : Amounts falling due after more than one year	**(0.5)**	(5.1)	5
Net assets	**479.8**	495.5	
Capital and reserves			
Called-up share capital	**32.5**	32.4	7
Share premium account	**176.0**	175.7	7
Other reserves	**125.0**	124.1	7
Profit and loss account	**146.3**	163.3	7
Shareholders' funds	**479.8**	495.5	

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 25 February 2010. They were signed on its behalf by:

S. C. Harris
D. F. Landless } Directors

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BODYCOTE PLC

We have audited the Parent Company financial statements of Bodycote plc for the year ended 31 December 2009, which comprise the Parent Company Balance Sheet, Accounting Policies and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Board Report on Remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the group financial statements of Bodycote plc for the year ended 31 December 2009 and the information in the Board Report on Remuneration that is described as having been audited.

Sharon Fraser, Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Manchester, UK
25 February 2010

ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention and in accordance with applicable law and United Kingdom accounting standards. The accounting policies have been applied consistently throughout the year and the preceding year in dealing with items that are considered material in relation to the Company's financial statements. In accordance with Section 408 of the Companies Act 2006 a separate profit and loss account dealing with the results of the Company has not been presented.

INVESTMENTS

Investments are held at cost less provision for impairment.

PENSION COSTS

For defined benefit and defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. For further details see Note 10.

LEASES

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

THE COMPANY AS LESSOR

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost or valuation. Depreciation is provided on a straight-line basis, to reduce the carrying value to the estimated residual value at the point of sale, at the following annual rates:

Fixtures and fittings : 10% to 20%

Residual value is calculated on prices prevailing at the date of acquisition.

TAXATION

Current UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

DEBT
Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

DERIVATIVE FINANCIAL INSTRUMENTS
The Company may enter into derivative financial instruments, in particular interest rate swaps, foreign currency swaps and forward exchange contracts to manage the financial risks arising from the business activities and the financing of the Group's activities. The Company does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by Group policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised as assets or liabilities measured at their fair value on the balance sheet date. Changes in the fair value of any derivative instruments that do not fulfil the criteria for hedge accounting contained in FRS 26 are recognised immediately in the income statement.

HEDGE ACCOUNTING
The Company maintains documentation of the relationship between the hedged item and the hedging instrument at the inception of a hedging transaction together with the risk management objective and the strategy underlying the designated hedge. The Company also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges or cash flow hedges:

Fair Value Hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash Flow Hedge
Cash flow hedging matched the cash flows of hedged items against the corresponding cash flow of the derivative. The effective part of any gain or loss on the derivative is recognised directly in equity and the hedged item is accounted for in accordance with the policy for that financial instrument. Any ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Related Party Transactions
The company has taken advantage of the exemption contained in Financial Reporting Standard 8 'Related Party Transactions' not to disclose transactions or balances with entities which form part of the group.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2009

1. (Loss)/profit for the year

Bodycote plc reported a loss for the financial year ended 31 December 2009 of £1.8m (2008: profit £259.2m).

The auditors' remuneration for audit and other services is disclosed in note 3 to the consolidated financial statements.

Total employee costs (including Executive Directors) were:

	2009 £m	2008 £m
Wages and salaries	**3.0**	5.9
Social security costs	**0.3**	0.7
Other pension costs	**0.4**	0.4
	3.7	7.0

2. Tangible fixed assets

	Fixtures and fittings £m
Cost	
At 1 January 2009	4.1
Additions	1.0
Disposals	(1.2)
At 31 December 2009	**3.9**
Depreciation	
At 1 January 2009	1.5
Charge for the year	0.7
Disposals	(1.2)
At 31 December 2009	**1.0**
Net book value	
At 31 December 2009	**2.9**
At 31 December 2008	2.6

3. Investments

	Shares £m	Shares in associates £m	Loans £m	Total £m
Cost				
At 1 January 2009	417.4	7.3	2.2	426.9
Disposals and repayments	(16.2)	–	(2.1)	(18.3)
At 31 December 2009	**401.2**	**7.3**	**0.1**	**408.6**
Provision for impairment				
At 1 January 2009	8.6	7.3	–	15.9
Provision in the year	3.6	–	–	3.6
Disposals	(6.0)	–	–	(6.0)
At 31 December 2009	**6.2**	**7.3**	**–**	**13.5**
Net book value				
At 31 December 2009	**395.0**	**–**	**0.1**	**395.1**
At 31 December 2008	408.8	–	2.2	411.0

Shares in associates comprise :

Name of company	Nature of business	Country of incorporation	% Holding of ordinary shares
SSCP Coatings S.à.r.l.	PVD Coatings	Luxembourg	24

4. Debtors

	2009 £m	2008 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**11.7**	8.3
Corporation tax recoverable	**7.2**	5.3
Deferred taxation (Note 6)	**2.3**	5.0
Finance lease receivables	**0.4**	0.4
Other debtors and prepayments	**1.0**	1.4
	22.6	20.4
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**69.8**	85.6
Finance lease receivables	**0.5**	0.7
	70.3	86.3
	92.9	106.7

5. Creditors

	2009 £m	2008 £m
Amounts falling due within one year:		
Bank loans	**2.6**	3.5
B shares - Non cumulative redeemable preference shares (Note 7)	**–**	0.7
Trade creditors	**0.6**	1.0
Amounts owed to subsidiary undertakings	**1.1**	1.9
Dividends payable	**5.5**	9.4
Other taxes and social security	**0.2**	0.1
Other creditors	**0.5**	0.9
Accruals and deferred income	**2.9**	5.7
	13.4	23.2
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings	**0.5**	5.1
	0.5	5.1
Bank loans are repayable:		
On demand or within 12 months	**2.6**	3.5
	2.6	3.5

6. Deferred taxation

	Deferred tax £m
At 1 January 2009	5.0
Profit and loss credit	1.9
Reclassification to corporation tax recoverable	(4.6)
At 31 December 2009	**2.3**

	2009 £m	2008 £m
Deferred tax is recognised as follows:		
Tax losses	**1.7**	4.8
Other timing differences	**0.6**	0.2
Deferred tax asset	**2.3**	5.0

7. Capital and reserves

Share capital:

Ordinary shares (Allotted, called-up and fully-paid)

	Number of shares	£m
At 1 January 2009	187,531,124	32.4
Exercise of share options	636,588	0.1
At 31 December 2009	**188,167,712**	**32.5**

Details of share options in issue on the Company's share capital and share-based payments are set out in note 28 to the consolidated financial statements.

B shares (Non cumulative redeemable preference shares of 40p each):

	Number of shares	£m
At 1 January 2009	1,658,625	0.7
Purchased and cancelled	(1,658,625)	(0.7)
At 31 December 2009	**–**	**–**

	£m
Share capital classified as equity at 31 December 2009	32.5
Share capital classified as debt at 31 December 2009	–
Total share capital at 31 December 2009	**32.5**

Reserves:

	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2009	175.7	124.1	163.3	463.1
Dividends paid	–	–	(16.1)	(16.1)
Loss for the year	–	–	(1.8)	(1.8)
Redemption of B shares	–	0.7	–	0.7
Premium arising on issue of equity shares (net of expenses)	0.3	–	–	0.3
Share based payments and acquisition of own shares	–	0.2	0.9	1.1
At 31 December 2009	**176.0**	**125.0**	**146.3**	**447.3**

The other reserves is stated after deducting £7.3m (2008: £7.2m) relating to shares held in the Bodycote International Employee Benefit Trust and £Nil (2008: £3.7m) relating to shares held in treasury. The Bodycote International Employee Benefit Trust holds Bodycote plc shares and satisfies awards made under various employee incentive schemes when issuance of new shares is not appropriate.

At 31 December 2009 2,100,427 (2008: 2,490,760) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust and, following recommendations by the employer, are provisionally allocated to satisfy awards under employee incentive schemes. The trust waives payment of dividend. The market value of these was £3.3m (2008: £3.1m).

Included in other reserves is the capital redemption reserve arising on redemption of the B shares of £129.4m (2008: £128.7m).

At 31 December 2009 Nil (2008: 219,318) ordinary shares of 17 3/11p each were held in treasury. The market value of these was £Nil (2008: £0.3m).

8. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £108.1m (2008: £318.4m).

9. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2009 **£m**	2008 £m
Within one year	**0.3**	0.3
In the second to fifth years inclusive	**0.9**	0.9
After five years	**0.7**	0.9
	1.9	2.1

Operating lease payments represent rentals payable by the Company for its land and buildings and motor vehicles.

10. Pension commitments

The Company participates in a group defined benefit scheme, the details of which are disclosed in note 30 to the consolidated financial statements. However, the Company is unable to identify its share of the underlying assets and liabilities and has therefore accounted for the scheme as if it were a defined contribution scheme. Full disclosures concerning the scheme as required by IAS 19 are set out in note 30 to the consolidated financial statements. These also satisfy the requirements of FRS17 Retirement Benefits.

11. Related party transactions

During the year, the Company entered into the following transactions with related parties who are not members of the Group, namely SSCP Coatings S.à.r.l. :

	Sale of goods and services		**Amounts owed by related parties**	
	2009 **£m**	2008 £m	**2009** **£m**	2008 £m
Associates	**2.4**	2.2	**17.9**	18.1

Sales of goods and services include payments received from finance leases, the provision of management services and interest receivable. All transactions were made at arm’s length.

The amounts outstanding will be settled in cash, none of which are secured. No guarantees have been given or received. £17.0m (2008: £16.0m) of provisions have been made for doubtful debts of which £1.0m (2008: £14.9m) was expensed during the year in respect of the amounts owed by related parties.

PRINCIPAL SUBSIDIARY UNDERTAKINGS

THERMAL PROCESSING - HEAT TREATMENT AND METAL JOINING

		Country of incorporation
*Bodycote Heat Treatments Limited	Cambridge, Chard, Cheltenham, Coventry, Derby, Gillingham, Great Barr, Hazel Grove, Macclesfield, Rotherham, Skelmersdale, Stillington and Woodford	England
Bodycote Hardiff GmbH	Landsberg	Germany
Bodycote Wärmebehandlung GmbH	Ebersbach, Eching, Essen, Esslingen, Karben, Korntal, Langenfeld, Langenselbold, Lüdenscheid, Menden, Nürnberg, Otterfing,Remscheid, Sömmerda, Sprockhövel and Wehingen	Germany
Nitrion GmbH	Munich	Germany
Bodycote Hardingscentrum BV	Diemen, Hengelo, Tilburg and Venlo	Netherlands
Bodycote Hardiff BV	Apeldoorn	Netherlands
Bodycote Värmebehandling AB	Göteborg, Hudiksvall, Karlskoga, Malmö, Mora, Stockholm, Värnamo and Västerås	Sweden
Bodycote SAS	Ambazac, Amiens, Beaugency, Billy-Berclau, Cernay, Chanteloup les Vignes, Chassieu, Condé sur Noireau, Gemenos, Gennevilliers, Lagny sur Marne, La Monnerie Le Montel, La Talaudière, Le Subdray, Neuilly en Thelle, Nogent, Pusignan, Serres Castet, St Aubin les Elbeuf, St Nicolas d'Aliermont, St Rémy en Mauges, Villaz and Voreppe	France
Techmeta SA	Metz-Tessy	France
Nitruvid SAS	Argenteuil, Fraisses and Gandrange	France
Bodycote Belgium	Brussels	Belgium
Bodycote Lämpökäsittely Oy	Pieksämäki, Tampere, Vaasa and Vantaa	Finland
Bodycote Varmebehandling A/S	Herlev and Ejby	Denmark
Bodycote Italia Srl	Gorgonzola	Italy
Bodycote Trattamenti Termici SPA	Flero, Madone and Rodengo	Italy
Bodycote Austria Wärmebehandlung GmbH	Kapfenberg, Marchtrenk and Vienna	Austria
Bodycote Rheintal Wärmebehandlung AG	Schaan	Liechtenstein
Bodycote Switzerland Wärmebehandlung AG	Urdorf	Switzerland
Bodycote HT S.r.o	Brno, Krnov, Liberec, Plzen and Prague	Czech Republic
Bodycote Polska Sp z.o.o	Czestochowa, Chelmno, Grodzisk Mazowiecki, Swiebodzin, Warsaw and Zabrze	Poland
Bodycote Tratamente Termice SRL (75% owned) ‡	Brasov, Bucharest and Cugir	Romania
Bodycote Hökezelö KFT	Budapest	Hungary
Bodycote Istas Isil Islem Sanayi ve Ticaret AS (60% owned) ‡	Adana, Ankara, Bursa, Istanbul and Izmir	Turkey
Bodycote IMT Inc.	London OH and Camas WA	USA
Bodycote Thermal Processing, Inc.	Fremont, Santa Fe Springs, Huntington Park, Rancho Dominguez, Vernon, Walnut and Westminster CA, Berlin, Waterbury, South Windsor and Suffield CT, Ipswich and Worcester MA, Canton and Livonia MI, Cincinnati and Cleveland OH, Oklahoma City and Tulsa OK, Arlington, Dallas, Houston and Fort Worth TX, Laconia NH, Melrose Park IL, Indianapolis IN, Eden Prairie MN, Rochester NY, Sturtevant and New Berlin WI	USA

PRINCIPAL SUBSIDIARY UNDERTAKINGS
CONTINUED

THERMAL PROCESSING - HEAT TREATMENT AND METAL JOINING CONTINUED

Bodycote Thermal Processing Canada, Inc.	Newmarket and Kitchener ON	Canada
Bodycote Thermal Processing Mexico Limited	Silao, Mexico	England
Brasimet Commercio e Industria SA	Campinas, Guarulhos, Joinville, Sao Leopoldo and Sao Paulo	Brazil
Bodycote Wuxi Technology Co. Limited	Wuxi	China
Bodycote (Ningbo) Heat Treatment Co. Limited	Ningbo	China
Bodycote Metallurgical Services India Pvt Limited	Ranjangaon	India
Bodycote Japan K.K.	Tokyo	Japan

THERMAL PROCESSING - HOT ISOSTATIC PRESSING

*Bodycote H.I.P. Ltd	Chesterfield and Hereford	England
Bodycote IMT Inc.	Andover MA, London OH and Princeton KT and Camas WA	USA
Bodycote Heiss-Isostatisches Pressen GmbH	Haag	Germany
Bodycote IMT NV	Sint-Niklaas	Belgium
Bodycote Hot Isostatic Pressing AB	Surahammar	Sweden
Bodycote SAS	Magny-Cours	France

THERMAL PROCESSING - SURFACE TECHNOLOGY

*Bodycote Metallurgical Coatings Limited	Knowsley, Macclesfield, Stonehouse, Newport, Neath, Skelmersdale and Wolverhampton	England
Bodycote K-Tech, Inc.	Hot Springs, AR	USA
Bodycote Ytbehandling AB	Katrineholm, Karlstad and Västra Frölunda	Sweden
Bodycote Surface Engineering GmbH & Co KG	Kaufbeuren	Germany
Bodycote Singapore Pte Ltd	Singapore	Singapore
IonBond Argentina SA	Buenas Aires	The Argentine

GROUP SERVICES

*Thomas Cook & Son Insurance Brokers Limited (75% owned)	Burnley	England

Except where stated, these companies are wholly owned subsidiaries and have only one class of issued shares. Subsidiaries marked * are held directly by Bodycote plc. Entities marked ‡ have been treated as subsidiary undertakings in the financial statements because the Group exercises control over these entities.

SHAREHOLDER ENQUIRIES

Enquiries on the following administrative matters can be addressed to the Company's registrars, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA. Telephone 0871 664 0300 (calls to 0871 numbers cost 10p per minute plus network extras – lines are open 8.30am until 5.30pm, Monday to Friday) or +44 (0)208 639 3399; Fax: +44 (0)1484 600911; and email: shareholder.services@capitaregistrars.com.

- Change of address
- Lost share certificates or dividend cheques
- Dividend mandates
- Amalgamation of holdings

Forms for these matters can be downloaded from the registrars' website at www.capitaregistrars.com, where shareholders can also check their holdings and details.

SHARE DEALING SERVICE

Information on a low cost share dealing service offered by our registrar is available from Capita on 0871 664 0300 (calls to 0871 numbers cost 10p per minute plus network extras) or at www.capitadeal.com.

SHAREHOLDER ANALYSIS

Analysis of share register as at 18 February 2010.

Holding range:	Number of Shareholders	%	Number of shares	%
1 to 1,000	1,176	41.1	525,042	0.3
1,001 to 10,000	1,270	44.4	3,939,727	2.1
10,001 to 100,000	269	9.4	8,552,025	4.5
100,001 to 500,000	90	3.2	19,404,186	10.3
500,001 and over	53	1.9	155,746,732	82.8
	2,858	100.0	188,167,712	100.0

Type of shareholders:	% of shareholders	% of total shares
Directors' interests	0.1	1.3
Major institutional and corporate holdings	6.8	89.9
Other shareholdings	93.1	8.8
	100.0	100.0

As at 25 February 2010 the following voting rights in the Company had been notified in accordance with the Disclosure and Transparency Rules.

	Number of shares	%
Standard Life Investments Ltd	15,115,981	8.03
Schroders plc	13,187,266	7.01
Aberforth Partners LLP	9,456,765	5.03
Baillie Gifford & Co	9,402,000	5.00
Legal & General Group plc	7,328,249	3.89
LD Pensions	6,585,747	3.50
Norges Bank	6,035,824	3.21

FINANCIAL CALENDAR

Annual General Meeting	28 April 2010
Final dividend for 2009	7 May 2010
Interim results for 2010	July 2010
Interim dividend for 2010	January 2011
Results for 2010	February 2011

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