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Bodycote

RE-SCAN

*Bodycote...
an international group
providing a range of
metallurgical processing
services to industry*

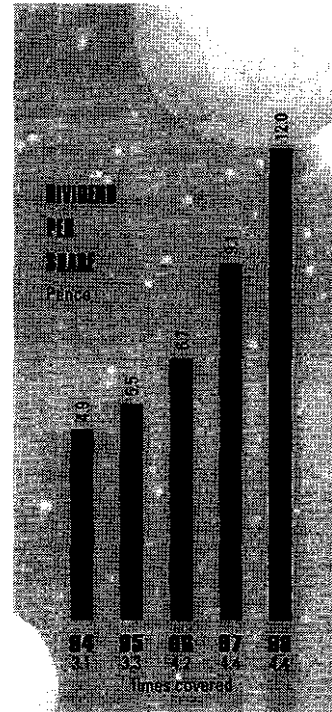
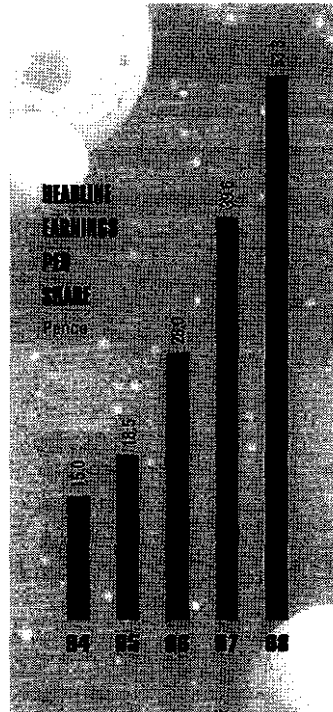
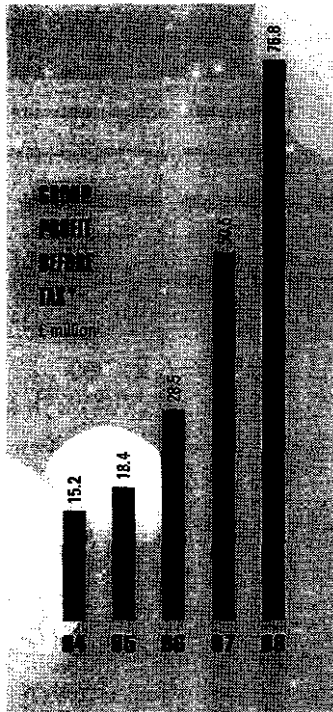


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COMPANIES HOUSE 05/06/99

9-6-99
380

Financial Highlights

	1998 £000	1997 £000
<i>TURNOVER</i>	319,968	206,543
<i>PROFIT BEFORE TAXATION*</i>	76,772	50,513
<i>HEADLINE EARNINGS PER SHARE</i>	53.3p	39.6p
<i>HEADLINE DILUTED EARNINGS PER SHARE</i>	52.7p	39.4p
<i>BASIC EARNINGS PER SHARE</i>	52.5p	40.2p
<i>DIVIDEND PER SHARE</i>	12.0p	9.1p



*Profit before taxation is stated before amortisation of goodwill and exceptional profit.

Chairman's statement

In a year of difficult markets and uncertain business conditions, Bodycote again produced a set of excellent results. Profit before tax, amortisation of goodwill and exceptional items was £76.8 million, a 52% increase over the previous year (1997: £50.5 million). Earnings per share increased to 53.3p from 39.6p last year, a rise of 35%.

Your directors are recommending a final dividend of 7.75p per share, making a total dividend for the year of 12.0p per share (1997: 9.1p), an increase of 32%. The dividend is covered 4.4 times by earnings. These figures have been adjusted to take into account the one for four rights issue completed in January 1998.

Your directors have also decided to recommend that the share capital of the company should be re-organised so that the share price is brought more into line with the share prices of other companies in its sector. The re-organisation will involve the splitting of each existing 25p ordinary share into five separate 5p ordinary shares, followed immediately by the consolidation of every two 5p nominal shares into one new 10p ordinary share. This will mean shareholders currently holding 10,000 25p ordinary shares, will instead receive 25,000 new 10p ordinary shares.

As in previous years, solid organic growth was supplemented by contributions from carefully selected acquisitions which had to meet strict investment criteria. Prominent amongst these were the French subsidiary HIT SA and the UK based Thermal Processing Group both of which produced very good results. Excluding growth derived from the acquisitions made during 1998, those businesses comprising the group as at 31 December 1997 achieved sales and profits growth in the year of 9% and 19% respectively.

During the year £86 million was spent on capital expenditure and £77 million on acquisitions largely financed by the proceeds of the recent rights issue. Net borrowings at the year end were £30.7 million (1997: £46.7 million), which represents gearing of 10%. The group operating margin was maintained at around last year's level with the return on capital employed increasing from 25.8% to 28.4%.

The group is the largest provider of subcontract metallurgical services in the world. This position has been achieved through significant investment into technically sophisticated plant and processes. This investment policy, supplemented by acquisitions where appropriate, has given Bodycote an excellent opportunity to capitalise on its leading positions in its chosen markets. A typical example is the new US \$20 million hot isostatic pressing (HIP) facility at Camas, Washington State, USA for the processing of technically advanced aerospace and other industrial components.

In addition to building its own facilities to meet market demand, the group is becoming increasingly successful in setting up strategic partnerships with major industrial companies whereby in-house metallurgical services are replaced by new facilities owned and managed by Bodycote. A good example is the new £7 million plant at Rolls-Royce, Derby, England which will heat treat, HIP and stress rupture test all Rolls-Royce aero-engine turbine blade production in the United Kingdom. The group however, is only at the early stages of making significant inroads into the large in-house metallurgical processing market and there is considerable scope to develop this concept further. Additionally, there are still many quality acquisition possibilities. Bodycote is well placed to respond to these opportunities.

Two further strengths of the group are tight and responsive cost control and a committed management team. This is being further improved by the appointment of a new Finance Director, David Landless, aged 39, who was Finance Director of Courtaulds Coatings Division now part of Akzo Nobel UK. He joined Bodycote in March 1999 and, having spent the last 14 years with Courtaulds both in the UK and the USA, well understands the demands of working within a multinational group.

It is pleasing to note that a record number of engineering students submitted papers for the annual Bodycote Metallurgical Prize Paper Competition. Submissions were received from the United States, the UK and other European countries. The prize is promoted by the Bodycote Educational Foundation which supports student placements and training opportunities worldwide.

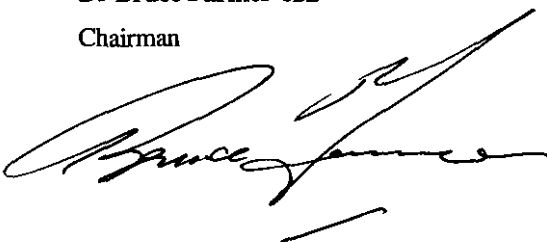
In January this year, I became Chairman in succession to Joe Dwek CBE. Joe was with the group for 26 years. He and John Chesworth made a formidable team which led Bodycote to produce consistently good results over many years. He will leave behind many friends and we wish him well in his endeavours.

I would also like to thank all the Bodycote employees whose hard work, enthusiasm and commitment contributed so much to producing such outstanding results in 1998.

The long-term prospects for Bodycote continue to be very encouraging, although 1999 may be a demanding year. Fine businesses have been developed with a sound technological base together with a strong management team with an international reputation for professionalism. I look forward to the future with enthusiasm.

Dr Bruce Farmer CBE

Chairman



16 March 1999

Managing Director's report

I am very pleased to report another year of considerable achievement in 1998. Sales increased from £207 million to £320 million (55%), and profits before tax from £50.5 million to £76.8 million (52%). These figures are before amortisation of goodwill and exceptional items. Headline earnings per share improved from 39.6p to 53.3p (35%).

Heat treatment processing is by far the largest division in Bodycote, representing approximately two-thirds of our activities. In recent years significant positions have been established in the UK, Germany and the Netherlands, Scandinavia, France and Belgium and in North America. The division as a whole produced an excellent result for 1998, with particularly strong performances, from the UK assisted by the acquisition of Thermal Processing Group, from Germany and the Netherlands, and from the French acquisition HIT SA which performed admirably in its first year with Bodycote.

Scandinavia and North America also produced record results but experienced a slow down in demand in the latter months of the year, which has continued into 1999. Bodycote's ability to reduce its cost base quickly in response to fluctuations in demand meant that there was minimal effect on margins.

There were also several bolt-on acquisitions during the year in Europe and the USA which, together with an extensive capital expenditure programme, including the establishing of five new facilities, will provide long-term growth for the Heat Treatment division. Notable on the technology front was the acquisition of Hardiff BV in the Netherlands, which presents an opportunity for Bodycote to develop a leading position in the surface hardening of stainless steel components.

The Hot Isostatic Pressing division continued to make steady progress. Market growth in the UK and Europe was strong and prospects for the densification of aluminium castings are now emerging, following the introduction of the Densal II® process. Market share in the USA was temporarily set back by the failure of a HIP vessel at Andover in July. The very large HIP unit in Camas, Washington State, has now been commissioned and further additional capacity will be installed in the UK, Europe, and the USA, to meet continuing market development. The prospects for the hot isostatic pressing process remain bright.

The mainly UK based coatings division experienced some softening in demand, nevertheless margins were maintained and with the help of one small acquisition, the division achieved modest progress. A great deal of infrastructural re-organisation was undertaken during the year,

including the creation of two new facilities to replace older operations. These highly efficient plants will enable Bodycote to operate effectively in extremely competitive markets.

The prospects for physical vapour deposition decorative coatings are exciting and the new operation in Tecate, Mexico, which coats high quality door hardware, using Bodycote Hauzer equipment and process technology, is another classic outsourcing solution. The Hauzer equipment business itself had a record year and continues to expand its world leading position. The relocation of the business to new premises in Venlo in early 1999 will increase efficiency and streamline production.

The Materials Testing division continued to make progress towards its strategic aims. A succession of small acquisitions in North America and the UK contributed significantly to an excellent financial result with both sales and profits increasing by over 50%.

Much has been written in recent times about outsourcing and strategic partnerships in manufacturing industry, and several new agreements have been reached during the year. We have seen this trend developing for a number of years, particularly in the UK, where heat treatment outsourcing has increased from 7% to over 25% of the total market over the last twenty years. Manufacturing industry will continue to benefit from the increasing momentum towards outsourcing now evident in Western Europe and North America.

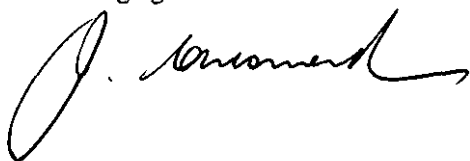
Bodycote is now firmly established as the world leader in the provision of subcontract metallurgical services, operating from 172 locations in 19 countries, predominantly in the Western world. Although by far the largest group of its kind, Bodycote is holding only a very small percentage of the potential market, over 80% of which is still served by in-house facilities. There remains, therefore, considerable opportunity for further market growth, both organic and by acquisition and by geographic and technical development.

1999 will be a challenging year, but with strategic plans directed towards greater operating efficiency, together with continuing acquisition opportunities, Bodycote remains confident.

I thank all Bodycote staff for their constant commitment towards the achievement of our objectives.

John Chesworth
Managing Director

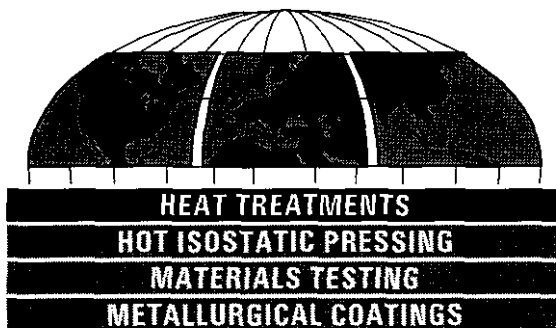
16 March 1999



Review of operations



PROS
SUBCONTRACT
IN-HOUSE
CONS



New Metal Technology Centre to serve Rolls-Royce aerospace requirements

New surface hardening technology for stainless steel

Development of metal joining facilities

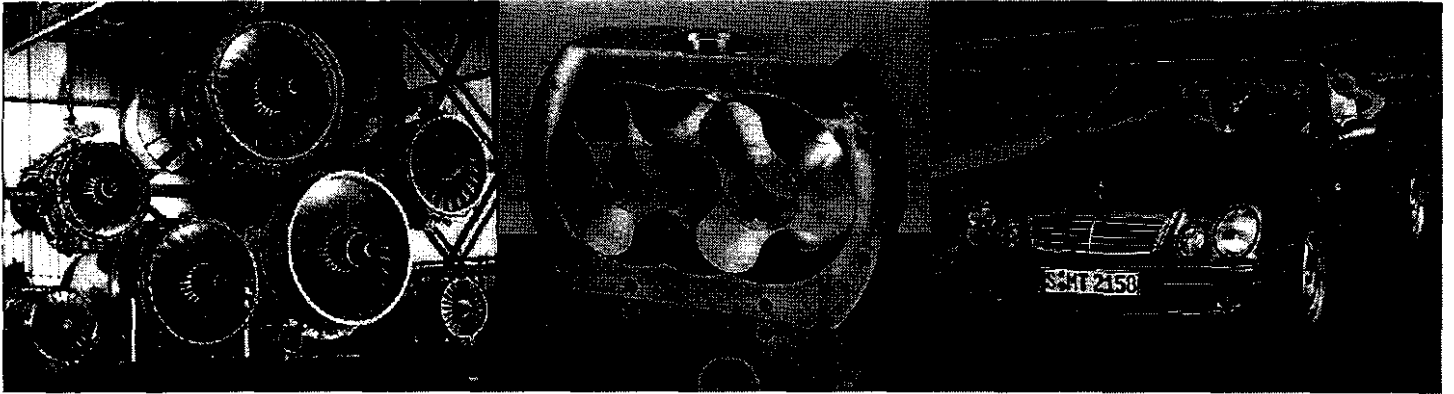
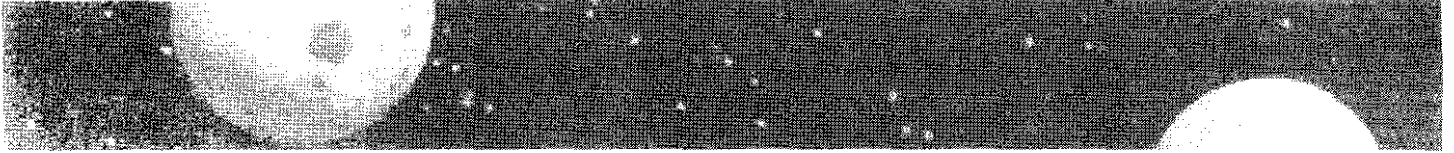
The Heat Treatments division made further excellent progress during 1998 with sales increasing by 91% and profit before tax by 83%. In the UK, the acquisition of the four locations of Thermal Processing Group (TPG) in February, brought the number of UK plants to 17 and further increased Bodycote's aerospace and power generation market penetration. The addition of TPG electron beam welding facilities, together with their large vacuum brazing business, combined with the group's existing brazing activities, gives Bodycote pronounced market leadership in these expanding areas of metal joining services. Opportunities for technology transfer between the UK and other Heat Treatments division members, have already been identified, which will lead to significant diversification and sales growth.

Outsourcing trends continue to provide numerous opportunities for further organic expansion, countering the slight downturn in some areas. As a result sales growth continued throughout the year, led mainly by the buoyant aerospace market. New vacuum furnaces were commissioned at the Woodford and Cheltenham plants. Work continued on the construction and equipping of the new

plant at Derby, which the group has established to provide heat treatment, hot isostatic pressing and associated testing services to Rolls-Royce on an exclusive basis for all their UK turbine blade production. Commissioning is underway and the new facility will open during April 1999.

Internationally, there are now 114 Bodycote plants, providing heat treatment and metal joining services, the latest acquisition being that of Härterei Wingers near Essen, Germany. This plant provides controlled atmosphere and vacuum heat treatment services to a wide cross section of German engineering and brings the total number of Bodycote heat treatment plants in Germany to 14, with 2 new plants under construction at Munich and Frankfurt, due to come into production during the summer.

The Scandinavian market was somewhat more difficult than the previous year, with demand from the oil related engineering sector being particularly depressed. However, the Bodycote Brukens subsidiaries continued to operate efficiently and are winning increasing market share. The French operations of HIT were very active during the year, with increases in sales and margins leading to profit growth approaching 50%.



PHOTOGRAPHS - LEFT TO RIGHT

(1) Bodycote targets an increased share of the in-house market. This market is a key factor in Bodycote Heat Treatments' strategy.

(2) In April 1999, the new Bodycote Metal Technology Centre will open at Derby, UK, a strategic relationship with Rolls-Royce plc involving 3 of Bodycote's 4 divisions.

(3) Bodycote expanded its metal joining services in 1998, both in capability and capacity worldwide.

(4) Bodycote provides vital metallurgical services to Rolls-Royce.

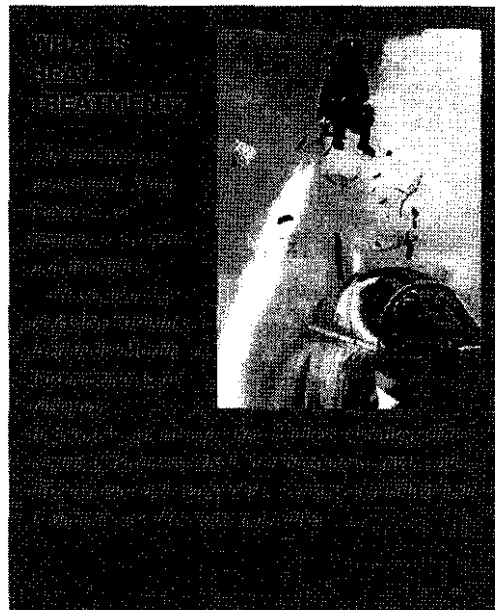
(5) Major new market potential for Bodycote with 'Kolsterising', an amazing new treatment which hardens stainless steel without reducing corrosion resistance.

(6) Mercedes uses Bodycote Heat Treatments for a variety of components for their range of high quality automobiles.

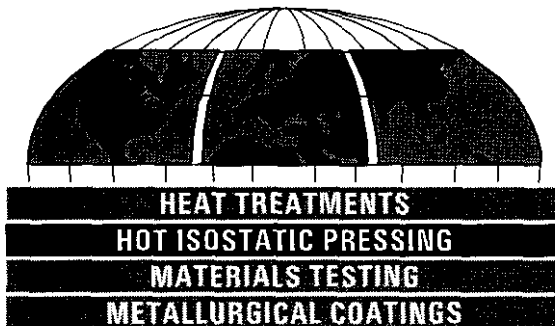
In the Netherlands, the acquisition of Hardiff BV in July, secured for the group a new heat treatment process 'Kolsterising'. This treatment resolves the age-old metallurgical conundrum of the hardening of austenitic stainless steel, without reducing its corrosion resistance. Market opportunities exist world-wide and the group's *international spread and investment capability*, will provide the basis for a more rapid development of this exciting opportunity, with the installation of 'Kolsterising' equipment into strategically located Bodycote plants.

Bodycote Thermal Processing in North America continued to develop its organisation and market share, also four high quality companies were acquired during the year. The project to establish a new plant at Santa Ana in California is nearing completion. Markets generally were softer during the last three months of the year and this has continued into the early part of 1999. However Bodycote holds only a small percentage of this very large market.

Major additional capacity will be coming into operation during 1999 in the Heat Treatments division and long-term prospects continue to be very encouraging.



Review of operations



New HIP capacity in the UK, North America and Europe

Two new 10 year agreements in expanding markets

Business doubled in Germany

The global market for hot isostatic pressing (HIP) services grew steadily during the year, primarily on the strength of demand from the power generation and aerospace sectors. Although the division's sales increased by only 7%, this figure would have been greater but for the disruption caused by the failure of the large capacity unit at Andover, Massachusetts. Markets in the UK and Europe were particularly strong and profit margins were sustained by increased volumes at more competitive prices. HIP technology is becoming more widely understood and a broader range of applications continues to develop.

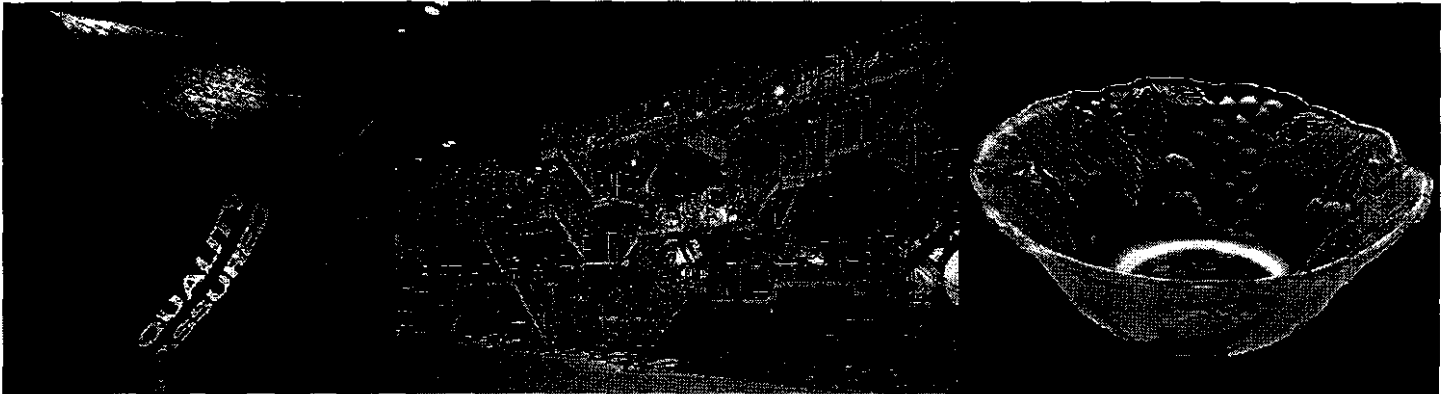
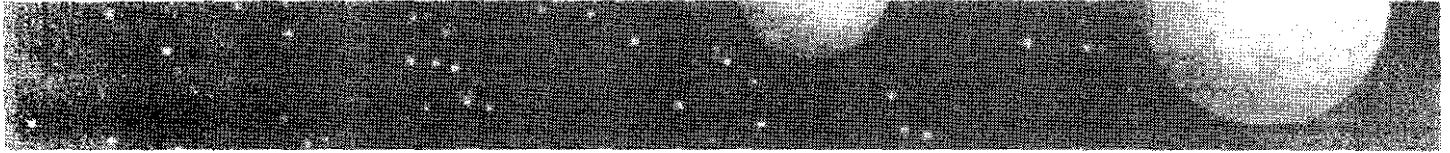
In the United States the commissioning of the new very large HIP unit at Camas in Washington State is now complete. This unit has been designed to support the buoyant aerospace market on the West Coast of the USA, and the Camas facility is now a fully functioning HIP and heat treatment operation. A second very large unit has been ordered, which will substantially increase Bodycote's capacity in North America.

The European HIP market was strong throughout the year, with turnover increasing by around 20%. This additional volume coupled with tight cost control enabled profit margins to be increased. The acquisition of the assets of Seilstorfer GmbH near

Munich has strengthened Bodycote's position in Western Europe and contributed to a doubling of sales in Germany. The strengths of our German market are typified by our relationship with Köppern GmbH in the development of a new rock crushing roller using HIP technology. Köppern and Bodycote have signed 10-year confidentiality, production, research and development agreements to promote this novel technology.

The UK market produced substantial growth during the year, and this has continued in 1999. This growth is being supported by the installation of a new small high-pressure unit at Hereford and a medium sized low-pressure unit at Chesterfield. Both should be operational by the middle of the year. In addition, the new facility at Derby, supporting the Rolls-Royce precision casting facility, will come on stream in April 1999. Densal II®, Bodycote's new development in the HIPping of aluminium castings, has been readily accepted by industry in both Europe and the United States. A major effort is now underway to develop market potential, particularly targeting the automotive sector.

In Scandinavia an agreement between Bodycote Powdermet and Rauma Materials Technology (RMAT) will enable the



PHOTOGRAPHS - LEFT TO RIGHT

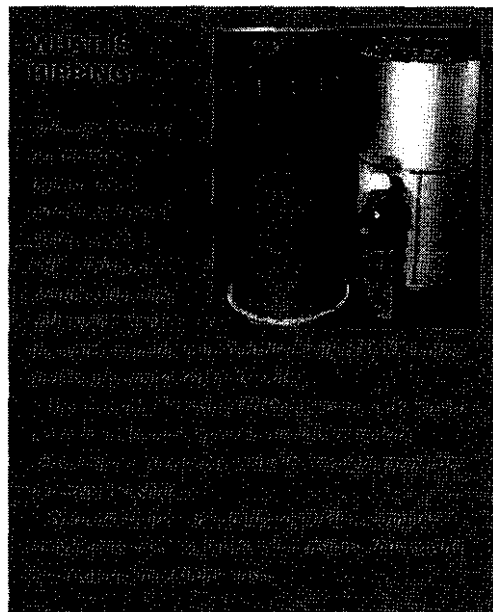
- (1) Bodycote HIP removes internal porosity from complex titanium castings, thus guaranteeing optimum quality.*
- (2) Densa[®] HIP eliminates porosity from high performance engine components, allowing thinner and lighter castings to be used.*
- (3) Gears actuating aircraft control flaps - near net shape parts developed by Bodycote Infutec.*
- (4) Ore crushing roller life increased from 2,500 to 20,000 hours - made possible by yet another customer/Bodycote design partnership.*
- (5) HIPped suction rollers used in the paper making process last longer and drastically reduce down time.*
- (6) HIP extends the thermal fatigue life of glass moulds by eliminating sub-surface porosity.*

market for near net shape parts to be expanded more rapidly. RMAT will market the technology worldwide, with Bodycote producing the components. The exclusive 10-year agreement will enable this unique technology to reach much wider industrial and geographical markets. Similarly in the United States there are considerable opportunities for near net shape parts for a whole range of markets. Interest in HIPping is at a high level and our research and development efforts have been increased to secure new potential markets.

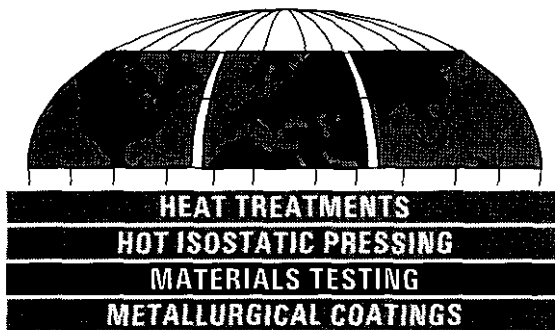
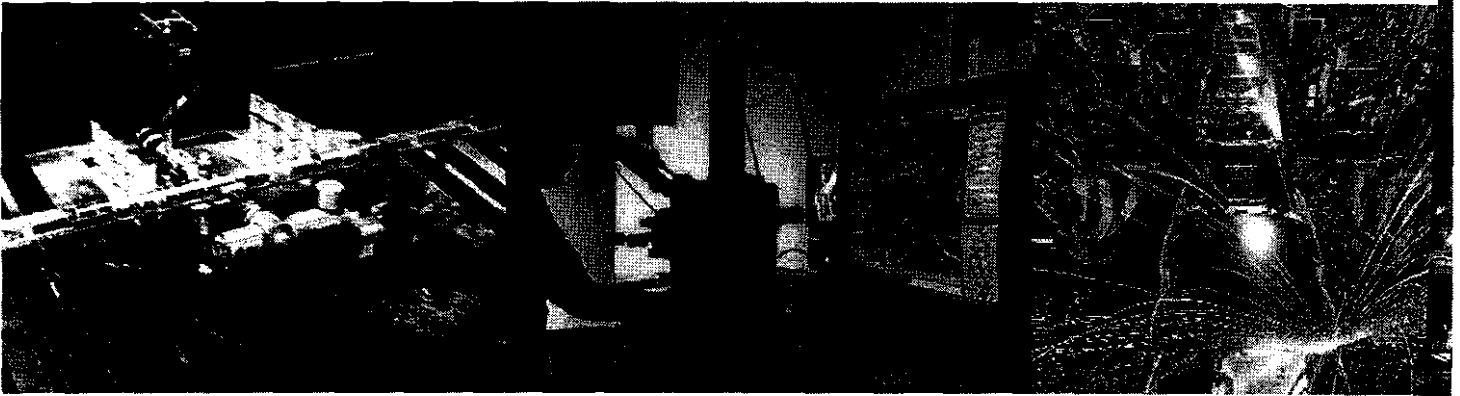
A number of long-term production contracts have been signed as a result of protracted technical development work carried out with companies in France, Switzerland and Belgium. These should ensure substantial growth at both our Belgian and French facilities and further broaden the range of applications for the HIP process.

In France, the joint venture with Tecphy has commenced with the installation of an additional large HIP unit which will support the fast growing aerospace sector in France.

The Hot Isostatic Pressing division continues to grow strongly and Bodycote expects further significant progress to be made in 1999.



Review of operations



Increasing momentum in strategic alliances with major customers

Middle East expansion proves to be a winner

Wider range of services from the year's acquisitions and investments

A substantial 53% advance in profits was achieved by the Materials Testing division in 1998 as earlier years' investments and acquisitions matured. Overall margins improved from 23% to 25% reflecting a significant level of organic growth as well as the inclusion of nine acquisitions, seven in the United States and two in the United Kingdom, all of which are capable of further margin improvement.

Much of this improved performance occurred in the United Kingdom, where investment in new equipment resulted in increased volume business from several major customers. A new purpose built corrosion testing centre was established in the Midlands whilst the acquisition of the former Rolls-Royce IRD laboratory in Newcastle-on-Tyne provided the division with a centre of excellence in creep and stress rupture testing for the aerospace and power generation industries. A restructuring of the group marketing function has focused attention on potential key accounts and further strategic alliances are anticipated during 1999.

In Europe, sales in the Netherlands were steady

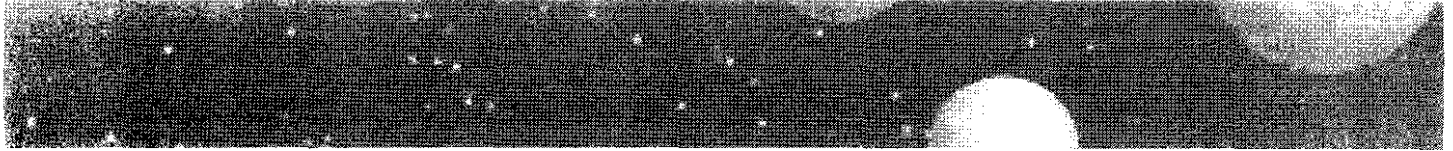
despite low activity in the oil and gas sector. Excellent results were achieved in Norway and Italy, where sales volumes were considerably improved despite similarly depressed oil-related market demand.

The Abu Dhabi laboratory produced very good results following the signing of three major contracts for its recently established construction materials testing laboratory. These projects resulted in the formation of two satellite laboratories to handle high volumes of construction materials testing on a just-in-time basis.

Operations in the USA had a strong first half year which slowed later due to lower oil prices and slightly reduced volumes in the airframe fastener business. Bodycote operations in Canada remained strong throughout.

The North American group was strengthened by the addition of Met-Chem Laboratories in Detroit which provides environmental analysis of water and soils, in addition to traditional materials testing for the automotive industry.

In Canada, in addition to a number of small acquisitions, the division established a fatigue testing



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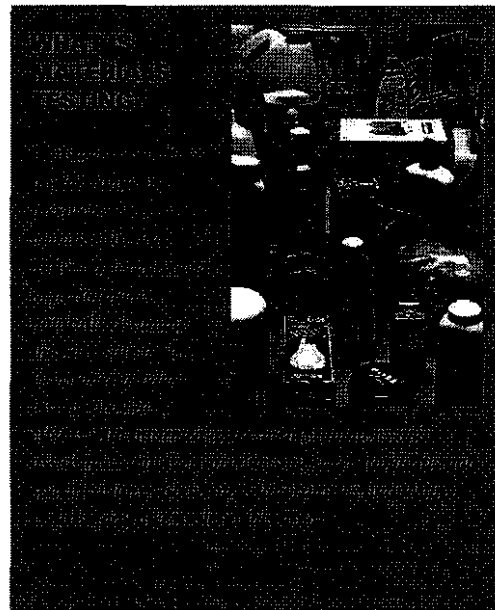
- (1) Bodycote has carried out materials analysis on hundreds of components destined for the International Space Station.*
- (2) The high cost and skill required to operate a scanning electron microscope makes it ideal for outsourcing.*
- (3) Bodycote's North American laboratories play an important role in the development of new materials for improved efficiency and provide materials testing services for the automotive sector.*
- (4) Oil and gas exploration and field development continues around the world. Bodycote supports this vital industry from strategically located laboratories.*
- (5) Bodycote Galt, Ontario, uses its advanced accelerated weathering laboratory to test durability of aerospace and automotive products.*
- (6) Testing weld procedures prior to fabrication remains a core activity in Bodycote's materials testing business.*

centre close to the existing Galt Laboratory at Cambridge and a new full service laboratory in Burlington serving the steel-making and foundry industries of Ontario.

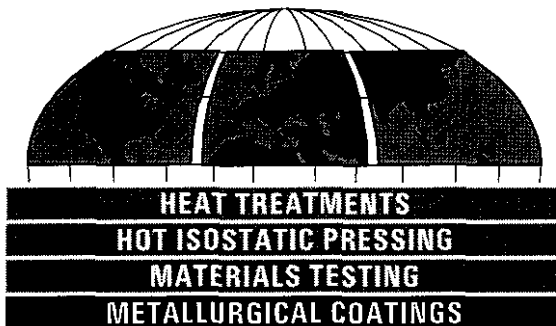
Of greater significance, however, was the acquisition in January 1999 of the business and assets of the materials, health sciences and transportation testing divisions of Ortech Corporation from the Provincial Government of Ontario. This has added considerable expertise in the testing of textiles, paper and packaging, solar technologies, polymers, building products and fire and flammability, as well as providing the North American laboratories with a prestigious technological centre.

During the year the range of testing services and expertise has been significantly widened and this will provide the basis for further market development.

The division experienced a slowing of demand during the latter months of 1998 which continued into 1999. However, diversity both geographically and by markets should ensure the achievement of continuing growth in the coming year.



Review of operations



Acquisition and new factories performing well

New factory for decorative coatings opening in Mexico

Environmentally friendly facilities - a new era in coatings

During a year which saw increasingly intense competition, both turnover and profit before tax grew by 10%, thereby maintaining margins. A particular highlight was the acquisition in May 1998 of West Middlesex Plating Co. Limited, which has many years of experience in providing vital protective coatings for aircraft component manufacturers in the United Kingdom.

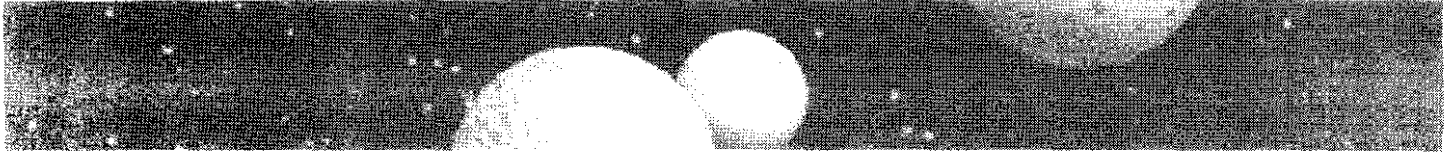
Early in the year it was decided to construct two new regional coatings centres in order to rationalise existing operations and provide additional new productive capacity to target the very large automotive and construction components markets. A new plant at Rochdale involved the merging of two existing Bodycote facilities and will optimise operational efficiencies and environmental protection by using the most up-to-date technology. Rochdale, and the other new operation at Wolverhampton, offer new large capacity zinc electroplating with modern effluent treatment, and have the benefit of computerised equipment, thus providing the widest range of coatings available in the United Kingdom, including Sherardizing, electroplating, electroless nickel, organic and mechanical

coatings. These large one-stop shops will be attractive to customers for service, value and quality.

These facilities become operational in early 1999 and the market has responded positively to the concept of a range of processes from one location. Further expansion is planned at the West Middlesex Plating site at Uxbridge to service an increasing number of aircraft industry customers. Further capacity will be installed and several additional finishes will be offered to the market. Later in the year, expansion at Caerphilly will provide a one-stop shop offering a range of finishes for the requirements of the regional market.

Investment continues in 1999 for all locations to improve efficiency and increase market share in both traditional and advanced coatings. New rack plating capacity will shortly be commissioned at Poole and barrel plating capacity will be increased at Darlington in the middle of the year. These investments are in response to demand from our speciality markets for the electroplating of supermarket trolleys, computer components and fasteners.

Sherardizing and organic coating volumes were again strong and 1999 also has several contracts to support major



PHOTOGRAPHS - LEFT TO RIGHT

(1) Bodycote Metallurgical Coatings is a market leader in the supply and development of organic coating systems, providing an unrivalled range of coatings from strategically located centres of excellence.

(2) Advanced ultra-hard physical vapour deposition (PVD) coating developed by Bodycote SHU Coatings, dramatically extends machining performance.

(3) Bodycote's Rochdale plant will open in May 1999, and is one of the most advanced, environmentally friendly coatings plants in Europe.

(4) Bodycote's organic coatings systems are increasingly specified by the automotive industry.

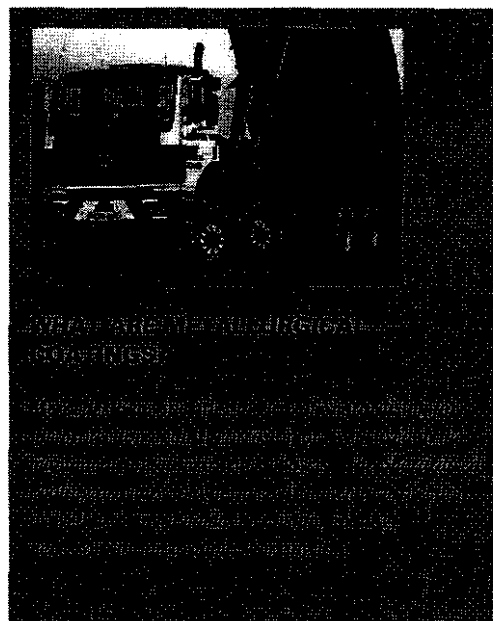
(5) The handrails in the Millennium Dome are zinc electroplated by Bodycote Metallurgical Coatings.

(6) Wolverhampton's expansion includes one of Europe's largest fully automatic zinc electroplating lines, providing highly efficient capacity for this type of plating.

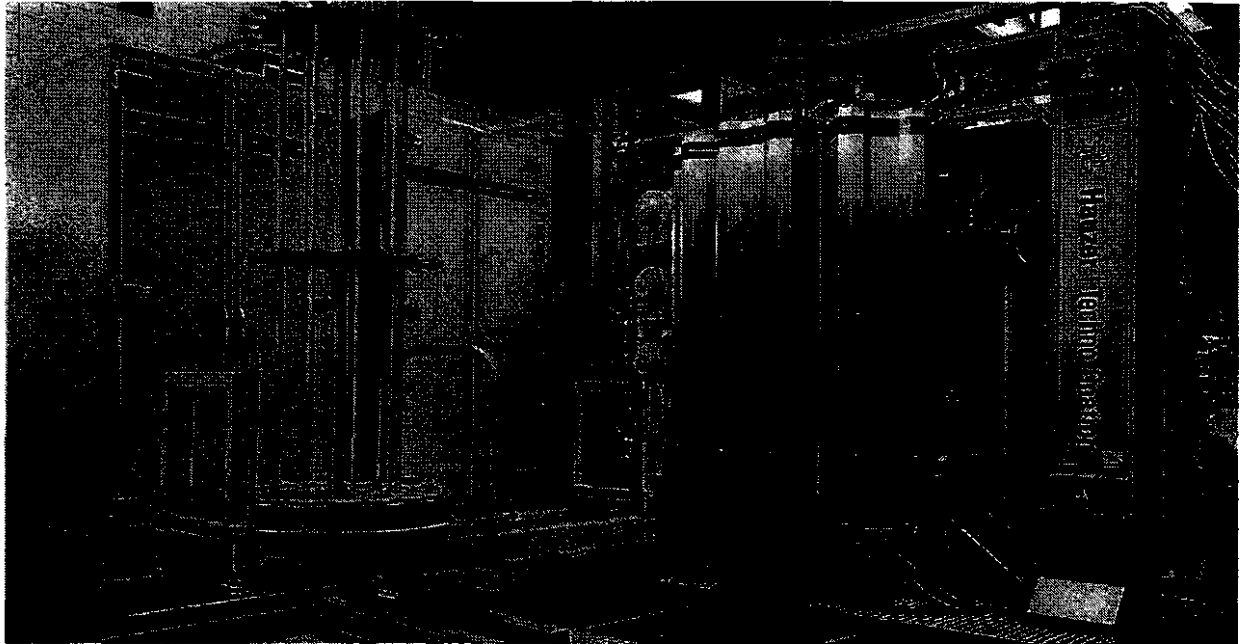
projects in the UK and overseas. The Sheraplex process for multi-layer coatings continues to gain further recognition and market share.

Bodycote SHU Coatings Limited, using physical vapour deposition (PVD) technology developed with the Materials Research Institute of Sheffield Hallam University, has begun to attract prestigious customers and, from a green field start in January 1998, was close to break even by December. New customer applications are already moving forward strongly in 1999. The current major activity is alloy coating for dry high speed cutting. This has both a cost benefit in performance as well as ecological attractions.

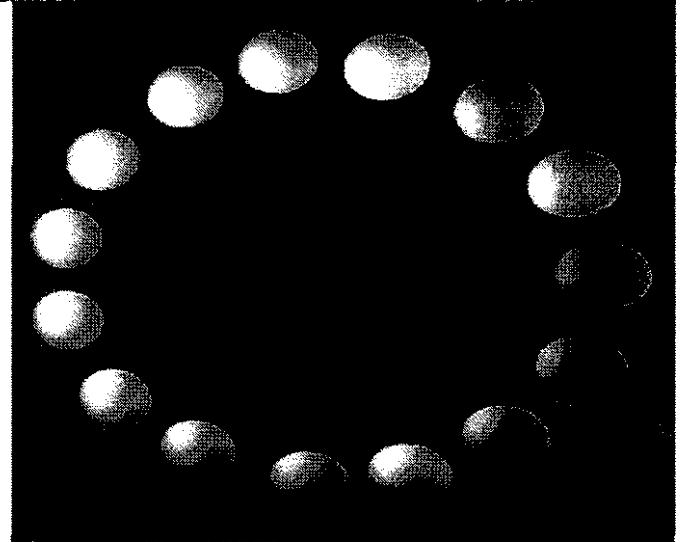
In Europe, Hauzer Coating Centrum has continued to develop its customer base for PVD decorative coatings and has started steadily in 1999. The centre will increase capacity this year in order to attract international customers to this top class facility. The new operation at Tecate in Mexico, which provides high quality decorative coatings for door hardware components, will commence operations in April 1999. The equipment to be used has been supplied by Bodycote Hauzer in the Netherlands.



Review of operations



Bodycote's equipment manufacturing business, Hauzer Techno Coating, has developed international leadership in ultra-hard (PVD) coatings technology for functional as well as decorative applications available in a wide range of colours as illustrated.



Bodycote group services

Bodycote Developments

Bodycote Developments manages the group's property interests in Baildon, West Yorkshire. Profits in 1998 continued at a satisfactory level.

Thomas Cook & Son

Thomas Cook & Son is engaged in the activities of industrial and commercial risk management, as general insurance brokers, pension and life assurance consultants and independent financial advisers.

Directors' report

The directors are pleased to submit their report and audited accounts for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The company is a holding company with subsidiaries carrying on business in the fields of materials technology and metal processing.

These subsidiaries specialise in vacuum and induction heat treatment, carburising, carbonitriding, plasma nitriding, hardening, tempering, kolsterising, brazing, electron beam welding, laser processing, metallurgical processing services, sherardizing, phosphating, subcontract ultra-hard coatings services to industry, the application of the hot isostatic pressing process and the manufacture of specialist steels and products using hot isostatic pressing technology, the provision of a wide range of materials and technological testing services, the manufacture of vacuum and mesh belt furnace equipment and the manufacture of pressurised vapour deposition coatings equipment. The group also has a subsidiary engaged as general insurance brokers and another that manages certain of the group's property interests.

The activities of the principal subsidiary undertakings within the group are set out on pages 48 to 51. The Managing Director's report and the Review of operations contain a survey of the group's activities during the year and future developments.

TRADING RESULTS

The profit of the group before taxation for the year was £76,237,000 (1997: £51,084,000) including a profit on the disposal of discontinued operations of £631,000 (1997: £571,000). Profit attributable to shareholders amounted to £53,475,000 (1997: £35,583,000). Of this, £12,334,000 (1997: £9,403,000) is accounted for by dividends, both paid and proposed, with the balance of £41,141,000 (1997: £26,180,000) being retained in the business.

DIVIDENDS

The board is recommending a final dividend of 7.75p per share making a total for the year of 12.0p per share (1997: 9.1p). The final dividend, if approved, will be

paid on 1 July 1999 to shareholders on the register at the close of business on 7 June 1999.

SHARE CAPITAL

During the year the issued ordinary share capital of the company was increased to £25,696,137 by the issue of:

- (i) 20,196,930 shares on 9 January 1998 at a price of 500p per share in respect of the 1 for 4 rights issue approved by shareholders on 18 December 1997;
- (ii) 73,480 shares to the vendors of Shore Metal Technology Inc. of Cleveland, Ohio at a price of 918p per share as part consideration for the acquisition of the company;
- (iii) 25,656 shares to Mr C.E. Ayers at a price of 1169p per share as part consideration for the acquisition of the whole of the issued share capital of West Middlesex Plating Co. Limited of Uxbridge;
- (iv) 419,890 shares to the vendors of Michigan Induction Inc. of Canton, Michigan at a price of 1168p per share as part consideration for the whole of the issued share capital of that company;
- (v) 158,796 shares to Hardcor Beheer BV at a price of 1079p per share as part consideration for the acquisition of Hardiff BV of Apeldoorn in the Netherlands; and
- (vi) 1,119,660 shares between 12 January and 17 November 1998 pursuant to options granted under the company's executive share option schemes.

The shareholders have authorised the company to purchase up to 8,079,014 of its own shares. This authority expires at the conclusion of the forthcoming annual general meeting to be held on 19 May 1999, at which time a further authority will be sought from shareholders. No purchases have been made.

ACQUISITIONS

On 23 January 1998 the whole of the issued share capital of Shore Metal Technology Inc. of Cleveland, Ohio was acquired by Bodycote Investments Inc. The consideration of \$1.35 million (£828,000) was satisfied by the issue of 73,480 shares at a price of 918p per share and the balance of \$250,000 (£153,000) was settled in

Directors' report

cash. Shore Metal has unique capabilities in nitriding large parts and also offers atmosphere heat treatment.

Bodycote Heat Treatments Limited acquired Thermal Processing Group Limited (TPG) on 6 February 1998. TPG offers heat treatment, vacuum brazing and electron beam welding from sites at Cambridge, Coventry, Sheffield and Skelmersdale. The cash consideration for the acquisition was £15.1 million.

Bodycote Wärmebehandlung GmbH, the group's German heat treatment subsidiary, acquired the heat treating and testing business of Schütte from Alfred Schütte GmbH & Co. KG and Härtereie Köln-Deutz GmbH on 1 February 1998 for a cash consideration of DM1.64 million (£580,000).

On 11 March 1998 Bodycote Materials Testing Limited acquired the entire issued share capital of Altec Laboratory Services (Scotland) Limited of Glasgow. The cash consideration for this acquisition was £300,000. Altec carries out analytical services for industry.

Bodycote Materials Testing, Inc. acquired the entire issued share capital of Technitrol-Eco Laboratories Inc. of Montreal for a cash consideration of Can\$4.94 million (£2.06 million) on March 27, 1998. Technitrol provides a wide arrange of materials analysis, physical testing, forensic chemistry, toxicology and consumer products testing.

On 16 April 1998 Bodycote Materials Testing, Inc. acquired Analex Inc. from Labopharm Inc., for a nominal sum. Analex, located in Montreal, provides pharmaceutical analysis and microbiological testing for generic drug companies and local food producers.

The group acquired the entire issued share capital of West Middlesex Plating Co. Limited (WMP) of Uxbridge on 8 May 1998. WMP operates high quality zinc, nickel, tin and silver plating and anodising processing facilities for customers in the aerospace and automotive markets. Consideration for the purchase was £1.8 million. The price was satisfied by the issue of 25,656 shares at a price of 1169p per share, with the balance of £1.5 million in cash.

On 12 May the group's North American subsidiary, HHT Texas Acquisition Co, acquired the whole of the issued

share capital of Michigan Induction Inc. of Canton, Michigan. Michigan Induction is the largest commercial induction heat treatment plant in North America, and serves automotive and consumer product component manufacturers throughout the US Midwest. Consideration for the purchase was US\$10.25 million (£6.13 million), which was satisfied by the issue of 419,890 shares at a price of 1168p per share, with the balance of \$2.05 million (£1.23 million) paid in cash.

Vide Express, the group's French subsidiary, acquired the entire issued share capital of Traitement Thermique d'Arenco of Marseilles on 1 July. The cash consideration for this heat treatment business was FFr5.3 million (£570,000).

Hardiff BV, based in Apeldoorn, the Netherlands was acquired on 23 July 1998. Hardiff has a commercial process ("Kolsterising"), and manufactures the processing equipment, for the surface hardening of austenitic (corrosion resistant) stainless steels. The process has a wide range of applications in the automotive, food, medical and aerospace industries. The price of Dfl 22.75 million (£6.9 million) for the equity of the business was satisfied by the issue of 158,796 shares at a price of 1079p per share, together with a cash payment of Dfl 17.0 million (£5.1 million). There is provision for a further payment of up to Dfl 9.75 million (£2.9 million) based on the audited results for the two years to 31 December 1999.

On 24 July 1998, Bodycote Materials Testing Limited acquired the trade and assets of the mechanical testing business of the International Research and Development Ltd, a subsidiary of Rolls-Royce Power Engineering plc. The acquisition added an important fatigue and stress rupture testing facility for aerospace and power generation applications. The cash consideration was £592,000.

Bodycote Industrial Materials Technology GmbH acquired the land, buildings and equipment of Seilstorfer GmbH of Haag near Munich for a cash consideration of DM3.7 million (£1.3 million). This facility, comprising four hot isostatic pressing (HIP) units, provides a range of HIPping applications for Southern Germany, Italy and Switzerland.

The group's North American subsidiary, Bodycote Hinderliter Inc. acquired the entire issued share capital

of A. R. T. Associates, Inc. (ART) based in Laconia, New Hampshire on 25 August. ART offers a broad variety of services including atmosphere and vacuum heat treating, brazing and gas nitriding. The consideration for the purchase was US\$3.4 million (£2.08 million) paid in cash.

On 6 October 1998 Bodycote Materials Testing, Inc. added Met-Chem Laboratories Inc. of Detroit to its Materials Testing network. Met-Chem carries out a range of metallurgical testing and analysis for the automotive industry. The purchase price was US\$1.2 million (£740,000) in cash.

Bodycote Wärmebehandlung GmbH, acquired Rheintal Werkstoff Technik AG, based in Schaan, Liechtenstein on 13 October. The business provides a wide range of heat treatment and metal joining services to a broad spectrum of industry throughout Liechtenstein and Switzerland. The company, which will be renamed as Bodycote Rheintal Wärmebehandlung AG, was acquired for a cash consideration of 12 million Swiss Francs (£5.3 million).

On 21 October, Bodycote Hinderliter, Inc., acquired the whole of the issued share capital of Alpha Heat Treating Co., Inc. (Alpha) of Cleveland, Ohio. Alpha carries out large volume, continuous furnace heat treatment for customers in the consumer products, agricultural, automotive, and construction industry sectors in the US Midwest. The consideration for the purchase was US\$10.75 million (£6.32 million) paid in cash.

On 28 December 1998 Bodycote Galt Materials Testing Limited acquired the fatigue testing business of MDT Technologies Inc. based in Cambridge, Ontario for Can\$200,000 (£80,000) in cash.

On 31 December 1998 Bodycote Wärmebehandlung GmbH acquired the goodwill and assets of Härterei Wingens GmbH and Co KG, based at Sprockhövel, Germany. The purchase consideration was DM7.3 million (£2.6 million) in cash. The business provides a wide range of heat treatment services to a broad spectrum of industry throughout Northern Germany, and complements the heat treatment activities carried out at Bodycote's factory at Venlo in the Netherlands.

On 4 January 1999 the group acquired the share capital of Ontario Testing Laboratories Inc. (OTL) for Can\$2

million (£800,000). Based in Burlington, Ontario, OTL provides materials testing services to the steel-making and foundry industries.

In Canada, Bodycote Materials Testing, Inc. acquired the health sciences, materials and transportation testing businesses of Ortech Corporation of Mississauga from the Province of Ontario on 15 January 1999, as part of the Ontario Government's privatisation programme. Ortech provides testing and materials evaluation services to a wide spectrum of manufacturing industry including automotive, pharmaceutical, aerospace and textile applications. The purchase consideration for the businesses was Can\$4 million cash (£1.54 million).

On 10 March 1999 Brukens Thermotreat AB, the group's Scandinavian subsidiary, acquired the whole of the issued share capital of Ytintressenter AB for SEK 28 million (£2.2 million) in cash. Ytintressenter provides electrolytic coatings from four locations in Sweden.

DIRECTORS

The present directors are listed on page 26 and, with the exception of Mr R. T. Scholes and Dr B. A. Rickinson who were both appointed on 1 April 1998, all served throughout the year.

Mr R. M. Green retired on 20 May 1998 and Mr J. C. Dwek CBE on 31 December 1998.

Messrs J. Chesworth and D. R. Sleight are retiring by rotation and, in accordance with the Articles of Association and both being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Dr E. B. Farmer CBE was appointed Chairman of the company on 1 January 1999 in succession to Mr Dwek CBE, and Mr D. F. Landless was appointed as the new group finance director on 15 March 1999. In accordance with the Articles of Association and both being eligible, Dr Farmer and Mr Landless will seek re-election as directors at the forthcoming annual general meeting. The service agreements for Mr Chesworth, Mr Sleight and Mr Landless are terminable by one year's notice in each case. Dr Farmer does not have a formal service contract with the company.

Directors' report

DIRECTORS' INTERESTS

The interests of the directors in the shares of the company at 31 December 1998 are set out below:

	1998	1997	1997
	Fully paid shares		Nil-paid
Beneficial			rights
J. Chesworth	373,843	103,215	25,803
M. Hallas	11,416	9,134	2,282
D. R. Sleight	20,000	2,666	666
M. A. Wilton	14,000	10,000	2,500
J. A. S. Wallace	8,332	6,666	1,666
B. A. Rickinson	20,073	21,899	5,472
	1998	1997	
Options			
J. Chesworth	33,046	285,188	
M. Hallas	133,299	121,013	
D. R. Sleight	51,311	99,746	
M. A. Wilton	145,010	131,645	
B. A. Rickinson	35,138	31,899	

All the nil-paid rights of directors were fully paid on 9 January 1998.

Since the close of the year Mr Sleight has acquired 3,000 shares, Mr Wilton 2,000 shares and Mr Scholes 2,750 shares, but otherwise no director has had any dealings in any shares or options in the company.

An analysis of directors' share options is given on page 41.

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.

BOARD COMMITTEES

An audit committee is formally constituted with written terms of reference. Its duties include the review of the group's published results for the half year and the full year, and the internal audit programme and the response of management, and monitoring the effectiveness of the group's systems of internal financial control. The committee met twice during 1998 and the members were

Messrs Wallace (Chairman), Dwek and Scholes. Dr Farmer replaced Mr Dwek on the committee with effect from 1 January 1999.

The remuneration committee met once during 1998. Mr Dwek retired from the committee on 31 December 1998 and the committee now comprises Messrs Wallace (Chairman), and Scholes and Drs Farmer and Rickinson. The Board's Report on Remuneration is given on page 24.

A nomination committee comprising Mr Chesworth and all the non-executive directors was established during 1998 and advised the Board on the appointments of the new Chairman and Finance Director.

SHAREHOLDERS

As at the date of this report the following interests of 3% or more in the issued share capital of the company appeared in the register maintained under the provisions of Section 211 of the Companies Act 1985:

	Number of shares	% of share capital
Prudential Corporation plc	6,479,166	6.30
Royal & SunAlliance Insurance Group plc	5,183,633	5.04
Norwich Union plc	4,073,820	3.96
Newton Investment Management Limited	3,612,702	3.51

There is set out below an analysis of the company's shareholders and the shares currently in issue, numbering 3,832 and 102,784,548 respectively:

	Shareholders %	Number of shares %
Directors' interests	0.1	0.44
Major institutional and corporate holdings	4.7	83.06
Other shareholdings	95.2	16.50

EMPLOYEES

The group recognises the value that can be added to its future profitability and strength by the efforts of its employees. The involvement of its employees at all levels is key to the group's continued success. Through their attendance at, or participation in, production and health and safety meetings at site level employees are advised of health and safety issues, and are kept up to date with the performance and progress of the group, and the contribution to the group made by their site.

During 1998 each of the group's employees received copies of "Everybody", a twice-yearly magazine published in 9 languages, detailing the group's activities, performance and some of its personalities.

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.

HEALTH, SAFETY AND ENVIRONMENT

The group has a positive approach to health, safety and environmental matters and is committed to the achievement of the highest practicable standards of health and safety at work for all employees and to the minimisation of adverse effects on the physical environment.

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. Costs of research and development are written off in the year in which they are incurred.

DONATIONS

Charitable donations paid during the year net of income tax amounted to £13,000. There were no political contributions.

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 45 days.

YEAR 2000 COMPLIANCE

As was indicated in the group's 1998 interim report, steps are being taken to minimise the risks to the group's businesses from the inability of certain computers to recognise the Year 2000. The board has reviewed a survey that was undertaken to assess the problem as it affected each division in five key areas; core business; suppliers; buildings; customers; and contingency plans. In the case of the core business category, the survey examined any potential problems with central information technology, telecommunications, embedded chips, computer servers and manufacturing controls.

Overall preparations for the Year 2000 are well under way with a commercially acceptable level of readiness anticipated by all divisions in advance of the Millennium itself. Further work is continuing, particularly to assess the readiness of key suppliers and customers. The board will be reviewing progress at every board meeting and will report again on this topic in the Interim Report in August 1999. The total costs of addressing the problem have not as yet been fully quantified, but are not believed to be significant.

With a problem as complicated as this, it is not possible for any company to guarantee that no Year 2000 problems will remain. The directors believe, however, that the group will, by the year end, attain a commercially acceptable level of readiness and will, if it proves necessary, provide resources to deal promptly

Directors' report

with any remaining significant issues.

ECONOMIC & MONETARY UNION (EMU)

Around 48% of the group's turnover is denominated in currencies which are already committed to convert to the Euro in 2002, and the businesses in those countries are adapting their business information systems to handle dual currencies during the period 1 January 1999 to 1 January 2002. From 1 January 2000 operations in EMU countries will report their results to the group in the Euro. For the United Kingdom and other non-EMU countries, including the United States, assessments are being carried out on the likely impact, but the group does not expect there to be a material effect on the group's trading results as a result of the introduction of the Euro.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The 1999 annual general meeting will be held on 19 May 1999 in accordance with the notice being sent to shareholders with this report.

By order of the Board

J. R. Grimes
Secretary.
16 March 1999

Hulley Road
Hurdsfield
Macclesfield
Cheshire
SK10 2SG

Corporate governance and the Code of Best Practice

GENERAL

The directors support the highest standards in corporate governance as propounded by the Code of Best Practice prescribed by the Listing Rules of the London Stock Exchange. Many of the Code recommendations have been a feature at Bodycote for some years, and the directors believe that the steps it has taken deserve the support of its shareholders. Taken together with the board report on remuneration on pages 24 and 25, this statement explains how Bodycote has applied the principles of good governance set out in Section 1 of the Combined Code.

The company's mission is to provide a world class metallurgical service to the most respected and innovative engineering companies by the most efficient

possible deployment of the most advanced technology. The company's aim in terms of corporate governance therefore, must be to sustain and support this objective over the longer term. The application of good corporate governance adds value to a winning formula, and should not merely be a worthy pursuit of ideal solutions to important but hypothetical problems.

INDEPENDENCE

Bodycote feels that its current non-executive directors all have more than sufficient character to exhibit the necessary independence to fulfil their duties individually and collectively as directors. Accordingly Bodycote considers all its non-executive directors to be independent for the purposes of the Combined Code.

DIRECTORS AND BOARD COMMITTEES

The board comprises nine directors, of whom four are non-executive led by the Chairman, Dr Farmer. The nominated senior independent non-executive director is Mr Wallace. Brief biographies of all the directors are given on page 26. The group managing director is Mr Chesworth who is responsible for all the group's trading operations. The board meets at least ten times a year. In advance of these 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 budget. It is also supplied with the latest information on health and safety issues. Where required, a director may seek independent professional advice at the expense of the company and all directors have access to the company secretary, and may also address specific issues to the senior independent non-executive director.

In accordance with the Articles of Association all newly appointed directors and one-third in number of all other directors, if eligible, submit themselves for re-election each year. Non-executive directors, including the Chairman, are appointed for fixed terms not exceeding three years, after which the appointment may be extended by mutual agreement.

A statement of the directors' responsibilities is set out on page 27.

The board also operates three committees. These are the nomination committee, which advised on the recent appointments of Dr Farmer and Mr Landless, the remuneration committee, which recommends policy and procedure on directors' and senior executives' compensation, and the audit committee, which amongst other matters, reviews the company's published results and meets and discusses issues with the auditors. Fuller details of the composition of the committees, and their activities are given on page 20 of the directors' report.

ACCOUNTABILITY AND AUDIT

The board of directors has overall responsibility for the group's system of internal financial control and for monitoring its effectiveness. The board has delegated this latter role to the audit committee, but continues to

review the minutes of audit committee meetings. The audit committee meets at least twice a year to discuss the effectiveness of internal financial controls and involves the group finance function, internal auditor and external auditors. External guidance on the wider aspects of financial control is being developed and the board will seek to comply with such guidance when it is published.

The group operates a policy of decentralisation, with responsibility for each business resting with its local management, overseen by its respective main board director. A detailed annual budget is prepared for each operation in conjunction with local management. Monthly management accounts are produced and these compare actual performance against budget and the previous year.

During the course of the year the internal auditor, under the control of the audit committee, visits and reviews the control of individual businesses throughout the group, reports on any weaknesses and recommends improvements where necessary. The aim each year is for these checks to cover, as they did during 1998, subsidiaries responsible for at least 70 per cent. of the group's operating profit.

The directors believe that any system of internal financial control can provide only reasonable, but not absolute, assurance that the assets are safeguarded against material loss or unauthorised use, and that transactions are properly authorised and recorded, and material errors and irregularities are either prevented or would be discovered within a timely period.

PROSPECTS

The board's view on the group's position and prospects is given by the Chairman and Managing Director in their respective statements on pages 4 to 7 of this report.

Following a review of the group's results for 1998 and its budgets for 1999, the directors consider that the company and the group have adequate resources to finance their activities for the foreseeable future, and that therefore it is appropriate to adopt the going concern basis in preparing the accounts.

Corporate governance and the Code of Best Practice

INVESTOR RELATIONS

The Managing Director regularly talks with and meets institutional investors, both individually and collectively, and this has enabled institutional investors to increase their understanding of the group's strategy and what the group does. The business of the annual general meeting now comprises a review of the group's operations for the benefit of private investors. In addition, since 19 March 1998, internet users have been able to view up-to-date news on the company, and its share price via the Bodycote website at <http://www.bodycote.com>.

IMPROVEMENTS TO CORPORATE GOVERNANCE REGIME

Since last year's report the principal changes affecting the group's corporate governance have been the increase in the complement of non-executive directors (dating from the appointments made on 1 April 1998 and

1 January 1999 respectively); the establishment of a nomination committee (29 June 1998); the reduction to one year in the notice periods applicable to directors' service agreements (Messrs Chesworth, Hallas, Sleight and Wilton each started 1998 with a minimum notice period of two years); the appointment of Mr Wallace as the senior non-executive director (25 January 1999); and the removal of the Managing Director's exemption from seeking re-election as director (20 May 1998). In addition greater disclosure is made in this year's report about the directors and the operation of the share option schemes, and greater use has been made of the annual general meeting to inform investors about the group's activities, and for the first time at this year's meeting disclosure will be made of the proxy votes cast for and against each resolution. Save to the extent that these improvements did not occur before the date for implementation of the new Combined Code, the company will have complied with the Combined Code throughout the period.

Board report on Remuneration

The board's established remuneration committee makes recommendations to the board concerning the policy on executive remuneration and the remuneration package for each executive director.

MEMBERSHIP OF REMUNERATION COMMITTEE

The members of the remuneration committee during 1998 were:

J. A. S. Wallace (Chairman)
J.C. Dwek, CBE (until 31/12/98)
R.T. Scholes (from 26/10/98)
B.A. Rickinson (from 01/04/98)

Dr Farmer joined the committee on 1 January 1999. All members are non-executive directors of the company

and have no personal financial interest, other than as shareholders, in the matters to be decided, no potential conflicts of interest arising from cross directorships and no day to day involvement in running the business. In arriving at its recommendations the committee consults with the Managing Director.

POLICY FOR EXECUTIVE DIRECTORS

The policy of the remuneration committee is given below by reference to the various component elements. The remuneration of non-executive directors is determined by the board as a whole. In determining the remuneration policy the committee has given full consideration to the provisions on the design of remuneration policies contained in the Combined Code.

SALARY AND BONUSES

The basic salary of each executive director is determined by taking into account the responsibilities and performance of the individual and having regard to current market practice, and potential gains from participation in the company's executive share option schemes. Some benchmarking was undertaken with other listed companies in the engineering sector. A performance related bonus, based upon the achievement of the budgeted annual group profit before tax, is payable to the executive directors. For certain directors with divisional responsibilities, there is also a performance related bonus based on budgeted profits for their relevant sphere of responsibility. The total potential bonus now forms a significant and increasing proportion of total remuneration, so that the interests of the directors are increasingly aligned with those of shareholders. Total bonus payments, if all the budgeted targets are met, can amount to 35% of basic salary. Any bonus payments made by the company are not pensionable and are capped. Benefits in kind comprise the provision of a company car and private medical insurance for the director and his family.

The same policy is now applied to determine the remuneration of the managing directors of the principal operating subsidiaries.

SHARE OPTION SCHEMES

The company believes that share ownership by executive directors and executives of the group is important and that it focuses the link between personal interests and shareholders' interests. Executive share option schemes are in place and the granting of options to directors and senior executives is governed by the remuneration committee. Grants of options to executive directors are usually made periodically, rather than in a single award, so that the incentives are realisable on a phased basis. Under the rules of the 1994 and 1996 schemes the exercise cost of all options awarded to a director cannot

exceed four times that director's salary, and the options are only exercisable if, over the period of three years from the date of the award, the growth in the company's earnings per share exceeds United Kingdom retail inflation by 2% per annum. No awards can be made at a discount to the market price. The operation of these schemes is being extended, by the establishment of an employee share ownership trust, so as to allow share options to be granted over a greater number of shares. This will enable further incentives to be made available to directors and executives without dilution of the interests of shareholders. An analysis of directors' share options is given at note 17 to the accounts.

SERVICE CONTRACTS

In line with modern practice all the executive directors currently have service agreements which are terminable by one year's notice. The non-executive directors do not have formal service agreements.

PENSIONS

It is group policy to provide for executive directors' pensions under the group's contributory final salary pension scheme, which provides at age 65 for a pension of two-thirds salary after 40 years service. For historical reasons Mr Chesworth, the Managing Director, is not a member of this scheme and the group over the years has made contributions to his individual pension policies. The projected benefits under the policies are in line with the benefits that would have accrued had Mr Chesworth been a member of the group scheme. The company's contribution in respect of Mr Chesworth's individual pension policies amounted to £28,000 (1997: £28,000). An analysis of the directors' emoluments and accrued pension entitlements is given in note 5 to the accounts.

Board of directors

EXECUTIVE DIRECTORS

J. Chesworth Managing Director (61)

Appointed a Director in 1981, became deputy Managing Director in 1984 and Managing Director in 1993.

M. Hallas Director (51)

Appointed in 1996. Responsibility for UK and European heat treatment. A metallurgist, joined the group in 1979.

M. A. Wilton Director (50)

Appointed in 1996. Responsibility for USA HIP and heat treatment. A metallurgist, joined the group in 1979.

D. R. Sleight Director (49)

Appointed in 1996. Responsibility for materials testing services. A chartered accountant, joined the group in 1990.

D. F. Landless Finance Director (39)

Appointed in 1999. A chartered management accountant, joined the group in 1999.

SECRETARY AND REGISTERED OFFICE

J. R. Grime

Hulley Road, Hurdsfield, Macclesfield, Cheshire SK10 2SG
Tel: 01625 505300 Fax: 01625 505313
Registered Number 519057 England.

Advisers

AUDITORS	KPMG Audit Plc
BANKERS	Midland Bank plc, National Westminster Bank plc, Barclays Bank PLC, ABN-AMRO Bank NV, Svenska Handelsbanken AB, Bank of Scotland
SOLICITORS	Eversheds
BROKERS	Kleinwort Benson Securities Limited, Henry Cooke, Lumsden plc
REGISTRARS	Connaught St. Michaels Limited

NON-EXECUTIVE DIRECTORS

Dr. E. B. Farmer, CBE Non-executive Chairman (62)

Appointed Chairman in 1999. Also Chairman of The Morgan Crucible Co. plc, Devro plc and Deputy Chairman of Scottish & Southern Energy plc. Chairman of Nomination Committee and member of Audit and Remuneration Committees.

J. A. S. Wallace, Senior Independent Non-executive Director (55)

Appointed in 1994. Deputy Chairman of Pifco Holdings plc. Chairman of the Audit and Remuneration Committees and member of Nomination Committee.

Dr. B. A. Rickinson (49)

Appointed in 1998. A metallurgist. Chief Executive of the Institute of Materials. Member of Nomination and Remuneration Committees.

R. T. Scholes (53)

Appointed in 1998. A Director at Dresdner Kleinwort Benson. Director of British Vita plc and Deputy Chairman of RCO Holdings plc. Member of Audit and Remuneration Committees.

Directors' responsibility statement

The directors are required by company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit for that year. In preparing the accounts the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the auditors, KPMG Audit Plc

We have audited the accounts on pages 28 to 46 .

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described in the Directors' responsibility statement above, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 22 to 24 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

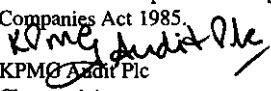
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Chartered Accountants
Registered Auditor

Manchester
16 March 1999

Group profit and loss account

for the year ended 31 December 1998

	Note	1998 £000	1997 £000
Turnover	1		
Existing operations		222,956	205,809
Acquisitions		97,012	—
Continuing operations		319,968	205,809
Discontinued operations		—	734
		<u>319,968</u>	<u>206,543</u>
Operating profit	2		
Existing operations		57,801	49,787
Acquisitions (after goodwill amortisation of £1,166,000)		16,108	—
Continuing operations		73,909	49,787
Discontinued operations		—	84
		<u>73,909</u>	<u>49,871</u>
Exceptional items			
Profit on disposal of discontinued operations	25	631	571
Profit on ordinary activities before interest and taxation		74,540	50,442
Net interest receivable	3	1,697	642
Profit on ordinary activities before taxation	1	76,237	51,084
Tax on profit on ordinary activities	6	22,768	15,181
Profit on ordinary activities after taxation		53,469	35,903
Minority interests - equity	18	(6)	320
Profit for the financial year		53,475	35,583
Dividends - paid and proposed	8	12,334	9,403
Retained profit for the financial year	17	<u>41,141</u>	<u>26,180</u>
Earnings per share	9		
Headline		53.3p	39.6p
Headline - diluted		52.7p	39.4p
Basic		52.5p	40.2p
Basic - diluted		51.9p	40.0p

The accompanying notes are an integral part of these accounts.

Balance sheets

as at 31 December 1998

	Note	Group		Company	
		1998 £000	1997 £000	1998 £000	1997 £000
Fixed assets					
Intangible assets	10	41,740	—	—	—
Tangible assets	11	299,220	220,141	12	54
Investments	12	1,668	1,713	409,943	245,167
		<u>342,628</u>	<u>221,854</u>	<u>409,955</u>	<u>245,221</u>
Current assets					
Stocks	13	15,560	13,695	—	—
Debtors	14	89,230	73,611	11,929	8,369
Cash at bank and in hand		102,855	76,113	77,981	35,063
		<u>207,645</u>	<u>163,419</u>	<u>89,910</u>	<u>43,432</u>
Creditors					
Amounts falling due within one year	15	160,159	158,393	87,257	68,173
Net current assets/(liabilities)		<u>47,486</u>	<u>5,026</u>	<u>2,653</u>	<u>(24,741)</u>
Total assets less current liabilities		<u>390,114</u>	<u>226,880</u>	<u>412,608</u>	<u>220,480</u>
Creditors					
Amounts falling due after more than one year	15	80,964	69,939	44,637	41,477
Provisions for liabilities and charges					
Deferred taxation	16	11,623	11,352	—	—
Net assets		<u>297,527</u>	<u>145,589</u>	<u>367,971</u>	<u>179,003</u>
Capital and reserves	17				
Called up share capital		25,696	20,198	25,696	20,198
Share premium account		238,727	134,772	238,727	134,772
Revaluation reserve		2,718	2,718	—	—
Currency and other reserve		2,473	(3,897)	3,625	1,213
Profit and loss account		27,439	(12,260)	99,923	22,820
Shareholders' funds - equity		<u>297,053</u>	<u>141,531</u>	<u>367,971</u>	<u>179,003</u>
Minority interests - equity	18	<u>474</u>	<u>4,058</u>	<u>—</u>	<u>—</u>
		<u>297,527</u>	<u>145,589</u>	<u>367,971</u>	<u>179,003</u>

Approved by the Board of Directors on 16 March 1999 and signed on its behalf by:

J. CHESWORTH }
J. A. S. WALLACE } Directors

The accompanying notes are an integral part of these accounts.

Group cash flow statement

for the year ended 31 December 1998

	Note	1998		1997	
		£000	£000	£000	£000
Net cash inflow from operating activities	20		94,171		58,618
Returns on investments and servicing of finance	21		1,624		2,107
Taxation			(19,192)		(10,705)
Capital expenditure	21		(80,737)		(38,802)
Acquisitions and disposals	21		(63,402)		(113,257)
Equity dividends paid			<u>(10,946)</u>		<u>(6,669)</u>
Cash outflow before use of liquid resources and financing			(78,482)		(108,708)
Management of liquid resources	21		(38,581)		89,415
Financing	21				
Issue of shares		101,861		1,391	
Increase in debt		<u>7,094</u>		<u>47,151</u>	
			<u>108,955</u>		<u>48,542</u>
(Decrease)/increase in cash in the year			<u>(8,108)</u>		<u>29,249</u>
Reconciliation of net cash flow to movement in net debt					
<i>(Decrease)/increase in cash in the year</i>		(8,108)		29,249	
Cash inflow from increase in debt		(7,094)		(47,151)	
Cash outflow/(inflow) from movement in liquid resources		<u>38,581</u>		<u>(89,415)</u>	
Change in net cash/(debt) resulting from cash flow			23,379		(107,317)
Loans acquired with subsidiaries			(2,847)		(42,477)
Currency adjustments			<u>(4,507)</u>		<u>5,158</u>
Movement in net cash/(debt) position in the year			16,025		(144,636)
Net (debt)/cash position at 1 January			<u>(46,694)</u>		<u>97,942</u>
Net debt position at 31 December	22		<u>(30,669)</u>		<u>(46,694)</u>

Statements of total recognised gains and losses

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Profit for the financial year	53,475	35,583	89,437	5,317
Currency adjustments	6,370	(4,831)	2,412	1,100
Total recognised gains and losses relating to the year	<u>59,845</u>	<u>30,752</u>	<u>91,849</u>	<u>6,417</u>

Reconciliations of movements in shareholders' funds

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Profit for the financial year	53,475	35,583	89,437	5,317
Dividends	12,334	9,403	12,334	9,403
Retained profit for the financial year	41,141	26,180	77,103	(4,086)
Currency adjustments	6,370	(4,831)	2,412	1,100
Proceeds of shares issued	109,453	2,403	109,453	2,403
Goodwill written off on prior year acquisitions (note 23)	(1,238)	(71,335)	–	–
Goodwill written off on prior year acquisition of minority interest (note 24)	(204)	(2,778)	–	–
Goodwill written back on disposal (note 25)	–	88	–	–
Net movement in shareholders' funds	155,522	(50,273)	188,968	(583)
Shareholders' funds at 1 January	141,531	191,804	179,003	179,586
Shareholders' funds at 31 December	<u>297,053</u>	<u>141,531</u>	<u>367,971</u>	<u>179,003</u>

Note of historical cost profits and losses

No note of historical cost profits and losses has been prepared as the result would not be significantly different to that reported on page 28.

Accounting policies

ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention adjusted by the revaluation of certain tangible fixed assets and in accordance with applicable accounting standards.

The accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements except for compliance with new accounting standards FRS10, goodwill and intangibles and FRS14, earnings per share.

BASIS OF CONSOLIDATION

The group accounts consolidate the accounts of the company and its subsidiary undertakings, all of which are made up to 31 December. Unless otherwise stated the acquisition method of accounting has been adopted. The results of subsidiaries acquired or sold during the year are consolidated from or to the date on which effective control passes.

In the company's financial statements, investments in subsidiary undertakings are stated at cost.

In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account dealing with the results of the company has not been presented.

GOODWILL

Purchased goodwill arising on the acquisitions of subsidiary undertakings before 1 January 1998, when FRS10 goodwill and intangibles was adopted, was written off to reserves in the year of acquisition.

Purchased goodwill arising on acquisitions since 1 January 1998 has been capitalised and amortised by equal instalments over its estimated useful life up to a maximum of twenty years.

In accordance with FRS10 goodwill on acquisitions of £42,906,000 has been capitalised. The amortisation charge to the profit and loss account in the year was £1,166,000, resulting in a net book value of £41,740,000 for goodwill.

TURNOVER

Turnover represents amounts receivable for goods and services sold to outside customers, excluding value added tax.

STOCK

Stock is valued at the lower of cost and net realisable value. In the case of manufactured products cost includes the attributable proportion of manufacturing overhead costs. Net realisable value is the estimated selling price less all further costs to completion and all costs to be incurred in selling and distribution.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost or at 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:

Land	nil
Buildings	2%
Leasehold property	over the period of the lease
Plant and machinery	5% to 20%
Fixtures and fittings	10% to 20%
Motor vehicles	25%

TAXATION

Provision is made under the liability method for taxation deferred by all timing differences to the extent that there is a reasonable probability that the liability will crystallise in the foreseeable future. Advance corporation tax on dividends paid and proposed is carried forward to the extent that it can be recovered.

FOREIGN CURRENCIES

The results of overseas subsidiaries are translated into sterling using average rates of exchange during the year. Assets and liabilities of overseas subsidiaries are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of investments in subsidiary undertakings at closing rates are taken to reserves, together with exchange differences on foreign currency borrowings which finance a proportion of foreign currency investments.

PENSION COSTS

Contributions are charged against profits so as to spread the cost of pensions over employees' working lives.

LEASING

Operating lease rentals are charged to the profit and loss account as incurred.

GOVERNMENT GRANTS

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate. Revenue based government grants are credited to the profit and loss account in the period in which they are receivable.

Notes on the accounts

1. Segmental analysis

By activity	Turnover		Profit		Net assets	
	1998	1997	1998	1997	1998	1997
	£000	£000	£000	£000	£000	£000
Heat treatment	204,178	107,143	45,788	24,965	220,938	90,188
Hot isostatic pressing	32,271	30,125	10,067	9,525	49,043	36,824
Materials testing	31,069	21,395	7,790	5,078	7,898	5,546
Metallurgical coatings	18,271	16,550	4,587	4,172	12,437	3,928
Equipment manufacture	34,179	30,200	7,225	5,791	14,064	9,284
Industrial and general	—	1,130	—	503	(6,853)	(181)
	<u>319,968</u>	<u>206,543</u>	<u>75,457</u>	<u>50,034</u>	<u>297,527</u>	<u>145,589</u>
Amortisation of goodwill			(1,166)	—		
Head office expenses and net interest receivable			1,315	479		
Profit on disposal of discontinued operations			631	571		
Profit on ordinary activities before taxation			<u>76,237</u>	<u>51,084</u>		

By geographical origin	Turnover		Profit		Net assets	
	1998	1997	1998	1997	1998	1997
	£000	£000	£000	£000	£000	£000
United Kingdom	59,784	48,552	24,345	18,163	61,675	49,879
France	71,751	—	9,983	—	62,153	—
North America	56,371	38,770	11,932	8,200	56,532	23,839
Germany/Austria	42,724	37,467	7,222	4,846	42,046	21,029
Scandinavia	40,713	39,946	11,151	11,244	41,369	23,344
Netherlands	39,890	31,543	9,488	6,520	28,195	13,692
Rest of World	8,735	10,265	2,116	2,111	5,557	13,806
	<u>319,968</u>	<u>206,543</u>	<u>76,237</u>	<u>51,084</u>	<u>297,527</u>	<u>145,589</u>

By geographical destination	Turnover	
	1998	1997
	£000	£000
United Kingdom	60,463	49,652
France	70,316	—
North America	65,037	51,716
Germany/Austria	49,771	38,364
Scandinavia	37,752	28,970
Netherlands	12,059	12,112
Rest of Europe	13,519	18,147
Rest of World	11,051	7,582
	<u>319,968</u>	<u>206,543</u>

Notes on the accounts

2. Operating profit

	1998			1997		
	Existing £000	Acquisitions £000	Total £000	Continuing £000	Discontinued £000	Total £000
Turnover	222,956	97,012	319,968	205,809	734	206,543
Cost of sales	134,933	64,520	199,453	127,264	633	127,897
Gross profit	88,023	32,492	120,515	78,545	101	78,646
Distribution	3,949	6,228	10,177	5,621	–	5,621
Administration	26,273	10,156	36,429	23,137	17	23,154
Operating profit	57,801	16,108	73,909	49,787	84	49,871

Operating profit is stated after charging/(crediting):

	1998 £000	1997 £000
Depreciation	22,971	13,361
Amortisation of goodwill	1,166	–
Hire of plant and machinery	2,522	1,808
Other operating leases	791	568
Audit fees	446	322
Fees to auditors and their associates for non-audit services	375	276
Government grants receivable	(201)	(229)
Rents receivable	(517)	(462)

3. Net interest receivable

Interest payable	(5,855)	(3,452)
Bank interest receivable	7,552	4,094
	1,697	642

4. Employees

The average number of persons employed by the group during the year was:

	1998 Number	1997 Number
Heat treatment	3,167	1,643
Hot isostatic pressing	263	230
Materials testing	681	468
Metallurgical coatings	372	331
Equipment manufacture	229	120
Industrial and general	–	24
	4,712	2,816

Total employee costs were:

	1998 £000	1997 £000
Wages and salaries	83,828	56,287
Social security costs	19,872	9,257
Other pension costs	4,021	2,976
	107,721	68,520

5. Directors' emoluments

	Salary and fees £000	Benefits £000	Bonus £000	1998 Total £000	1997 Total £000	1998 Option gains £000	1997 Option gains £000
Executive							
J. Chesworth	190	14	57	261	213	2,996	–
R. M. Green (retired 20.05.98)	44	18	–	62	119	387	565
M. Hallas	95	6	33	134	110	–	–
D. R. Sleight	100	10	35	145	118	584	–
M. A. Wilton	98	17	36	151	125	–	–
	<u>527</u>	<u>65</u>	<u>161</u>	<u>753</u>	<u>685</u>	<u>3,967</u>	<u>565</u>
Non-executive							
J. C. Dwek (retired 31.12.98)	60	23	–	83	112	–	283
J. A. S. Wallace	20	–	–	20	14	–	–
B. A. Rickinson (from 01.04.98)	15	–	–	15	–	–	200
R. T. Scholes (from 01.04.98)	15	–	–	15	–	–	–
	<u>637</u>	<u>88</u>	<u>161</u>	<u>886</u>	<u>811</u>	<u>3,967</u>	<u>1,048</u>

Benefits incorporate the provision of a company car and private medical insurance which are consistent with industry standards. Bonus payments are based on group and divisional performance targets and are approved by the Remuneration Committee. Payment in respect of Mr Scholes' service was made to Kleinwort Benson Securities Limited. An analysis of directors' share options is given in note 17 to the accounts. The aggregate gains made during 1998 by directors on the exercise of share options amounted in total to £3,966,966 (1997: £1,048,185).

Mr Chesworth does not participate in the Bodycote Group Pension Scheme. The company's contributions in respect of Mr. Chesworth's individual pension policies amounted to £28,000 (1997: £28,000). Three of the other directors have benefits accruing under the Scheme and the changes in their accrued pension benefits during 1998 were as follows:

	Years Service	Accrued Pension at 1 January 1998 £ p.a.	Accrued Pension at 31 December 1998 £ p.a.	Increase in Accrued Pension £ p.a.	Transfer value of increase in Accrued Pension £
D. R. Sleight	15	18,421	22,696	4,275	23,000
M. A. Wilton	20	24,138	29,395	5,257	30,494
M. Hallas	21	25,361	30,812	5,451	33,143

6. Tax on profit on ordinary activities

	1998 £000	1997 £000
The charge for tax comprises:		
UK corporation tax at 31% (1997: 31.5%)	7,052	5,741
Overseas tax	15,844	8,340
UK deferred tax	608	(445)
Overseas deferred tax	(376)	1,819
Adjustments to previous years	(360)	(274)
	<u>22,768</u>	<u>15,181</u>

The UK corporation tax charge for the year has been reduced by £1,074,000 (1997: £245,000) as a result of accelerated capital allowances and other timing differences.

The overseas tax charge includes £265,000 tax on the exceptional profit on the disposal of discontinued operations.

Notes on the accounts

7. Profit for the financial year

The profit for the financial year dealt with in the financial statements of the company amounted to £89,437,000 (1997: £5,317,000).

8. Dividends

	1998 £000	1997 £000
Interim - 4.25p per share (1997: 3.2p) on 102,766,980 shares (1997: 80,721,971) paid 31 December 1998	4,368	2,825
Final - 7.75p per share (1997: 5.9p) proposed on 102,784,548 (1997: 101,205,177) shares	7,966	6,578
	<u>12,334</u>	<u>9,403</u>

9. Earnings per share

	£000	£000
Profit for the financial year	53,475	35,583
Goodwill amortisation charge	1,166	-
Exceptional items after tax	(366)	(571)
Headline earnings	<u>54,275</u>	<u>35,012</u>
Weighted average number of shares in issue - basic	101,841,427	88,479,284
Adjustment in respect of share options	1,113,624	386,999
Weighted average number of ordinary shares in issue - diluted	<u>102,955,051</u>	<u>88,866,283</u>
Headline	53.3p	39.6p
Headline - diluted	52.7p	39.4p
Basic	52.5p	40.2p
Basic - diluted	51.9p	40.0p

The figures for 1997 have been adjusted to take into account the rights issue completed in January 1998.

10. Intangible fixed assets - goodwill

	£000
Cost	
1 January 1998	-
Arising on acquisitions during the year	<u>42,906</u>
	<u>42,906</u>
Amortisation	
1 January 1998	-
Charge for the year	<u>1,166</u>
	<u>1,166</u>
Net book value	
31 December 1998	<u>41,740</u>
31 December 1997	<u>-</u>

11. Tangible fixed assets

Group	Land and buildings			Plant and machinery	Fixtures and fittings	Total
	Freehold	Long leasehold	Short leasehold			
	£000	£000	£000	£000	£000	£000
Cost or valuation						
1 January 1998	74,800	2,108	546	265,133	11,645	354,232
Currency adjustments	3,010	52	(3)	8,833	312	12,204
Subsidiaries acquired	6,324	48	885	16,781	752	24,790
Subsidiaries sold	(985)	–	–	(4,292)	–	(5,277)
Additions	25,962	70	16	57,335	2,377	85,760
Disposals	(3,175)	–	–	(11,448)	(656)	(15,279)
	<u>105,936</u>	<u>2,278</u>	<u>1,444</u>	<u>332,342</u>	<u>14,430</u>	<u>456,430</u>
Depreciation						
1 January 1998	7,111	478	259	119,097	7,146	134,091
Currency adjustments	509	24	1	4,019	213	4,766
Subsidiaries acquired	227	1	85	5,802	383	6,498
Subsidiaries sold	(111)	–	–	(522)	–	(633)
Charge for the year	1,963	58	101	19,066	1,783	22,971
Disposals	(1,119)	–	–	(8,625)	(739)	(10,483)
	<u>8,580</u>	<u>561</u>	<u>446</u>	<u>138,837</u>	<u>8,786</u>	<u>157,210</u>
Net book value						
31 December 1998	<u>97,356</u>	<u>1,717</u>	<u>998</u>	<u>193,505</u>	<u>5,644</u>	<u>299,220</u>
31 December 1997	<u>67,689</u>	<u>1,630</u>	<u>287</u>	<u>146,036</u>	<u>4,499</u>	<u>220,141</u>

Analysis by year of valuation

1988	206	–	–	–	–	206
1993	330	–	–	–	–	330
1996	4,637	–	–	–	–	4,637
Valuation	<u>5,173</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,173</u>
Cost	<u>100,763</u>	<u>2,278</u>	<u>1,444</u>	<u>332,342</u>	<u>14,430</u>	<u>451,257</u>
Cost or valuation	<u>105,936</u>	<u>2,278</u>	<u>1,444</u>	<u>332,342</u>	<u>14,430</u>	<u>456,430</u>

Certain freehold properties were valued in 1996 by Bower Mattin Commercial Surveyors on the basis of open market value for existing use.

Original cost equivalent

31 December 1998						
Cost	104,655	2,278	1,444	332,342	14,430	455,149
Accumulated depreciation	<u>9,086</u>	<u>561</u>	<u>446</u>	<u>138,837</u>	<u>8,786</u>	<u>157,716</u>
	<u>95,569</u>	<u>1,717</u>	<u>998</u>	<u>193,505</u>	<u>5,644</u>	<u>297,433</u>
31 December 1997						
Cost	73,761	2,108	546	265,133	11,645	353,193
Accumulated depreciation	<u>7,634</u>	<u>478</u>	<u>259</u>	<u>119,097</u>	<u>7,146</u>	<u>134,614</u>
	<u>66,127</u>	<u>1,630</u>	<u>287</u>	<u>146,036</u>	<u>4,499</u>	<u>218,579</u>

Included in the net book value of fixed assets of £299,220,000 (1997: £220,141,000) is £7,786,000 (1997: £3,928,000) which relates to freehold land not depreciated.

Notes on the accounts

11. Tangible fixed assets continued

Company	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost			
1 January 1998	81	31	112
Additions	7	–	7
Disposals	(81)	–	(81)
	<u>7</u>	<u>31</u>	<u>38</u>
Depreciation			
1 January 1998	39	19	58
Charge for the year	16	5	21
Disposals	(53)	–	(53)
	<u>2</u>	<u>24</u>	<u>26</u>
Net book value			
31 December 1998	5	7	12
31 December 1997	42	12	54

12. Investments

	Group			Company		
	Shares £000	Loans £000	Total £000	Shares £000	Loans £000	Total £000
Cost						
1 January 1998	1,538	240	1,778	122,479	124,689	247,168
Acquisitions and advances	–	72	72	110,731	71,784	182,515
Disposals and repayments	(69)	–	(69)	(18,273)	(4,357)	(22,630)
Currency adjustments	95	19	114	–	4,891	4,891
	<u>1,564</u>	<u>331</u>	<u>1,895</u>	<u>214,937</u>	<u>197,007</u>	<u>411,944</u>
Provision						
1 January 1998	65	–	65	2,001	–	2,001
Acquisitions	185	–	185	–	–	–
Disposals	(35)	–	(35)	–	–	–
Currency adjustments	12	–	12	–	–	–
	<u>227</u>	<u>–</u>	<u>227</u>	<u>2,001</u>	<u>–</u>	<u>2,001</u>
Net book value						
31 December 1998	1,337	331	1,668	212,936	197,007	409,943
31 December 1997	1,473	240	1,713	120,478	124,689	245,167

Group investments comprised:

Name of company	Nature of business	Country of incorporation	% Holding of ordinary shares
Vide Express Romania	Metal treatment	Romania	49
GEG SA	Metal treatment	France	20
Traitement Compression Services SA	Metal treatment	France	49
International Heat Treatment Limited	Metal treatment	China	40

Details of group undertakings are given on pages 48 to 51.

13. Stocks

	Group	
	1998	1997
	£000	£000
Raw materials and consumables	6,920	6,254
Work in progress	7,763	6,924
Finished goods and goods for resale	877	517
	<u>15,560</u>	<u>13,695</u>

14. Debtors

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	71,914	61,567	–	–
Amounts owed by subsidiary undertakings	–	–	6,031	4,576
Other debtors	12,099	7,430	166	67
Prepayments and accrued income	3,927	3,444	983	398
Advance corporation tax recoverable	–	–	4,734	3,313
	<u>87,940</u>	<u>72,441</u>	<u>11,914</u>	<u>8,354</u>
Amounts falling due after more than one year:				
Other debtors	1,290	1,170	15	15
	<u>89,230</u>	<u>73,611</u>	<u>11,929</u>	<u>8,369</u>

15. Creditors

Amounts falling due within one year:				
Bank loans	57,918	56,559	51,055	47,866
Bank overdrafts	2,587	4,739	19,313	7,265
Trade creditors	28,676	24,620	117	144
Corporation tax	13,576	16,090	3,346	2,322
Proposed dividends	7,966	6,578	7,966	6,578
Advance corporation tax	3,083	2,351	3,083	2,351
Other taxes and social security	15,139	4,194	32	25
Other creditors	12,530	9,922	176	137
Consideration due to HIT shareholders	–	20,463	–	–
Accruals and deferred income	18,684	12,877	2,169	1,485
	<u>160,159</u>	<u>158,393</u>	<u>87,257</u>	<u>68,173</u>
Amounts falling due after more than one year:				
Bank loans	73,019	61,509	41,512	38,309
Amounts owed to subsidiary undertakings	–	–	3,125	3,168
Other creditors	7,945	8,430	–	–
	<u>80,964</u>	<u>69,939</u>	<u>44,637</u>	<u>41,477</u>
Medium and long term bank loans:				
Repayable after 5 years	5,441	365	–	–
Not wholly repayable within 5 years	19,238	15,064	7,154	6,819
Wholly repayable between 1 and 5 years	48,340	46,080	34,358	31,490
	<u>73,019</u>	<u>61,509</u>	<u>41,512</u>	<u>38,309</u>

Notes on the accounts

15. Creditors continued	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Bank loans are repayable:				
After 5 years	9,006	3,429	377	758
Between 2 and 5 years	51,238	39,605	35,237	20,681
Between 1 and 2 years	12,775	18,475	5,898	16,870
	<u>73,019</u>	<u>61,509</u>	<u>41,512</u>	<u>38,309</u>
<i>Within 12 months</i>	<u>57,918</u>	<u>56,559</u>	<u>51,055</u>	<u>47,866</u>
	<u>130,937</u>	<u>118,068</u>	<u>92,567</u>	<u>86,175</u>

Interest on loans and overdrafts was at variable rates determined in relation to bank base rates.

16. Deferred taxation	Group	
	1998 £000	1997 £000
1 January	11,352	6,113
Profit and loss account charge	232	1,374
Currency adjustments	(44)	(1,019)
Advance corporation tax recoverable	(347)	(684)
Subsidiaries acquired	430	5,568
	<u>11,623</u>	<u>11,352</u>
Details of the liability:		
Capital expenditure allowances	13,614	12,997
Advance corporation tax recoverable	(1,991)	(1,645)
	<u>11,623</u>	<u>11,352</u>
The potential liability of the group not provided for in the accounts is:		
Chargeable gains rolled over	508	508
Chargeable gains on revaluation of tangible fixed assets	613	613
Capital expenditure allowances	7,364	5,927
	<u>8,485</u>	<u>7,048</u>

17. Capital and reserves

Share capital:

Authorised		
138,824,000 (1997: 138,824,000) ordinary shares of 25p each	<u>34,706</u>	<u>34,706</u>
Called up and fully paid		
102,784,548 (1997: 80,790,136) ordinary shares of 25p each	<u>25,696</u>	<u>20,198</u>

The called up share capital was increased during the year by the issue of 21,994,412 ordinary shares of 25p each. An analysis of the shares that were issued is given on page 17 in the Directors' report.

17. Capital and reserves continued

Executive share option schemes

Director	1 January 1998	Adjustments	Number of options		Option price (pence)	Date from which exercisable		Expiry date
			Granted (exercised)	31 December 1998				
J. Chesworth	106,328	10,796	(117,124)	–	85.81	–	–	
	31,899	3,239	(35,138)	–	137.89	–	–	
	53,164	5,398	(58,562)	–	163.50	–	–	
	63,797	6,478	(70,275)	–	263.82	–	–	
	30,000	3,046	–	33,046	646.82	20.05.2000	20.05.2004	
M. Hallas	21,266	2,159	–	23,425	85.81	04.05.1995	04.05.2000	
	21,266	2,159	–	23,425	137.89	11.10.1996	11.10.2001	
	31,899	3,239	–	35,138	263.82	28.11.1997	28.11.2004	
	26,582	2,699	–	29,281	476.41	18.06.1999	18.06.2003	
	20,000	2,030	–	22,030	646.82	20.05.2000	20.05.2004	
D. R. Sleight	15,949	1,619	(17,568)	–	137.89	–	–	
	10,633	1,079	(11,712)	–	163.50	–	–	
	26,582	2,699	(29,281)	–	263.82	–	–	
	26,582	2,699	–	29,281	476.41	18.06.1999	18.06.2003	
	20,000	2,030	–	22,030	646.82	20.05.2000	20.05.2004	
M. A. Wilton	15,949	1,619	–	17,568	85.81	04.05.1995	04.05.2000	
	15,949	1,619	–	17,568	137.89	11.10.1996	11.10.2001	
	21,266	2,159	–	23,425	163.50	27.04.1997	27.04.2002	
	31,899	3,239	–	35,138	263.82	28.11.1997	28.11.2004	
	26,582	2,699	–	29,281	476.41	18.06.1999	18.06.2006	
	20,000	2,030	–	22,030	646.82	20.05.2000	20.05.2007	
B. A. Rickinson	31,899	3,239	–	35,138	263.82	28.11.1997	20.07.2000	

On 12 January 1998, after the rights issue was completed, each option and the price for each option was adjusted in accordance with the rules of the Schemes. The adjustment factor was certified by the auditor and approved by the Inland Revenue.

The market price of the shares at 31 December 1998 was 832.5p and the range during 1998 was 677.5p to 1282.5p. Options are granted and approved by the Remuneration Committee on the recommendation of the directors. The rules of the 1994 and 1996 schemes provide that options can only be exercised if growth in earnings per share over the three years commencing with the date of grant exceeds United Kingdom retail inflation figures by 2% per annum.

During the year options covering 419,000 ordinary shares were granted to 200 employees pursuant to the rules of the Bodycote International Executive Share Option Schemes 1994 and 1996. Options covering 1,119,660 ordinary shares were exercised and 137,859 options lapsed.

At 31 December 1998 options under the schemes were outstanding in respect of 3,335,598 ordinary shares granted to 566 employees at prices ranging from 85.81p to 1272.5p per share and which expire at dates between 5 February 1999 and 13 October 2008.

Notes on the accounts

17. Capital and reserves continued

Outstanding options	Option price	Exercise	1998	1997
Date of grant	(pence)	period	Number of options	
May 1990	85.81	1995-2000	40,993	143,543
October 1991	137.89	1996-2001	40,993	170,125
April 1992	163.50	1997-2002	23,425	127,595
May 1993	240.77	1998-2003	17,568	63,796
November 1994	263.82	1997-2004	381,429	895,285
May 1995	284.31	1998-2005	32,130	58,476
October 1995	356.03	1998-2005	77,875	100,478
June 1996	476.41	1999-2006	87,843	79,746
November 1996	633.94	1999-2003	35,136	31,898
November 1996	628.66	1999-2003	76,005	69,000
December 1996	677.69	1999-2006	229,109	216,000
May 1997	646.82	2000-2007	1,448,449	1,385,500
December 1997	843.36	2000-2007	446,643	460,500
January 1998	944.00	2001-2008	160,000	-
May 1998	1272.50	2001-2008	51,000	-
October 1998	762.50	2001-2008	187,000	-
			<u>3,335,598</u>	<u>3,801,942</u>

Reserves	Share premium account	Revaluation reserve	Currency and other reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
Group					
1 January 1998	134,772	2,718	(3,897)	(12,260)	121,333
Currency adjustments	-	-	6,370	-	6,370
Retained profit for the year	-	-	-	41,141	41,141
Premium on shares issued (net of expenses)	103,955	-	-	-	103,955
	<u>238,727</u>	<u>2,718</u>	<u>2,473</u>	<u>28,881</u>	<u>272,799</u>
Goodwill on prior year acquisitions	-	-	-	(1,238)	(1,238)
Goodwill on prior year acquisition of minority interest	-	-	-	(204)	(204)
	<u>238,727</u>	<u>2,718</u>	<u>2,473</u>	<u>27,439</u>	<u>271,357</u>
Company					
1 January 1998	134,772	-	1,213	22,820	158,805
Currency adjustments	-	-	2,412	-	2,412
Retained profit for the year	-	-	-	77,103	77,103
Premium on shares issued (net of expenses)	103,955	-	-	-	103,955
	<u>238,727</u>	<u>-</u>	<u>3,625</u>	<u>99,923</u>	<u>342,275</u>

Cumulative goodwill written off to reserves at 31 December 1998 amounted to £114,722,000 (1997: £113,280,000).

18. Minority interests

	Group	
	1998	1997
	£000	£000
Equity interest at 1 January	4,058	2,637
Currency adjustments	259	(167)
Share of (losses)/profits for the year	(6)	320
Acquisition of subsidiary undertaking	-	3,980
Purchase of minorities' equity	(606)	(2,690)
Sale of subsidiary undertaking	(3,117)	-
Dividend payable	(114)	(22)
	<u>474</u>	<u>4,058</u>

19. Capital and leasing commitments

Contracted capital expenditure not provided for in the accounts:	<u>21,261</u>	<u>10,602</u>
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The annual commitment for payments in respect of operating leases is:

	Land and buildings		Other	
	1998	1997	1998	1997
	£000	£000	£000	£000
Expiring:				
Within 12 months	225	35	1,103	777
Between 1 and 5 years	415	56	2,434	1,609
After 5 years	328	347	3	3
	<u>968</u>	<u>438</u>	<u>3,540</u>	<u>2,389</u>

20. Reconciliation of operating profit to net cash inflow from operating activities

	1998	1997
	£000	£000
Operating profit	73,909	49,871
Depreciation charges	22,971	13,361
Amortisation of goodwill	1,166	-
Profit on sale of tangible fixed assets	(227)	(30)
Increase in stocks	(1,252)	(1,215)
Increase in debtors	(10,944)	(5,234)
Increase in creditors	8,548	1,865
	<u>94,171</u>	<u>58,618</u>

21. Gross cash flow

Returns on investments and servicing of finance:

Interest received	6,395	4,263
Interest paid	(4,657)	(2,134)
Dividend paid to minority shareholders	(114)	(22)
	<u>1,624</u>	<u>2,107</u>

Notes on the accounts

21. Gross cash flow continued

	1998 £000	1997 £000
Capital expenditure:		
Purchase of tangible fixed assets	(85,760)	(39,235)
Sale of tangible fixed assets	5,023	433
Net cash outflow for capital expenditure	<u>(80,737)</u>	<u>(38,802)</u>
Acquisitions and disposals:		
Net (overdrafts)/cash acquired with subsidiaries	(1,880)	1,771
Purchase of subsidiary undertakings (note 23)	(43,713)	(112,016)
Purchase of minority shareholders' interest	(810)	(4,456)
Net cash disposed on sale of business	–	(214)
Sale of discontinued operations (note 25)	3,464	1,658
Consideration paid to HIT shareholders	(20,463)	–
Net cash outflow for acquisitions and disposals	<u>(63,402)</u>	<u>(113,257)</u>
Management of liquid resources:		
Cash withdrawn from short term deposits	20,645	106,817
Cash placed on short term deposits	(59,226)	(17,402)
Net cash (outflow)/inflow from management of liquid resources	<u>(38,581)</u>	<u>89,415</u>
Financing:		
Issue of ordinary share capital	101,861	1,391
Repayment of bank loans	(35,287)	(32,266)
Additional bank loans	42,381	79,417
Net cash inflow from financing	<u>108,955</u>	<u>48,542</u>

22. Analysis of net debt position

	1 Jan 1998 £000	Cash flow £000	Acquisitions - loans acquired £000	Non-cash changes £000	Currency adjustments £000	31 Dec 1998 £000
Cash at bank and in hand	41,276	(13,303)	–	–	1,464	29,437
Short term deposits	34,837	38,581	–	–	–	73,418
Bank overdrafts	(4,739)	5,195	–	–	(3,043)	(2,587)
Bank loans due within one year	(56,559)	6,501	(657)	(4,946)	(2,257)	(57,918)
Bank loans due after one year	(61,509)	(13,595)	(2,190)	4,946	(671)	(73,019)
	<u>(46,694)</u>	<u>23,379</u>	<u>(2,847)</u>	<u>–</u>	<u>(4,507)</u>	<u>(30,669)</u>

23. Acquisition of subsidiary undertakings

Acquisitions were made at a cost of £54.4 million. The following table analyses the acquisitions made in the year. Except as indicated below, no fair value adjustments were required to be made to the amounts at which the assets and liabilities were recorded in the books of the acquired entities.

	Total £000
Tangible fixed assets	
Book value on acquisition	13,890
Accounting policy alignment	4,402
Fair value to the group	18,292
Stocks	237
Debtors	6,803
Cash	1,866
Creditors	(8,613)
Bank overdrafts	(3,746)
Bank loans	(2,847)
Deferred taxation	(470)
Total net assets acquired	11,522
Book value on acquisition	7,120
Accounting policy alignment	4,402
Fair value to the group	11,522
Goodwill	42,906
	<u>54,428</u>
Details of consideration:	
Share capital issued	7,592
Cash paid in 1998	43,713
Cash payable in future years	3,123
	<u>54,428</u>

Tangible fixed assets have been adjusted to bring their valuation in line with the group's accounting policies.

Of the goodwill arising on the acquisition of subsidiary undertakings £42,906,000 was capitalised in the year in accordance with FRS 10. This then resulted in an amortisation charge of £1,166,000.

The subsidiary undertakings acquired during the year contributed £6.2 million to the group's net operating cash flow, paid £0.2 million in respect of net returns on investments and servicing of finance, and utilised £4.7 million for capital expenditure.

In addition goodwill of £1,238,000 has been written off to reserves as a result of revisions made to the fair values of assets acquired in 1997 with HIT SA.

24. Acquisition of minority shareholders' interest

During the year the group's subsidiary, HIT SA, acquired part of the minority interests in subsidiary undertakings for £810,000. This resulted in goodwill of £204,000 being written off against reserves.

Notes on the accounts

25. Disposal of discontinued operations

The following table sets out the net assets disposed, the goodwill previously written off, the profit on sale and the cash proceeds from the disposal of discontinued operations.

	1998	1997
	£000	£000
Asset values:		
Tangible fixed assets	4,644	658
Stocks	115	345
Debtors	4,307	653
Cash	–	214
Creditors	(3,116)	(727)
Corporation tax	–	(144)
	<hr/>	<hr/>
Net assets disposed	5,950	999
Goodwill previously written off	–	88
Profit on sale	631	571
Minority interest	(3,117)	–
	<hr/>	<hr/>
Cash consideration	3,464	1,658
	<hr/>	<hr/>

26. Pension schemes

The group operated a number of pension schemes during the year. The cost to the group of these schemes was £4,021,000 (1997: £2,976,000) of which £3,232,000 (1997: £2,432,000) related to overseas arrangements.

The two UK schemes are defined benefit arrangements in which the assets are held in separate trustee administered funds. The pension cost relating to both UK schemes is assessed in accordance with the advice of qualified actuaries using the projected unit method. The last actuarial assessment of each of the UK schemes was performed on 1 April 1997 and 1 April 1998 respectively. The assumptions, which have the most significant effect on the results of each of the actuarial assessments, are those relating to the rate of return on the investments and the rate of increase in salaries. It was assumed in both cases that the investment return would be 9% per annum and that salary growth would average 7% per annum. At the last actuarial valuation of each scheme, the notional fund value of the assets totalled £8,471,000 and £5,218,000 respectively. The actuarial value of these assets represented 101% and 120% respectively of the benefits that had accrued to members after allowing for expected future increases in earnings.

The overseas pension scheme of Bodycote IMT Inc. is a defined contribution retirement plan covering all employees. The amount of annual premium is established each year in advance. Benefits are directly related to contributions.

The pension provision of Bodycote Mahler is stated at current values in accordance with Section 6a of the German Income Tax Act. It is based upon an actuarial report, calculated on the going concern basis.

Brukens operates a defined contribution plan for its employees based upon a standard state system. Benefits are directly related to contributions.

The employees of Hauzer Industries BV contribute to an obligatory pension scheme, which is specific to the Dutch metal industry. Benefits are directly related to contributions.

27. Contingent liabilities

The company has guaranteed bank overdrafts and loans of certain subsidiary undertakings amounting to £18,833,000 (1997: £15,646,000).

Five year financial summary

	1998	1997	1996	1995	1994
	£000	£000	£000	£000	£000
Turnover					
Metal technology	319,968	205,413	122,794	66,452	48,229
Industrial and general	–	396	406	2,328	2,125
Discontinued operations	–	734	5,085	11,612	33,974
	<u>319,968</u>	<u>206,543</u>	<u>128,285</u>	<u>80,392</u>	<u>84,328</u>
Profits					
Operating profit	73,909	49,871	29,142	18,286	15,478
Profit on disposal of discontinued operations	631	571	433	506	659
Net interest receivable/(payable)	1,697	642	(633)	150	(305)
	<u>76,237</u>	<u>51,084</u>	<u>28,942</u>	<u>18,942</u>	<u>15,832</u>
Taxation	22,768	15,181	7,538	6,493	4,578
	<u>53,469</u>	<u>35,903</u>	<u>21,404</u>	<u>12,449</u>	<u>11,254</u>
Minority interests	(6)	320	1,263	297	505
	<u>53,475</u>	<u>35,583</u>	<u>20,141</u>	<u>12,152</u>	<u>10,749</u>
Profit for the financial year					
Headline earnings per share* (pence)	53.3	39.6	28.0	18.5	15.0
Dividend per share* (pence)	12.0	9.1	6.7	5.5	4.9
	<u>12.0</u>	<u>9.1</u>	<u>6.7</u>	<u>5.5</u>	<u>4.9</u>
Assets employed					
Tangible fixed assets	299,220	220,141	102,164	77,828	66,304
Other net assets/(liabilities)	28,976	(27,858)	92,277	(263)	7,917
	<u>328,196</u>	<u>192,283</u>	<u>194,441</u>	<u>77,565</u>	<u>74,221</u>
Financed by					
Share capital	25,696	20,198	19,988	14,572	14,463
Reserves	271,357	121,333	171,816	61,851	51,747
	<u>297,053</u>	<u>141,531</u>	<u>191,804</u>	<u>76,423</u>	<u>66,210</u>
Shareholders' funds					
Minority interests	474	4,058	2,637	1,142	7,715
Net borrowings	30,669	46,694	–	–	296
	<u>328,196</u>	<u>192,283</u>	<u>194,441</u>	<u>77,565</u>	<u>74,221</u>
Net assets per share (pence)	289.0	175.2	239.9	131.1	114.5
Return on capital employed (%)	28.4	25.8	21.4	24.1	22.2

* These figures have been adjusted to take into account the 1 for 4 rights issue completed in January 1998.

Principal subsidiary undertakings

Metal Technology		Country of Incorporation or Registration
Heat Treatment		
*Bodycote Heat Treatments Limited	Macclesfield, Woodford, Aldridge, Corby Hazel Grove, Rotherham, Cheltenham, Chard, Great Barr, Broxburn, Walsall, Willenhall Cambridge, Coventry, Sheffield, Skelmersdale	England
Bodycote Wärmebehandlung GmbH	Nürnberg, Esslingen, Essen, Karben, Landsberg, Köln, Lüdenscheid, München, Hanau, Menden, Sprockhövel, Ebersbach, Komtal-Münchingen	Germany
Bodycote Hauzer Hardingscentrum BV	Venlo	Netherlands
Metaalharderij JW Staps BV	Tilburg and Moordrecht	Netherlands
BV Staalharderij NEVE	Diemen and Hengelo	Netherlands
Vacuüm Soldeer Centrum BV	Diemen	Netherlands
Bodycote Hardiff BV	Apeldoorn	Netherlands
Bodycote Rheintal Wärmebehandlung AG	Schaan	Liechtenstein
Bodycote IMT Inc.	Ohio and Oregon	USA
Bodycote Limited	Kitchener	Canada
Bodycote (Southwest) Inc.	Dallas, Fort Worth, Tulsa and Oklahoma City	USA
Bodycote (West) Inc.	Tarzana and Anaheim	USA
Bodycote Techni-Braze Inc.	Los Angeles	USA
Bodycote Hooven Inc.	Ipswich, Massachusetts & South Windsor, Connecticut	USA
Bodycote Shore Inc.	Cleveland	USA
Bodycote Metal Treating Inc.	Cincinnati	USA
Bodycote Michigan Inc.	Canton	USA
Bodycote Alpha Inc.	Cleveland	USA
Bodycote A. R. T. Inc.	Laconia	USA
Brukens Sverige AB	Stockholm, Göteborg, Halmstad, Malmö Västerås, Mora, Karlskoga, Anderstorp, Värnamo	Sweden
Brukens Oy	Helsinki, Vaasa, Pieksämäki, Tempere	Finland
Brukens Danmark A/S	Århus, Herlev	Denmark
Böhlerdur GmbH	Kapfenberg	Austria

Metal Technology continued

Country of Incorporation
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Heat Treatment

Coutherm	Thiers, Le Subdray, La Monnerie Le Montel, Aureil	France
HIT Industries	Neuilly sur Marne, Chassieu, Amiens, La Talaudiere, Chanteloup les Vignes, St Dié, Beaugency, Franleu	France
HIT Italia Srl (90% owned)	Gorgonzola	Italy
HITEC (54% owned)	Rodez	France
HT Progrès Sro (73% owned)	Liberec	Czech Republic
Innovatique	Chassieu	France
Partiot Europe	Cernay, Nogent en Bassigny	France
Staalharderij NEVE NV	Brussels	Belgium
Traitement Thermique Belge	Brussels, Herstal, Nivelles, Marchienne au Pont	Belgium
Vide Adour	Serres Castet, Toulouse, Pessac	France
Vide et Thermochimie de Normandie	Condé sur Noireau, St Rémy en Mauves, St Aubin les Elbeuf, Luitré	France
Vide et Traitement Nord	Billy Berclau, Charleville Mézières	France
Vide et Traitements Services	Gennevilliers, Lagny sur Marne, Brétigny sur Orge, Neuilly en Thelle	France
Vide Express	Pusignan, Gemenos, St Etienne, Voreppe, Chassieu, Cluses	France

Vacuum and sealed quench and induction heat treatment, carburising, carbonitriding, plasma nitriding, copper brazing, hardening, tempering, kolsterising, brazing, electron beam welding and laser processing.

Hot Isostatic Pressing

*Bodycote H.I.P. Limited	Chesterfield and Hereford	England
Bodycote IMT Inc.	Massachusetts, Ohio, Oregon and Washington State	USA
Bodycote IMT Kentucky Inc.	Kentucky	USA
Bodycote Industrial Materials Technology GmbH	Essen, Haag	Germany
Bodycote IMT NV	Sint-Niklaas	Belgium

Principal subsidiary undertakings

Metal Technology continued		Country of Incorporation or Registration
Hot Isostatic Pressing		
Bodycote Powdermet AB	Surahammar	Sweden
*Bodycote Infutech Limited	Chesterfield	England
Application of the hot isostatic process and the manufacture of specialist steels and products using hot isostatic pressing technology.		
Materials Testing		
Bodycote Materials Testing Limited	Newbridge, Glasgow, Scunthorpe, Middlesbrough, Salford, Brierley Hill, Daventry, Bridgwater, Dudley, Newcastle	Scotland
Bodycote Materials Testing BV	Emmen, Spijkenisse and Arnhem	Netherlands
Bodycote Materials Testing A/S	Sandnes	Norway
Bodycote Materials Testing Srl	Milan	Italy
MTS International Holdings Limited	Abu Dhabi	Guernsey
Bodycote Taussig Inc.	Chicago	USA
Bodycote Omnitest Inc.	Houston	USA
Bodycote Galt Materials Testing Limited	Cambridge and Burlington	Canada
Bodycote Metal Analysis Inc.	Los Angeles	USA
Bodycote Industrial Testing Limited	St Louis	USA
Bodycote Technitrol Inc.	Montreal	Canada
Bodycote Met-Chem Inc.	Detroit	USA
Bodycote Ortech Inc.	Mississauga	Canada
Testing services for producers and users. Mechanical, corrosion, physical and chemical testing of ferrous and non-ferrous alloys, building products, ceramics, composites and plastics. Healthcare testing, microbiological assessment, water analysis, fire, drug, pharmaceutical and food product testing.		

Metal Technology continued Country of Incorporation
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Metallurgical Coatings

*Bodycote Metallurgical Coatings Limited	Wolverhampton, Rochdale, Caerphilly	England
Harvey Plating Limited	Darlington	England
*John H Mason Limited	Rotherham	England
*Parstream Limited t/a Lymington Plating	Lymington	England
Hauzer Coating Centrum BV	Venlo	Netherlands
*Bodycote SHU Coatings Limited	Sheffield	England
West Middlesex Plating Co. Limited	Uxbridge	England
Bodycote de Mexico SA de CV	Tecate	Mexico
Ytintressenter AB	Solna, Spånga, Järfälla and Iggesund	Sweden

Anti-corrosion processing including sherardizing, mechanical plating, zinc electroplating, phosphating, shot blasting and metal plating.

Equipment Manufacture

Bodycote Mahler Anlagenbau GmbH	Esslingen	Germany
Schmetz GmbH	Menden	Germany
Hauzer Techno Coating Europe BV	Venlo	Netherlands
B.M.I. Fours Industriels	St Quentin Fallavier	France

Manufacture of vacuum and mesh belt furnaces and physical vapour deposition coatings equipment.

Industrial and General

*Thomas Cook & Son Insurance Brokers Limited (75% owned)	Burnley	England
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Insurance broking, industrial and commercial risk management, life assurance and pension consultants, independent financial advisers.

*Bodycote Developments Limited	Baildon	England
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Managers of the group's property interests in Baildon.

Except where stated, these companies are wholly owned subsidiaries and have only one class of issued shares. Subsidiaries marked with an asterisk* are held directly by Bodycote International plc.