annual report 2010

www.bodycote.com/audiocast

Bodycote continually improves the website offerings for both customers and investors. The most recent is the addition of an audio webcast of Bodycote's 2010 Results presentation in the Investor Relations section of the website. We invite you to view and to listen by visiting www.bodycote.com/audiocast

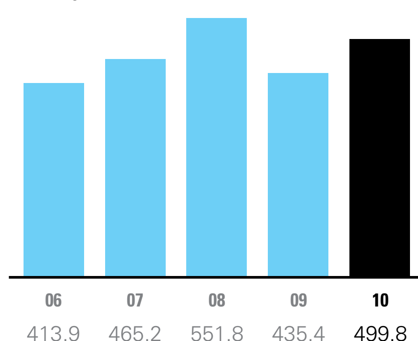
COVER IMAGE

This photograph by Jane LaGoy shows the microstructure of a sample of an aluminium alloy casting that has undergone Hot Isostatic Pressing (HIP). The tree or skeleton-like dendrite structure is typical of aluminium. The HIP process removes voids and porosity in the casting but still preserves the original microstructure of the metal. The result is a component with many desirable features, including exceptional strength.

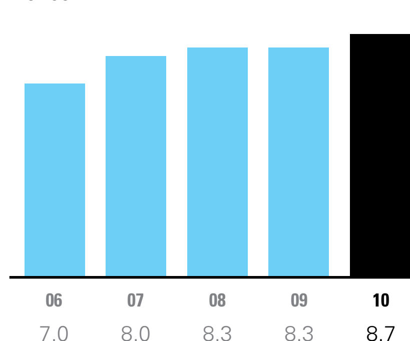
FINANCIAL HIGHLIGHTS

	2010	2009
Revenue - continuing operations	**£499.8m**	£435.4m
Headline operating profit[1] - continuing operations	**£52.1m**	£8.0m
Operating profit/(loss) - continuing operations	**£51.2m**	£(50.2)m
Headline profit before taxation[1] - continuing operations	**£46.1m**	£3.7m
Profit/(loss) before taxation - continuing operations	**£45.2m**	£(54.5)m
Headline operating cash flow[2]	**£77.3m**	£34.7m
Operating cash flow[3]	**£68.1m**	£15.5m
Net debt	**£51.3m**	£85.5m
Basic headline earnings per share[4] - continuing operations	**18.3p**	0.4p
Basic earnings/(loss) per share	**14.9p**	(27.0)p
Dividend per share[5]	**8.7p**	8.3p
Return on capital employed[6] - continuing operations	**10.1%**	1.5%

REVENUE - CONTINUING OPERATIONS
£ Million



DIVIDEND PER SHARE
Pence



[1] A detailed reconciliation is provided on page 15 and excludes exceptional items such as the deduction of major facility closure costs of £nil (2009: £25.4m) and impairment of goodwill of £nil (2009: £29.0m).

[2] Headline operating cash flow is defined as operating cash flow stated before cash flow relating to exceptional items (£9.2m, 2009: £19.2m).

[3] Operating cash flow is defined as cash generated by operations (£103.9m, 2009: £47.7m) less net capital expenditure (£35.8m, 2009: £32.2m).

[4] A detailed reconciliation is provided in note 10 on page 64.

[5] See note 9 on page 64.

[6] Return on capital employed is defined as headline operating profit (£52.1m) divided by average capital employed (£517.9m). Capital employed is defined as net assets plus net debt.

BUSINESS REVIEW

Financial Highlights	1
What is Bodycote's Business?	2
Core Technologies	3
The Outsourcing Principle	4
On Solid Foundations – a component journey	5
Our Global Network	6
Strategy and Objectives	8
Key Performance Indicators	9
Chairman's Statement	10
Chief Executive's Review	12
Down To Earth – a component journey	14
Business Performance	15
Powder Power – a component journey	16
Business Overview	17
Business Review – Aerospace, Defence & Energy	18
Business Review – Automotive & General Industrial	20
Finance Director's Report	22
Principal Risks and Uncertainties	26
Corporate Responsibility and Sustainability	28

CORPORATE GOVERNANCE

Directors' Report	32
Corporate Governance Statement	34
Report of the Audit Committee	36
Report of the Nomination Committee	38
Board Report on Remuneration	39
Directors' Responsibilities Statement	44
Board of Directors and Advisers	45

ACCOUNTS

Independent Auditors' Report - Group Financial Statements	46
Consolidated Income Statement	47
Consolidated Statement of Comprehensive Income	47
Consolidated Balance Sheet	48
Consolidated Cash Flow Statement	49
Consolidated Statement of Changes in Equity	50
Group Accounting Policies	51
Notes to the Consolidated Financial Statements	56
Five Year Summary	90
Company Balance Sheet	91
Independent Auditors' Report – Company Financial Statements	92
Company Accounting Policies	93
Notes to the Company Financial Statements	94

ADDITIONAL INFORMATION

Principal Subsidiary Undertakings	99
Shareholder Information	101
Financial Calendar	102

WHAT IS BODYCOTE'S BUSINESS?

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

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

CORE TECHNOLOGIES

THERMAL PROCESSING

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

Heat Treatment And Metal Joining

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

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

Hot Isostatic Pressing (HIP)

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

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

Surface Technology

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

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

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

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

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

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

MAKING INNOVATIONS POSSIBLE
Bodycote's extensive facilities and expertise mean development projects can expand far beyond customers' in-house capabilities, helping to realise goals more quickly and more cost-effectively.

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

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

ON SOLID FOUNDATIONS - A COMPONENT JOURNEY

TRANSMISSION SHAFTS

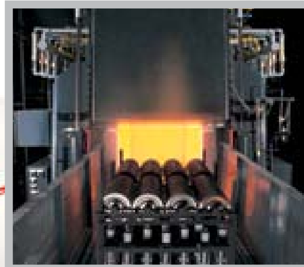
Transmission shafts form part of the drivetrain of all vehicles. In this example, we will look at how these hard working components are given a longer lifetime as part of powerful construction vehicles, such as excavators, through heat treatment and metal joining processes.

Transmission shafts are an excellent example of thermal processing's contribution to value engineering. The Electron Beam Welding (EBW) process, in particular, allows the fabrication of a high performance component from two pieces, thereby avoiding machining from solid which is both wasteful and expensive.

The shafts begin life as high grade steel alloy forgings

The forged steel part is then machined into its near net shaft shape and sent for heat treatment

Shafts requiring an EBW operation after heat treatment are first selectively chemically coated to prevent carbon penetration; this will ensure a clean electron beam weld at a later stage



The shafts require carburising to increase their wear resistance and impart high hardness properties. They are then quenched and tempered to remove internal stresses

The parts undergo automatic shaft straightening to correct any distortion caused by high processing temperatures

The shafts are machined again to achieve final engineering dimensions

The shafts need assembly with their gear or drum using EBW. The parts are ultrasonically cleaned and measured to ensure no contamination of the parts during the EBW vacuum process which fuses the parent metal of the parts together

End application – construction vehicle such as an excavator

BODYCOTE COMPONENT JOURNEYS

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

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

Denotes the parts of the component journey undertaken by Bodycote

OUR GLOBAL NETWORK

Aerospace & Defence

Power Generation

Oil & Gas

Automotive

Civil Eng, Agriculture, Rail & Marine

OVERVIEW

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

The network operates from 173 facilities, with customers able to benefit from Bodycote's comprehensive range of services from multiple locations. Customers know that if their business expands, Bodycote will have the capability to meet their needs. They know that if they were to broaden their manufacturing footprint, Bodycote would be able to assist them. They know that they can obtain the same process to the same quality standards from multiple locations.

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

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

Although Bodycote is headquartered in the UK, 89% of the Group's revenue is derived outside the UK. With facilities in 26 countries, Bodycote is truly global.

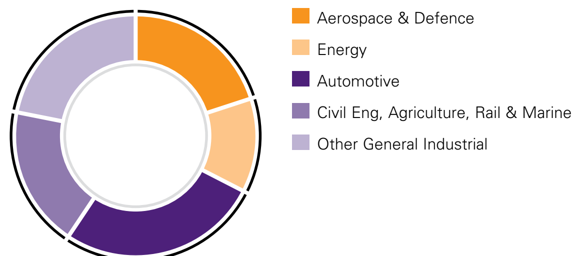
NORTH AMERICA

Bodycote has 39 facilities in North America, concentrated where manufacturing and technical industries are located.

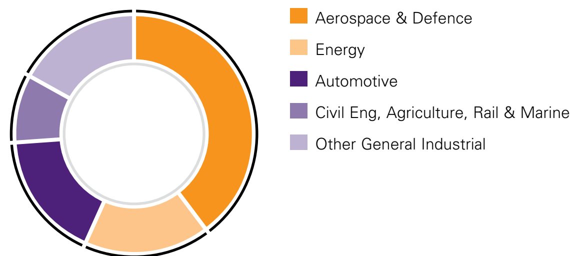
The network includes five specialist operations, four offering HIP, and the other offering surface technology. HIP capacity has recently been expanded to ensure that Bodycote is best positioned to satisfy its customers' needs as the economic climate continues to improve.

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

GROUP REVENUE BY MARKET SECTOR



REVENUE BY MARKET SECTOR – NORTH AMERICA



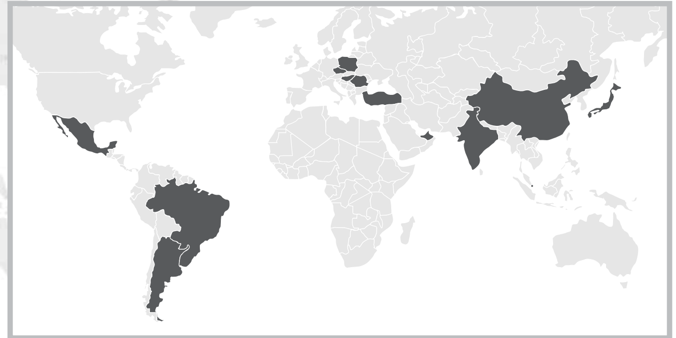
Tooling

Consumer Product

Electronics & Telecoms

Medical & Environmental

Mining



WESTERN EUROPE

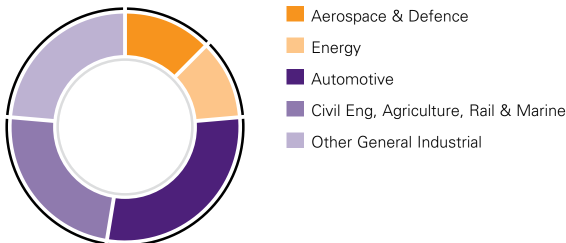
Bodycote has 104 facilities in Western Europe including seven HIP plants and seven dedicated surface technology facilities. The important French, German and Scandinavian markets are particularly well served with 28, 19 and 18 facilities respectively. Recent capacity extensions include expanded facilities aimed at the needs of the wind energy market.

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

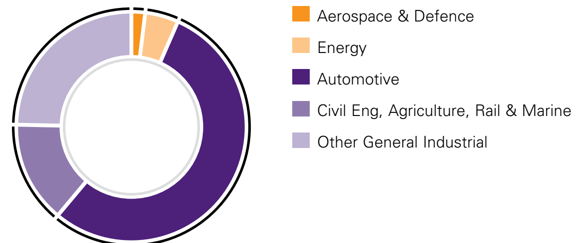
EMERGING MARKETS

Bodycote has 30 facilities in emerging geographies including two dedicated surface technology plants, one each in Singapore and Dubai. Bodycote is the number one thermal processing provider in both Brazil and Eastern Europe and is number two in China. These markets have a special emphasis in the Group's growth strategy for the future.

REVENUE BY MARKET SECTOR – WESTERN EUROPE



REVENUE BY MARKET SECTOR – EMERGING MARKETS



STRATEGY AND OBJECTIVES

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

Our strategy is based on the following fundamentals:

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

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

KEY PERFORMANCE INDICATORS

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

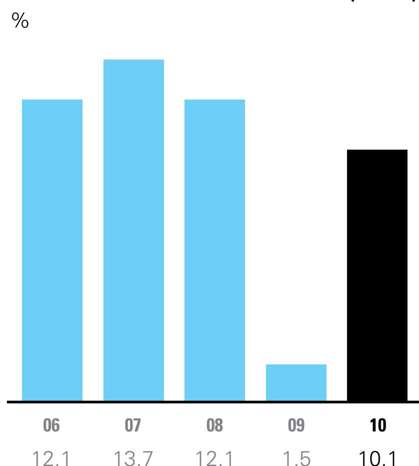
The financial KPIs are Return on Capital Employed[1] (ROCE), Return on Sales[2] (ROS) and Headline Earnings per Share[3] and the non financial KPIs are the Percentage of ISO 14001 accredited facilities and Accident Frequency[4].

Financial
In 2010 the Group's financial performance improved significantly. As a result, ROCE for 2010 was 10.1% (2009: 1.5%), ROS was 10.4% (2009: 1.8%) and Headline Earnings Per Share was 18.3p (2009: 0.4p).

Non financial
Reducing the environmental impact of the Group's activities is taken very seriously. Compliance with the requirements of ISO 14001 helps minimise the risk of adverse environmental effects at Bodycote locations. At the end of 2010, 81% of our plants had ISO 14001 accreditation - 140 plants out of a total of 173 (2009: 137 out of 178).

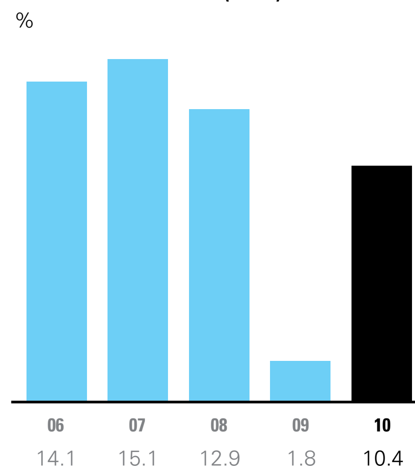
Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for anyone who works at or visits our locations. The major restructuring programme has not made this an easy task in 2010. Nevertheless, the Accident Frequency rate was reduced to 1.8 (2009: 1.9).

RETURN ON CAPITAL EMPLOYED (ROCE)
%



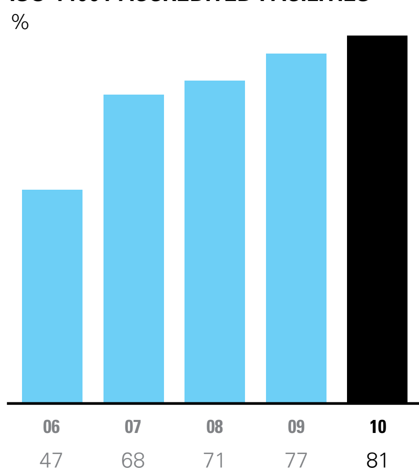
06	07	08	09	10
12.1	13.7	12.1	1.5	10.1

RETURN ON SALES (ROS)
%



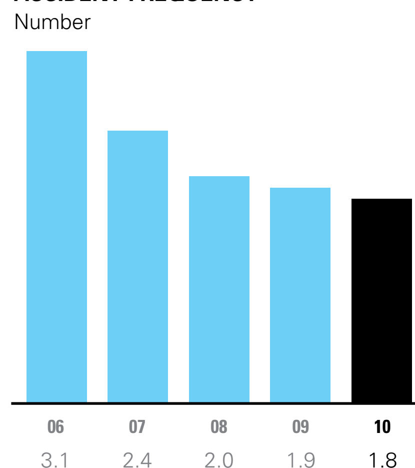
06	07	08	09	10
14.1	15.1	12.9	1.8	10.4

ISO 14001 ACCREDITED FACILITIES
%



06	07	08	09	10
47	68	71	77	81

ACCIDENT FREQUENCY
Number



06	07	08	09	10
3.1	2.4	2.0	1.9	1.8

Definitions:

[1] Headline operating profit as a percentage of average capital employed from continuing operations. Capital employed is defined as net assets plus net debt.

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

[3] Headline Earnings Per Share is defined in note 10 to the Group financial statements.

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

CHAIRMAN'S STATEMENT

ALAN THOMSON
Chairman

The financial turmoil of the past two years has been testing for the Group, but the Board believes that Bodycote has emerged strengthened by the challenges which it has faced.

OVERVIEW

After a year which saw variable rates of recovery across our major markets, I am pleased to report that the Group has made a substantial recovery from the loss reported in 2009. Sales increased by 14.8% to £499.8m. The improvement was underpinned by the success of the restructuring programme announced in 2008 and the continuing focus on tight operational and balance sheet management. Operating profit recovered to £51.2m and borrowings dropped from £85.5m to £51.3m.

We saw improvement in the automotive and general industrial (AGI) markets although volumes remain some way below the levels of 2008. The aerospace, defence and energy (ADE) markets tend to peak later in the economic cycle and sales growth reflected this. As a result of the restructuring programme the Group has now exited large amounts of unprofitable commodity business, and is actively growing its higher added value services. Bodycote should be capable of delivering improved through-cycle returns going forward.

SUSTAINABILITY

The safety performance of the Group is closely monitored at all management and Board meetings. Bodycote is committed to improvements in employee Safety and Health performance to ensure that all employees and visitors operate in a safe working environment. The Company continues to gain accreditations for its environmental compliance. At the end of 2010 over 80% of its facilities had met the requirements for ISO 14001. We also track energy and water usage and reductions are being realised although more needs to be done to reach our internal targets. Further information regarding the Group's objectives in relation to sustainability can be found on page 28.

DIVIDEND

In 2009 the Board recommended a maintained dividend despite the challenges posed by the downturn, based upon its confidence that actions taken by the new management team would restore the Company to a satisfactory level of profitability and cash generation. The Board is satisfied with the steady improvement in results throughout 2010 and is confident in the future outlook for the business. The Board is recommending that a final dividend of 5.75p be paid to shareholders, giving an increased total of 8.7p (4.8% increase) for the full year.

BOARD
After the changes made to the composition of the Board in 2008 and 2009 the membership was unchanged in 2010 and should remain so throughout 2011. During the year, in accordance with its usual practice, the Board conducted a formal internal evaluation of its performance, including that of the Chairman. In 2011 the Board has decided that this process will be carried out by an external facilitator with the results being reported in the 2011 Annual Report. This external evaluation will assist the Chairman in the process of gradually refreshing Board membership to meet the changing requirements of a growing business. During the last year all Board members received training on current topics including reporting standards, risk management and sustainability. In line with the revised Governance code all Directors have agreed to seek re-election at the Annual General Meeting in April.

SUMMARY
The financial turmoil of the past two years has been testing for the Group, but the Board believes that Bodycote has emerged strengthened by the challenges which it has faced. With a strong balance sheet and an excellent management team we face the future with confidence.

Despite the mixed business climate over the last twelve months the Group has delivered a significant improvement in performance and is well positioned for the future. This is largely due to the hard work and commitment of Stephen Harris and his colleagues around the world. The Board congratulates them on their achievements and commitment which have resulted in increased value for shareholders. Bodycote remains a first class business with good prospects for the future.

A. M. Thomson
Chairman
24 February 2011

CHIEF EXECUTIVE'S REVIEW

STEPHEN HARRIS
Chief Executive

The reorganisation of the Group into market focused divisions has enhanced revenue growth and careful targeting of capital investment has improved cash flow and return on capital.

TRADING OVERVIEW

2010 was a year of recovery for Bodycote after the difficulties of the downturn in 2009. Sales grew by 14.8% to £499.8m with like for like sales (at constant currencies and rebased to take account of the sites closed in 2009) up 17.8%. Much of the sales growth was driven by the end of OEM supply chain destocking and increased end market demand with strong growth from the general industrial, oil and gas and, in particular, the automotive and heavy truck segments. These developments more than offset the decline in demand in power generation. Demand improvements in aerospace and defence also contributed to the sales growth but only marginally. It is noteworthy, however, that all of the Group's markets are still materially below 2008 levels. In addition to increases in end market demand, sales improved as a result of notable gains in market share. The most marked of these share gains was in the automotive segment where the latest technologies offered by Bodycote are supplanting more traditional forms of heat treatment.

The drive for efficiency in the Group yielded excellent results. Total headcount at the end of 2010 of 5,487 was marginally below that of a year earlier and 28% below the peak headcount of June 2008. The year end headcount was 311 lower than the number at half year as the tail end restructuring programmes in France and Brazil came into effect. The tight discipline on the build back of expenses against a backdrop of rising sales drove margins up to 10.4% (1.8% in 2009). Increased selling prices contributed 100 basis points to the margins, offset by 70 basis points of increased input costs.

Net capital expenditure at £35.8m amounted to 0.8 times depreciation (0.6 in 2009). Approximately half of the expenditure in 2010 (0.4 times depreciation) was spent on developing capacity in emerging markets, increasing capacity for specific high added value processes in North America and investing in the Group's chosen proprietary technologies. The remainder of the capital expenditure was spent on maintenance. The Group is relatively well equipped with long life assets and has a low requirement for maintenance capital in the short and medium term. The level of capital expenditure, combined with strong control of working capital, led to headline operating cash flow of £77.3m, representing a cash conversion ratio of 148%. As a result, net debt at the year end was reduced to £51.3m.

STRATEGIC DEVELOPMENTS

As well as the drive for increased sales and higher levels of operating efficiency, 2010 was a year of implementation of the strategic agenda outlined in February of that year.

At the end of 2009 the Group was reorganised into two business areas. The aerospace, defence and energy business (ADE) is organised on a global basis, and comprises the Hot Isostatic Pressing (HIP) and heat treatment divisions. The Group's surface technology business is part of the ADE heat treatment division. In contrast, the automotive and general industrial business (AGI) is organised geographically, covering Western Europe, North America and the emerging markets. Customer reaction to the reorganisation has been very positive, with industry specialist sales teams able to engage with their customers in a far more productive way than was possible in the past. In addition, the specialisation of the plants in each business area has helped simplify the operations and improve efficiency.

Development of the emerging markets and investment in Bodycote's chosen proprietary technologies are key elements of the strategy. The emerging markets focus for Bodycote is on Eastern Europe, Brazil and China. While emerging markets revenues represent just over 10% of the Group's business today, Bodycote is already the market leader in Eastern Europe and Brazil and number two in China. In 2010 new greenfield sites were added in Poland, Czech Republic and Brazil, while additional modern capacity was deployed in existing plants in Turkey, Brazil and China.

The development of the Group's proprietary technologies continued apace in 2010:

- The Speciality Stainless Steel business unit (S3P) capacity was expanded by 20%, with a further 25% put on order in readiness for the increased demand now expected for this business.
- The Hot Isostatic Pressing Product Fabrication business unit (HIP PF) grew at 70%, albeit from a relatively modest base. The business operates from centres of excellence in Germany, Sweden and the USA with much of the process development and computer modelling carried out in the UK and the USA.
- The Corrosion Prevention Processes business unit (CPP) commissioned its first commercial production unit for the SheraCote® family of processes.

Progress was also made on developing the Group's personnel both internally and through the appointment of new talent in many areas. In addition, the Group's executive committee was also strengthened with new talent recruited during the year. The committee comprises five divisional Presidents, the Human Resources Director and the Group Finance Director, together with the Chief Executive Officer, who chairs the committee.

FUTURE TRENDS

The future trends for Bodycote's markets are very favourable. The more notable trends include:

- In the aerospace segment most industry analysts foresee a significant growth in flying hours and new build of aeroplanes associated with traffic for the emerging markets. The move to higher engine operating temperature requirements increases thermal processing needs. These are all positive factors for the demand for thermal processing.
- Rising oil and gas prices, together with the increasing sophistication associated with extracting difficult to reach reserves, are increasing the material requirements of exploration and production equipment, which in turn is driving greater demand for thermal processing services.
- Power generation, where Bodycote enjoys a strong presence in both heat treatment and HIP services, will resume its long term growth path in due course, as the expansion in the emerging markets continues.
- The automotive segment is moving to more sophisticated materials engineering as manufacturers try to reduce weight and increase strength. This in turn directly increases the amount of thermal processing required. In addition, the introduction of hybrid vehicles is leading to a larger number of components in vehicles, which in turn require more services offered by Bodycote.

Outsourcing remains a major opportunity for the Group. Agreements are typically framework in nature, with standard terms and conditions and a commitment to sole source the work from Bodycote. Pricing is normally defined as a base level with prices linked to various indices such as the cost of energy.

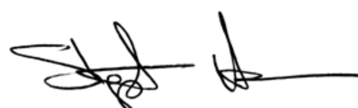
Going forward it is expected that the pace of outsourcing and size of outsource contracts will increase. This is due not only to the general tendency of companies to eliminate non core activities over time, but also to two other significant factors.

- The rising cost of energy. Bodycote is typically more energy efficient than manufacturers that process the work in-house and can balance the load in its process lines by aggregating work from several customers. Level loading, in itself, is a much more efficient way of operating thermal processing plants than the fluctuating load conditions faced by most manufacturers' in-house facilities. As a result, rising energy prices tend to drive increased levels of outsourcing.
- The general move of manufacturing industries to emerging markets. This not only creates opportunities in emerging markets for Bodycote to serve these customers, but also provides a source of opportunity in developed economies. This is because most customers that move their manufacturing to emerging markets tend not to close their facilities completely in the developed economies. Instead, these facilities stop being expanded and have investment constrained. The capital intensive nature of thermal processing means that such facilities often become undercapitalised or outmoded and outsourcing becomes an attractive option. The choice of companies capable of taking on such outsourced work in a reliable way is small, and Bodycote becomes the preferred partner for most of the customer base.

SUMMARY & OUTLOOK

2010 saw a notable and pleasing improvement in the performance of the Group. Better macro economic conditions were an important contributor to this and the underlying ability of the business to deliver consistently superior value has been strengthened considerably. Total revenue growth was well ahead of market improvement. The reorganisation of the Group into market focused divisions has enhanced revenue growth and careful targeting of capital investment has improved cash flow and return on capital.

Looking at 2011, it is anticipated that automotive and general industrial business will continue to grow at a reasonable pace. Aerospace, defence and energy demand has begun to recover, although within this the power generation segment remains soft, with the timing of improvement still unclear. In summary, the Board is confident that 2011 will be another year of growth for Bodycote, albeit at a less rapid rate than experienced in 2010. The year has started in line with these expectations. Looking further out, the Board sees encouraging opportunities for improved through-cycle returns.



S. C. Harris
Chief Executive
24 February 2011

DOWN TO EARTH - A COMPONENT JOURNEY

MUD ROTORS

Corrosion and wear can lead to expensive downtime in oil & gas exploration, where equipment is in continual use. Mud rotors operate at the bottom of drilling wells, and as a result, the removal and replacement of worn rotors is particularly time consuming and costly. Following processing by Bodycote, the life of mud rotors is improved significantly.

The rotors begin life as pieces of steel bar

The steel is then machined into the rotor shape required for down-hole drilling

Photo courtesy of Weingartner www.weingartner.com

A thermochemically formed ceramic surface treatment is applied resulting in a super-hard, corrosion resistant layer which protects the steel and gives superior wear resistance

The rotor must be finish polished using diamond tools due to the extreme hardness of the ceramic treatment

End application – oil drilling service

BODYCOTE COMPONENT JOURNEYS

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

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

Denotes the parts of the component journey undertaken by Bodycote

BUSINESS PERFORMANCE

	2010 £m	2009 £m
Revenue – continuing operations	**499.8**	435.4
Operating profit/(loss)	**51.2**	(50.2)
Add back:		
Major facility closure costs	**–**	25.4
Impairment charge	**–**	31.5
Amortisation of acquired intangible fixed assets	**0.9**	1.3
Headline operating profit – continuing operations	**52.1**	8.0

Group revenue from continuing operations was £499.8m, an increase of £64.4m (14.8%) on 2009 (£435.4m). The increase in revenues at constant exchange rates amounted to £64.7m (14.9%). The year on year reduction in revenues as a result of site closures was £10.3m at constant exchange rates.

The Group made an operating profit of £51.2m (2009: loss £50.2m). Headline operating profit for the Group's continuing operations was £52.1m, an increase of £44.1m compared to 2009. Foreign exchange rate movements decreased profits by £0.5m. Headline operating margins from continuing operations increased from 1.8% to 10.4%.

	2010 £m	2009 £m
Headline operating profit	**52.1**	8.0
Add back non-cash items:		
Depreciation and amortisation	**47.4**	49.6
Share-based payments	**4.2**	(0.1)
Loss/(profit) on disposal of property, plant and equipment	**0.7**	(0.1)
Headline EBITDA[1]	**104.4**	57.4
Net capital expenditure	**(35.8)**	(32.2)
Net working capital movement	**8.7**	9.5
Headline operating cash flow	**77.3**	34.7
Cash cost of restructuring	**(9.2)**	(19.2)
Operating cash flow	**68.1**	15.5
Interest	**(5.5)**	(4.4)
Taxation	**(5.4)**	(24.4)
Lump sum contribution to pension scheme	**–**	(1.5)
Free cash flow	**57.2**	(14.8)

Headline operating cash flow of £77.3m is made up of £104.4m headline EBITDA, a positive contribution from reduced working capital of £8.7m, and net capital expenditure of £35.8m. After interest and tax payments, the headline free cash flow was £66.4m. The outflow on exceptional items totalled £9.2m, and all of this was cash spend on the restructuring programme.

Capital expenditure has continued to be managed carefully. Capital spend (net of asset sales) in 2010 was £35.8m, being 0.8 times depreciation compared to 0.6 times in 2009. There has been a continued focus on cash collection and debtor days have been reduced to 59 days at 31 December 2010, compared to 63 days at 31 December 2009. The increase in sales of £64.4m compared to 2009 has resulted in an increase in debtors of £7.7m, although this has been more than offset by higher creditor balances.

Definitions:

[1] Earnings before interest, tax, depreciation, amortisation, share-based payments and exceptional items.

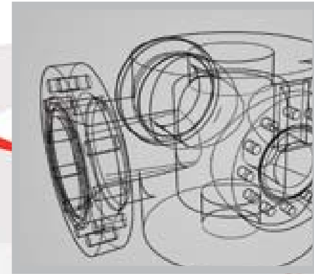
POWDER POWER - A COMPONENT JOURNEY

VALVE BODY

Valve components operating in the harsh environments of the oil & gas and chemical industries must withstand extreme material demands and resist attack from a variety of aggressive environments. The use of powder metal HIPed Near Net Shape (PM HIP NNS) components offers optimised material solutions for enhanced product strength and durability.

The valve body begins life as high quality gas atomised stainless steel and nickel-based powders

Following material selection, Bodycote's design engineers will work closely with customers to explore the unique and flexible component design opportunities afforded by PM HIP NNS. When the final NNS component design is received from the customer, Bodycote will create an engineering drawing

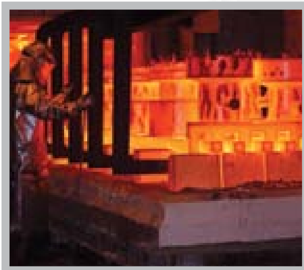


Component design is then translated into a capsule design where skilled engineers manufacture the canister and use welding techniques to produce the complex capsule assembly

The fabricated capsule, almost identical in shape to the finished component but larger in size, is filled with powder

The encapsulated PM valve is then HIPed using high temperatures and pressures which allows the powder to become 100% dense and form an NNS component

After HIP the NNS component is solution heat treated and water quenched to achieve optimum material properties which are isotropic in nature



The HIPed and heat treated NNS shape valve body is laser scanned to compare the dimensions of the actual component with the NNS product drawing

Finally the component can be pickled or machined to remove the capsule material resulting in a PM HIP NNS valve body which is inspected using ultrasonic testing techniques

End application – Offshore oil, chemical or energy industries

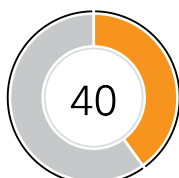
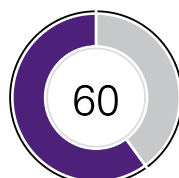
BODYCOTE COMPONENT JOURNEYS

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

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

Denotes the parts of the component journey undertaken by Bodycote

BUSINESS OVERVIEW

AEROSPACE, DEFENCE & ENERGY See page 18 for an in-depth review		AUTOMOTIVE & GENERAL INDUSTRIAL See page 20 for an in-depth review
1,926 2009 : 1,934	**NO. OF EMPLOYEES**	3,456 2009 : 3,505
 2009 : 43%	**% OF GROUP REVENUE**	 2009 : 57%
£202.1m 2009 : £189.5m	**DIVISIONAL REVENUE**	£297.7m 2009 : £245.9m
£33.9m 2009 : £24.7m	**DIVISIONAL HEADLINE OPERATING PROFIT**	£25.6m 2009 : Loss £(12.3)m

AEROSPACE, DEFENCE & ENERGY (ADE)

Incorporating HIP and Surface Technology

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

AUTOMOTIVE & GENERAL INDUSTRIAL (AGI)

Incorporating Speciality Stainless Steel Processes – S3P

Whilst the AGI marketplace has many multinational customers, it also has very many medium-sized and smaller businesses, with the large multinationals tending to operate on a more regionally-focused basis, as opposed to globally. Generally, there are more competitors to Bodycote in AGI and much of the business is locally-oriented, meaning that proximity to the customer is very important and excellent service is vital.

Bodycote's uniquely large network of 110 AGI facilities enables the business to offer the widest range of technical capability and security of supply, continuing to increase the proportion of technically differentiated services that it offers. Bodycote has a long and successful history of serving this wide-ranging customer base and the AGI business serves the following geographies:

- North America
- Western Europe
- Emerging Markets

BUSINESS REVIEW - AEROSPACE, DEFENCE & ENERGY

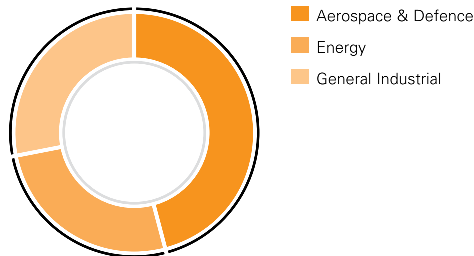
REVENUE £202.1m

2009 : £189.5m

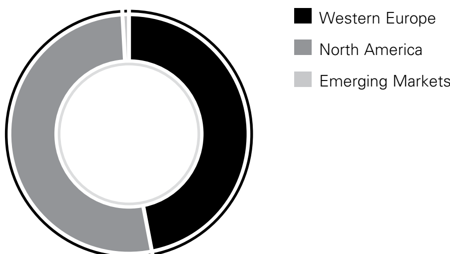
HEADLINE OPERATING PROFIT £33.9m

2009 : £24.7m

REVENUE BY MARKET SECTOR



REVENUE BY GEOGRAPHY



RESULTS

Revenues for Aerospace, Defence & Energy (ADE) were £202.1m in 2010 compared to £189.5m in 2009, an increase of 6.6%, reflecting improved aerospace OEM and oil & gas demand, partly offset by soft aerospace maintenance and repair requirements and weak Industrial Gas Turbine (IGT) markets. Revenues in constant currencies were also higher by 6.6%. Like-for-like revenue growth, excluding revenues from closed sites, was 8.5%.

Headline operating profit for ADE was £33.9m (2009: £24.7m), with margins improving from 13.0% to 16.8%.

2010 saw a lower level of capital expenditure in ADE, as we focus on filling available capacity. We expect that capital expenditure will continue to be lower than depreciation in 2011. Net capital expenditure in 2010 was £9.9m (2009: £19.1m) which represents 0.6 times depreciation (2009: 1.1 times depreciation).

Capital employed in ADE in 2010 was £240.0m (2009: £244.2m). The reduction reflects continuing management focus on improving return on capital. Return on capital employed in 2010 was 14.6% (2009: 10.1%).

GLOBAL MARKETS

Aerospace demand in 2010 differed markedly between requirements for new build programmes and for the maintenance and repair market. New build revenues were robust, being driven by raw material requirements (for example major forgings), which tend to increase more than a year ahead of corresponding finished components. This is, therefore, an encouraging leading indicator for future demands for our ADE business. On the other hand, demand for maintenance and repair was soft, although it showed signs of increasing in quarter four, as passenger miles continued to rise from the depressed levels of 2009.

Power generation demand fell by 28% in 2010 compared to 2009, largely as a result of a severe reduction in industrial gas turbine build. This sector began to fall in quarter four of 2009, a year later than early cycle businesses felt the impact of the recession, and reflects continuing difficulty in obtaining financing for major capital projects. The new build weakness has been exacerbated by generally lower electricity demand in the western economies, which has reduced maintenance requirements.

Revenues from oil & gas customers increased by 37%. North American gas production has been good and exploration, particularly for shale gas, has been strong. Oil markets have been robust and increased in quarter four of 2010 as oil prices moved towards the $100 per barrel level.

ACHIEVEMENTS IN 2010

With its modest restructuring programme completed early, the ADE business has been able to focus on strengthening its management teams and developing its customer offerings. In heat treatment we have gained additional OEM approvals for airframe components, opening additional opportunities for new build aircraft heat treatment. In HIP, revenues for product fabrication (HIP PF) increased by 70% and work included the largest yet single piece manifold for a sub-sea oil & gas application.

ORGANISATION AND PEOPLE

As part of developing our customer-facing divisions, a number of key management appointments have been made. In ADE, this has included recruitment of managers with global remits for sales, marketing and operations for both heat treatment and HIP. Measures to improve productivity, including the use of 'lean' techniques, have taken over from the 2009 focus on restructuring. Overall headcount remained constant, at 1,926, and despite modest overall revenue growth in ADE, headline operating profit improved from £24.7m to £33.9m.

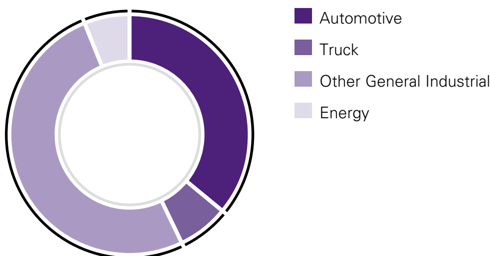
LOOKING AHEAD

The key objective for ADE in 2011 is to build on the foundation laid in 2010 to realise growth from new customers and processes, while driving further productivity and operating efficiency improvements. The clear focus on customer requirements and satisfaction and proprietary technology has produced revenue gains in 2010 and we expect further progress in 2011.

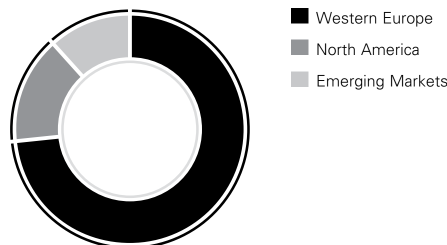
REVENUE £297.7m
2009 : £245.9m

HEADLINE OPERATING PROFIT £25.6m
2009 Loss : £(12.3)m

REVENUE BY MARKET SECTOR



REVENUE BY GEOGRAPHY



RESULTS

Automotive & General Industrial (AGI) revenues were £297.7m in 2010, compared to £245.9m in 2009, an increase of 21.1%, reflecting a general improvement in demand, particularly from automotive and heavy truck customers, in all geographies. Sales began to improve in quarter four of 2009 and accelerated in the first half of 2010 with further incremental improvement in the second half. Like-for-like revenue growth, excluding revenues from closed sites, was 25.1%.

Headline operating profit in AGI was £25.6m compared to a headline operating loss of £12.3m in 2009. Margins improved markedly from minus 5.0% to 8.6%.

Net capital expenditure in 2010 was £24.3m (2009: £12.5m), which represents 0.8 times depreciation (2009: 0.4 times depreciation). We expect that capital expenditure will continue to be lower than depreciation in 2011. Return on capital employed in 2010 was 9.3% (2009: minus 4.2%). On average, capital employed in 2010 was £302.0m (2009: £315.1m). The reduction reflects continuing restraint in capital expenditure as the Group maintains focus on improving capital returns by increasingly focusing on higher added-value activities.

MARKETS AND GEOGRAPHIES

The AGI business serves an extensive customer base across a wide range of market sectors. The impact of the downturn was severe in most of our markets and recovery rates in 2010 have varied significantly. First to show improvement was automotive, which along with aerospace and defence, is one of the two largest sectors for Bodycote. Automotive revenues grew by 40% in 2010. While demand increased strongly in all territories, market share gains accounted for 25% of the improvement as Bodycote's strength in depth proved attractive to customers worried about supply chain failure in the recession and afterwards and due to contract wins for specialist processes. General industrial markets have recovered at a gradual and more measured pace, with revenues ahead by 13%.

In North America, automotive revenues grew very strongly in the first half and with market share gains growth was over 100% compared to the first half of 2009. The second half saw more modest growth and for the year as a whole, sales were ahead by 69%. General industrial has witnessed steady growth throughout the year and was higher than 2009 by 20%.

As with North America, automotive led the recovery in Western Europe and particularly benefited France, Italy and Germany for which this is the most important sector. Automotive demand and market share gains together resulted in year on year revenue growth of 28%. General Industrial demand has improved gradually over the whole year with sales ahead of 2009 by 7%.

The improvement in the Nordic countries came later in the year, being driven particularly by the return of heavy truck work, notably in Sweden. Overall sales in the Nordic region were up 29% compared to 2009, with revenues in Western Europe overall being up 13%.

The Group's business in emerging markets generally fared very well in 2010. Revenues grew 25% in Eastern Europe, with Poland in the lead, and by 58% in China. The Brazilian business has been the subject of major restructuring which has included reducing the workforce by 32%. The largest facility was closed, a new greenfield location was established, benefiting from the Group's European know-how, and capacity was expanded. Even during the disruption, sales in Brazil increased by 7% year on year. The business has a much reduced cost base and improved capability and has the right platform to benefit from short and medium term growth that we expect in Latin America.

ACHIEVEMENTS IN 2010

The major restructuring effort in the AGI business is all but complete, and was aimed at reducing the cost base and exiting low value added activities. This significant management challenge has been met in all parts of the business and the benefits are clearly evident in the 2010 financial performance. There has also been a high level of attention to maintaining the benefits of the restructuring. During 2010 we have increased capacity in several differentiated technologies in both the United States and Europe. Greenfield sites have been opened in the Czech Republic, Poland and Brazil. Speciality Stainless Steel Processing capacity has been added in Europe and the first production facility for SheraCote® has been commissioned in the UK. New outsourcing contracts have been won in all geographies.

ORGANISATION AND PEOPLE

In July 2008, the AGI business employed 5,201 people. By the end of 2009 this had been reduced to 3,505. Notwithstanding revenues in AGI increasing by 21%, headcount has declined from 3,505 to 3,456 in 2010, clearly demonstrating success in keeping costs under control and driving productivity improvements.

LOOKING AHEAD

The business is set to build on the notable improvements in performance delivered in 2010. This will be founded on continued cost control, capital expenditure targeted at the Group's various proprietary technologies and the development of emerging markets, along with close attention to meeting and exceeding all customers' expectations.

FINANCE DIRECTOR'S REPORT

DAVID LANDLESS
Finance Director

FINANCIAL OVERVIEW

	2010 £m	2009 £m
Revenue	**499.8**	435.4
Headline operating profit	**52.1**	8.0
Amortisation of acquired intangible fixed assets	**(0.9)**	(1.3)
Impairment charge	**–**	(31.5)
Major facility closure costs	**–**	(25.4)
Operating profit/(loss)	**51.2**	(50.2)
Net finance charge	**(6.0)**	(4.3)
Profit/(loss) before taxation	**45.2**	(54.5)
Taxation	**(11.7)**	3.4
Profit/(loss) for the year – continuing operations	**33.5**	(51.1)
Loss for the year – discontinued operations	**(5.8)**	–
Profit/(loss) for the year	**27.7**	(51.1)

Group revenues for 2010 increased by 14.8% from £435.4m to £499.8m. In constant currencies the annual increase was 14.9% (£64.7m). The improvement in the second half was somewhat better than in the first, with revenues, all of which were generated organically, increasing by 22.2% from £207.5m in 2009 to £253.5m.

Headline operating profit for the year increased from £8.0m to £52.1m, and headline operating margin was 10.4% (2009: 1.8%). Operating profit was £51.2m (2009: loss £50.2m) after charging £0.9m (2009: £1.3m) in respect of the amortisation of acquired intangibles, £nil (2009: £31.5m) for impairment, and £nil (2009: £25.4m) for major facility closure costs.

Headline operating cash flow for the Group was £77.3m (2009: £34.7m). This was 148.4% (2009: 433.8%) of headline operating profit, reflecting tight control of working capital, especially payables, which more than offset higher inventory and receivables, which increased as a result of the recovery in activity levels. Net capital expenditure in 2010 at £35.8m (2009: £32.2m) continued below the level of depreciation, reflecting continued careful management and a focus on utilising existing equipment.

After deducting interest and tax, the Group reported a positive free cash flow of £57.2m (2009: negative £14.8m).

During 2010, Bodycote secured its funding position with two of the Group's three bank facilities, both of which were due to mature during 2010, being refinanced. Total funding now available to Bodycote under its committed facilities is £230.9m (2009: £348.4m), expiring between March and July 2013.

EXCEPTIONAL COSTS

The total exceptional costs charged to the income statement amounted to £0.9m (2009: £58.2m).

The current year charge relates wholly to the amortisation of intangible assets arising from prior years' acquisitions. There were no acquisitions during the year. The level of the charge reduced compared to the prior year (2009: £1.3m) as certain assets were fully amortised in 2009.

With improved market conditions and the benefit of the wide ranging restructuring programme charged in 2008 and 2009, the Board has concluded that no impairment charge is required in 2010 (2009: goodwill impairment of £29.0m and investment impairment of £2.5m).

There were no major facility closure costs during 2010 (2009: £25.4m). Restructuring actions are now complete in most parts of the Group; the only exceptions being the finalisation of work in France, Brazil and Italy, which will continue into early 2011. Net cash expenditure as a result of the programme was £9.2m (2009: £19.2m), including £3.2m proceeds from the disposal of redundant assets. The restructuring initiatives delivered annualised cumulative savings of £45.0m in 2010. As the restructuring programme is now essentially complete further savings will be modest.

Restructuring provisions outstanding at 31 December 2010 total £20.2m, being £19.9m related to the 2008/2009 programme and £0.3m related to environmental remediation from earlier initiatives. Of the remaining £20.2m cash costs, £12.5m is expected to be spent in 2011 and £7.7m in 2012 and later. All expenditure after the end of 2011 will relate to environmental remediation.

OPERATING PROFIT FROM CONTINUING OPERATIONS

After charging exceptional items of £0.9m (2009: £58.2m), the operating profit from continuing operations was £51.2m (2009: loss of £50.2m).

PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Headline profit before tax for continuing operations was £46.1m (2009: £3.7m). The profit before tax for continuing operations was £45.2m (2009: loss of £54.5m), and these amounts are reconciled as follows:

	2010 £m	2009 £m
Headline operating profit	**52.1**	8.0
Net finance charge	**(6.0)**	(4.3)
Headline profit before tax	**46.1**	3.7
Amortisation of acquired intangible fixed assets	**(0.9)**	(1.3)
Impairment charge	**–**	(31.5)
Major facility closure costs	**–**	(25.4)
Profit/(loss) before tax - continuing operations	**45.2**	(54.5)

FINANCE CHARGE

The net finance charge from the continuing operations of the Group was £6.0m compared to £4.3m in 2009 (see details below). There is no movement due to interest rates; however, there has been an increase due to higher undrawn committed facility fees (£1.0m), costs of refinancing early in 2010 (£0.9m) and an increase in other charges (£0.3m), offset by lower average net debt (£0.1m) and a lower pension finance charge (£0.4m).

	2010 £m	2009 £m
Net interest payable	**1.9**	2.0
Financing costs	**2.3**	0.4
Other charges	**0.9**	0.6
Pension finance charge	**0.9**	1.3
Net finance charge	**6.0**	4.3

TAXATION

The tax charge was £11.7m for the year compared to a credit of £3.4m for 2009. The effective tax rate on continuing operations of 25.9% (2009: 6.2%) resulted from the blending of differing tax rates in each of the countries in which the Group operates. The low effective tax rate for 2009 resulted from the blending of profit making jurisdictions with loss making jurisdictions in that particular year as a result of the economic downturn.

The headline tax rate on continuing operations for 2010 was 25.4% (2009: 108.1%), being stated before amortisation of acquired intangibles (which are generally not allowable for tax purposes). In addition, £5.8m (2009: £nil) was charged in respect of the 2008 disposal of the Testing division (see Discontinued Operations below).

Subject to any future tax legislation changes, the headline tax rate is expected to remain below the current UK statutory tax rate of 28% in the medium term.

DISCONTINUED OPERATIONS

Bodycote has not discontinued any business streams during 2010. In 2008, the Group sold its Testing division and during 2010 provisions relating to taxation expected to arise from this disposal were reassessed. The impact on the Group accounts of these additional provisions is a charge of £5.8m (2009: nil). In the 2008 Group accounts, the effective rate of tax on the profit on disposal was stated as 11.0%. The revised effective rate of tax for the disposal, taking account of the additional tax provision, is 13.9%.

EARNINGS PER SHARE

Basic headline earnings per share from continuing operations (as defined in note 10) increased to 18.3p from 0.4p. Basic earnings/(loss) per share for the year are shown in the table below:

	2010 Pence	2009 Pence
Basic earnings/(loss) per share from:		
Continuing operations	**18.0**	(27.0)
Discontinued operations	**(3.1)**	–
Continuing and discontinued operations	**14.9**	(27.0)

DIVIDEND

The Board has recommended a final dividend of 5.75p (2009: 5.35p) bringing the total dividend to 8.7p per share (2009: 8.3p). If approved by shareholders, the final dividend of 5.75p per share for 2010 will be paid on 6 May 2011 to all shareholders on the register at close of business on 8 April 2011.

The Board aims to follow a progressive dividend policy as long as the dividend is covered at least twice by current year headline earnings. Dividend cover for 2010 was 2.1 times. The dividend in 2009 was not covered by headline earnings.

CAPITAL STRUCTURE

The Group's balance sheet at 31 December 2010 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	458.0	–	458.0
Goodwill and intangible assets	118.1	–	118.1
Current assets and liabilities	120.2	(144.0)	(23.8)
Other non-current assets and liabilities	3.1	(16.9)	(13.8)
Retirement benefit obligations	–	(11.6)	(11.6)
Deferred tax	48.3	(73.1)	(24.8)
Total before net debt	747.7	(245.6)	502.1
Net debt	23.5	(74.8)	(51.3)
Net assets as at 31 December 2010	**771.2**	**(320.4)**	**450.8**
Net assets as at 31 December 2009	771.1	(348.5)	422.6

Net assets increased by £28.2m (6.7%) to £450.8m (2009: £422.6m). The major movements compared to 31 December 2009 were a significant reduction in net debt (£34.2m), a decrease in property, plant and equipment (£3.8m), a decrease in retirement benefit obligations (£3.4m), together with an increase in net current assets (£1.7m) and an increase in net deferred tax liabilities (£8.3m).

The decrease in property, plant and equipment was due to net capital expenditure of £35.8m being exceeded by depreciation of £46.1m, with foreign exchange variances of £8.0m reducing the net decrease to £3.8m.

Movements in net current assets were due to the increased level of trading activity in 2010 compared to 2009, which resulted in an increase in inventories by £2.8m. Trade receivables and other receivables increased by £7.7m as a result of increased sales levels, and tight control of working capital led trade and other payables to increase by £23.8m.

Current tax liabilities decreased by £1.8m as a result of the reassessment of tax liabilities resulting from the ongoing restructuring programme, while the changes in the timing of dividend payments from January to November resulted in a reduction in the proposed dividend creditor of £5.5m. Restructuring provisions reduced by £6.9m, as Group restructuring activities proceeded as planned.

Net liabilities for derivative financial instruments decreased by £3.7m due to a combination of instrument maturity and changes in exchange and interest rates.

Retirement benefit obligations reduced by £3.4m during the year, primarily as a result of the announced change in the relevant index for the UK scheme from RPI to CPI in respect of the revaluation of deferred members' benefits.

The net deferred tax liability increased by £8.3m during the year due to reductions in tax rates in certain countries, which resulted in a decrease in the value of the Group's recognised deferred tax losses.

NET DEBT

Group net debt at 31 December 2010 was £51.3m (2009: £85.5m). During the year, loans of £32.6m under committed facilities were repaid. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding.

CASH FLOW

The net increase in cash and cash equivalents was £0.5m (2009: net decrease of £231.6m), made up of net cash from operating activities of £95.6m (2009: £11.0m), less investing activities of £36.6m (2009: £27.3m) and less cash used in financing activities of £58.5m (2009: £215.3m).

The increase in net cash from operating activities from £11.0m to £95.6m is driven primarily by the increase in headline EBITDA from £57.4m to £104.4m. Tight control of working capital, especially payables, more than offset increases in the level of inventory and receivables which were higher as a result of the increased level of activity. The net effect was a decrease in the level of working capital of £8.7m, and £1.1m when the movements in restructuring provisions are included.

Net cash outflows from investing activities increased from £27.3m to £36.6m, as the levels of net capital expenditure in 2010 at £35.8m (2009: £32.2m), although higher than in the prior year, remained below historic levels, reflecting continued tight management control. Proceeds on disposal of subsidiary undertakings reduced from £6.9m in 2009 to £nil in 2010.

Net cash outflows used in financing activities reduced from £215.3m to £58.5m. 2009 saw the repayment of £231.9m of loans following the disposal of the Testing division in 2008, while 2010 saw a further repayment of loans of £34.0m, together with payment of three dividends (totaling £20.9m), following the Board's decision to pay the interim dividend of 2010 two months earlier than in previous years.

There has been a continued focus on cash collection with debtor days at 31 December 2010 falling to 59 days from 63 days a year earlier. Net interest payments for the year were £5.5m (2009: £4.4m) and tax payments were £5.4m (2009: £24.4m).

CAPITAL EXPENDITURE

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £35.8m (2009: £32.2m). The multiple of net capital expenditure to depreciation was 0.8 times (2009: 0.6 times), which reflects the Group's continued careful management of its capital expenditure programme. As at 31 December 2010 the Group had capital expenditure creditors of £6.9m (2009: £8.3m). In addition capital expenditure commitments amounted to £2.5m (2009: £6.7m). A proportion of the current year capital expenditure was incurred to support the restructuring programme in the consolidation of plants and the re-installation of furnaces transferred from closed plants. Major capital projects that were in progress during 2010 include the upgrade of large capacity heat treatment equipment for the US aerospace sector, additional capacity in France for an automotive outsourcing project, increased stainless steel processing capacity, expansion of capacity in Mexico and production equipment for our new SheraCote® process.

BORROWING FACILITIES

At 31 December 2010, the Group had the following committed facilities:

Facility	Expiry Date	Facility £m	Loan Utilisation £m	Letter of Credit Utilisation £m	**Facility Head-room £m**
£110m Revolving Credit	31 March 2013	110.0	–	–	**110.0**
€125m Revolving Credit	31 July 2013	107.9	64.4	–	**43.5**
$20m Revolving Credit	31 March 2013	13.0	0.2	5.4	**7.4**
		230.9	64.6	5.4	**160.9**

CAPITAL MANAGEMENT

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

The capital structure is reviewed regularly by the Board of Directors. The Group's policy is to maintain gearing, determined as the proportion of net debt to total capital, within defined parameters, allowing movement in the capital structure appropriate to the business cycle and corporate activity. The gearing ratio at 31 December 2010 has fallen to 11% (2009: 20%) as a result of both reduced net debt and increased profit in the period.

The Group's debt funding policy is to borrow centrally (where it is tax efficient to do so), using a mixture of short-term borrowings, longer-term loans and finance leases. These borrowings, together with cash generated from operations, are lent or contributed as equity to subsidiaries as required. The aim of the Group's funding policy is to ensure continuity of finance at reasonable cost, based on committed facilities from several sources, arranged with a spread of maturities. The recent market for bank funding has been restricted to shorter tenures than have been available in the past and, therefore, it is intended in due course to extend the maturity profile of the Group's funding (currently 2.4 years).

DEFINED BENEFIT PENSION ARRANGEMENTS

The Group has defined benefit pension obligations in the UK, Germany, Switzerland, Liechtenstein, USA and Brazil and cash lump sum obligations in France, Italy and Turkey, the entire liabilities for which are reflected in the Group balance sheet. In the UK, the Group has a final salary scheme that was closed to new members in November 2000, but continues to accrue benefits for the 123 current employee members. The deficit, as calculated by the scheme actuary at 31 December 2010 using the principles of IAS 19 is £0.6m (2009: £3.7m). The UK scheme deficit decreased by £3.1m during the year, primarily as a result of the announced change in the relevant index for the UK scheme from RPI to CPI in respect of the revaluation of deferred members' benefits.

The Group's heat treatment business in Germany has inherited several small defined benefit arrangements as a result of prior years' acquisitions. They are all unfunded and are closed to new members but the existing members continue to accrue benefits. The IAS 19 liability at 31 December 2010 was £3.6m (2009: £3.5m). In Liechtenstein the IAS 19 liability at 31 December 2010 was £0.4m (2009: £0.2m) and in Switzerland was £0.3m (2009: £0.1m). Arrangements in both countries are funded.

In France, the Group operates a plan which pays a cash lump sum on retirement and also for long service. The plan is open to new employees but by its nature is not mortality dependent. It is unfunded and the IAS 19 liability at 31 December 2010 was £5.2m (2009: £5.7m). Italy and Turkey also have unfunded cash lump sum obligations, which by statute are open to new members. The IAS 19 liability is £0.7m for Italy (2009: £0.8m) and £0.2m for Turkey (2009: £0.2m).

The Group sponsors three defined benefit pension arrangements in the USA that were inherited with the acquisition of Lindberg and these had a total IAS 19 deficit at 31 December 2010 of £0.5m (2009: £0.6m). There is no future accrual of benefits. In Brazil, Bodycote operates a defined benefit plan for a senior member of staff. It is funded and the member continues to accrue benefits. At 31 December 2010 it had a deficit of £0.1m (2009: £0.2m deficit).

POST BALANCE SHEET EVENTS

There are no post balance sheet events following the 2010 year end.

CHANGE IN ACCOUNTING POLICIES

The changes in accounting policies are detailed in the Accounting Policies on page 51 of this report. The adoption of new accounting policies has not had any material impact on the amounts reported in these financial statements.

GOING CONCERN

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

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

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

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

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

D. F. Landless
Finance Director
24 February 2011

PRINCIPAL RISKS AND UNCERTAINTIES

Effective management of risks is essential to the delivery of the Group's objectives. The Group's approach has been for divisional management to report their significant risks to the Group, explaining the nature and the effectiveness of the mitigation that is in place to manage each risk. The recent appointment of a Vice-President (Risk and Business Processes) will ensure continuing improvements in the Group's risk management framework.

The principal risks shown below represent the most significant areas which the Board believes could most likely impact the Group's financial performance and position, together with the actions initiated to mitigate the consequences.

Market and Customer Risks

Markets

Bodycote's presence in 26 countries and in a wide variety of end markets acts as a natural hedge to balance out localised economic volatility. Nevertheless, the Group is continuously working to improve its responsiveness to changes in demand and uses analytical tools to assess the flexibility of its cost base. Close contact with customers provides management with market intelligence that allows timely action to minimise the impact of a downturn. This was demonstrated in the last downturn, which began at the end of 2008, when the Group reacted quickly to changes in demand and reduced its cost base by £45m in the face of a 21% fall in sales.

Loss of key customers

The Group benefits from many long term and partnership agreements with key customers. Damage to, or loss of, any of these relationships may be detrimental to Group results, although the Board believe this is highly unlikely as Bodycote has excellent long-term relationships with its major customers and the Group's network of strategically located facilities ensures that it is the supplier of choice to these major manufacturers. Furthermore there is no significant customer dependency, with the Group's top ten customers accounting for less than 13% of sales and the balance made up by many thousands of customers.

Corporate and Community Risks

Human Resources

Bodycote is reliant on its ability to recruit, develop and retain staff to meet future growth plans. Competition for resources is high and there is a risk that Bodycote may not be able to attract or to retain skilled individuals. As the market leader Bodycote is seen as a source of talent by competitors. During the last two years the Group has addressed the risk by updating its Human Resources (HR) strategy, which covers succession planning and staff development programmes, performance management processes, recruitment policies and remuneration strategy.

Safety & Health

Bodycote is committed to providing the highest level of protection in its work environment and to safeguarding the safety of its employees. The Group's work environment presents a number of risks which require management. Shortcomings in health and safety procedures can have a significant effect on individual employees, cause disruption to business and lead to financial penalties and loss of reputation. Safety and Health (S&H) policies are set by the Group's safety committee and all facilities are required to operate in accordance with these policies. Responsibility for implementation of S&H policies lies with divisional management and each division has a professionally competent Head of S&H in place. All facilities are subject to safety audits at least once a year, following standard audit programmes, and findings are reported to divisional and corporate management.

Environment

Bodycote is committed to providing the highest level of protection to the environment. Historical use of solvents and other hazardous chemicals could have led to ground contamination. The environmental laws of the various jurisdictions impose actual and potential obligations on Bodycote to remediate contaminated sites, both those currently operated and, in some cases, those which have been sold. Bodycote incurs costs annually in meeting its obligations and maintains a provision of £16.8m to meet liabilities. If this existing provision is inadequate to meet costs arising from environmental obligations, then this could impact the Group's results. Some of the Group's heat treatment plants continue to use solvents and other hazardous chemicals in small quantities but the risk of future contamination is managed by stringent procedures, typically under the requirements of the ISO 14001 environmental system.

Operational Risks

Service Quality

Work that is released into use which is not in compliance with specification could arise as a result of system or human failure. Bodycote has stringent quality systems in place and where necessary its plants have relevant accreditations, such as ISO 9000, Nadcap and TS 16949. All facilities are subject to internal audits, external audits by accreditors or customer inspections at least once a year.

Energy

An energy risk management committee oversees the purchasing of all the Group's energy requirements. Its objective is to minimise the potential exposure to Bodycote of rapid changes in energy prices and to match commitments to buy energy, both in terms of price and volume, with demand for the Group's services. An increase in energy cost is a risk which the Group is largely able to mitigate through price adjustments and surcharges, although with some time lag. Bodycote is confident that it will continue to be able to pass on energy cost increases to its customers in future.

Regulatory Risks

Regulatory and Legislative Compliance

Bodycote operates in 26 countries which all have unique legislative and regulatory requirements, including tax regulations. In some countries regulations can vary from state to state. Non-compliance could lead to penalties, disruption to business, diversion of management time and loss of reputation. To mitigate this risk Bodycote engages specialists with expertise in the local legislative and regulatory landscape to perform compliance activity or to advise local management.

Financial Risks

The Group's treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk. Treasury activities have the objective of minimising risk and treasury operations are conducted within a framework of policies and guidelines authorised and reviewed periodically by the Board. Further details on the Group's financial risks and risk management policies are provided in note 20 to the financial statements.

Risk	Description	Impact	Mitigation
MARKET AND CUSTOMER RISKS			
Markets	A substantial proportion of Bodycote's sales are closely linked to the economic cycle. Sales in the markets served by the AGI businesses (67% of the total Group) tend to develop in line with or ahead of the economic cycle, whereas aerospace sales (20%) tend to track behind the economic cycle. Sales to the energy sectors (13%) are closely linked to energy prices, which in turn can be affected by general economic activity. Short order visibility means that accurately forecasting demand remains difficult.	As a low proportion of the Group's costs are variable (approx 20%), a fall in sales will have a significant impact on profitability.	■ Engage in continuous dialogue with customers and monitor macro-economic forecasts which should alert the Group to likely changes in demand. ■ Maintain flexibility of cost base e.g. by ensuring that a proportion of the workforce is employed on temporary contracts. ■ Respond quickly to changes in customer demand on a local or a Group-wide level.
Loss of key customers	Damage to the relationship with key customers that will result in loss of sales.	A loss of a key customer will result in a reduction in profit and may affect the viability of one or more of the Group's facilities.	■ Continue the emphasis on long-term agreements. ■ Maintain excellent relationships with major customers. Use key account management to monitor customer satisfaction with Group's service levels.
CORPORATE AND COMMUNITY RISKS			
Human Resources	Bodycote's growth plans rely on its ability to retain, develop and attract staff.	A shortage of staff with the appropriate skills will impede the Group's ability to execute its business plans.	■ Continue development of a HR strategy to address the long-term development and retention of staff. ■ Develop succession plans. ■ Ensure performance management processes are properly implemented and used effectively.
Safety and Health	Shortcomings in safety and health framework.	Failure to develop, implement or comply with the highest levels of safety and health processes can lead to injury, financial and reputational loss.	■ Maintain a Group safety committee to develop health and safety policies. ■ Maintain Group-wide health and safety policies enforced by divisional health and safety teams. ■ Safety compliance audits at least once a year at all plants.
Environment	Ground and water contamination through the use of potentially hazardous substances and emissions of carbon dioxide.	Financial impact of cleaning up contamination from past and present activities involving hazardous substances. Reputational impact, particularly for facilities which operate in urban or residential areas.	■ Remediation of contaminated sites as required by local legislation. ■ Reduce use of hazardous substances, such as chlorinated solvents. ■ Adopt ISO 14001 certification. ■ Continuously improve energy efficiency.
OPERATIONAL RISKS			
Service quality	Work being released for end use that has not been processed to specification.	Processed part will not perform as required, leading to financial cost of remediation, breakdown in customer relationship, reputational loss, and potential for damages/litigation.	■ Maintain industry relevant accreditations. ■ Divisional quality teams to maintain quality process at plant level. ■ Perform quality audits at all plants at least once a year.
Energy	Increase in energy prices.	Energy is the second largest variable cost to Bodycote. The volatility of energy prices means that cost changes are difficult to forecast which could lead to a reduction in the Group's profitability.	■ Energy risk management committee oversees energy purchasing and energy price agreements. ■ Pass on energy costs to customers through contractual arrangements and regular price reviews.
REGULATORY RISKS			
Regulatory and legislative compliance	Non-compliance with regulatory or legislative requirements.	Non-compliance could lead to financial penalties, disruption to business, diversion of management time, personal and corporate liability and loss of reputation.	■ Engage local specialists to support Bodycote at local, divisional and Group level. ■ Develop business process to incorporate local regulatory requirements.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Bodycote is dedicated to improving management of corporate responsibility issues and is implementing policies and initiatives to achieve this goal.

OUR APPROACH

Bodycote's objective is to create superior shareholder returns through the provision of selected thermal processing services that are highly valued by our customers and to achieve this in a safe working environment, with minimal environmental impact.

Bodycote is dedicated to improving management of corporate responsibility issues and is implementing policies and initiatives to achieve this goal. The future success and growth of the Group is intrinsically linked to our ability to ensure the Group's operations are sustainable and that we can nurture and develop our talent.

OUR PEOPLE

The strength of the Group primarily rests in its people and one of the key challenges for management is to ensure availability of appropriately qualified people to support its continued growth. Bodycote is fortunate to have a competent and committed international team that is well respected in technical and business circles. Most acquisitions have been based on historical relationships with Bodycote personnel which is a testament to the integrity of the Group's people.

The Board has established a remuneration policy that rewards performance while offering competitive base packages. In line with the policy of continuous improvement, the Group has added further resources in this area to assess management performance and to improve the succession pipeline for future business leadership.

Bodycote's employment policies are non-discriminatory, complying with all current legislation to engender equal opportunity irrespective of race, gender, religion, disability, sexual orientation or nationality. Harassment is not tolerated.

RESPONSIBLE BUSINESS ETHICS

All Bodycote personnel are expected to apply a high ethical standard, consistent with an international UK-listed company. Directors and employees are expected to ensure that their personal interests do not at any time conflict with those of Bodycote. Shareholder employees are advised of and comply with share trading codes.

Bodycote has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice. Further, Bodycote does not make political donations.

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

COMMUNITIES

Whilst Bodycote has no centralised community initiatives in place, our global teams frequently take part in charity events and groups that help to foster good community relationships.

IMPROVING SAFETY CULTURE

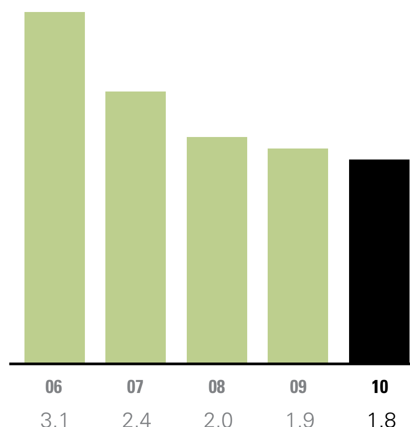
The nature of the Group's operations is that employees are regularly exposed to potentially dangerous situations. It is standard Bodycote practice to ensure that appropriate safety and health policies and procedures are in force around the Group and that employees are given suitable training appropriate to their working environment.

In 2004 the Group commenced reporting in a uniform manner its performance internally in terms of both the frequency and severity of lost-time accidents. As a result, each facility is now able to benchmark its safety and health performance and formulate strategies for improvements. Bodycote is committed to the highest practicable standards of safety and health management and takes a zero tolerance approach to safety violations.

Underpinning the vital importance of workplace safety, bonus payments to Directors and Senior Executives are, in part, dependent on achievement of safety targets, which are key performance indicators.

KPI – accident frequency (number)

Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for anyone who works at or visits our locations. The major restructuring programme has not made this an easy task in 2010. Nevertheless, the Accident Frequency rate was reduced to 1.8 (2009: 1.9).



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

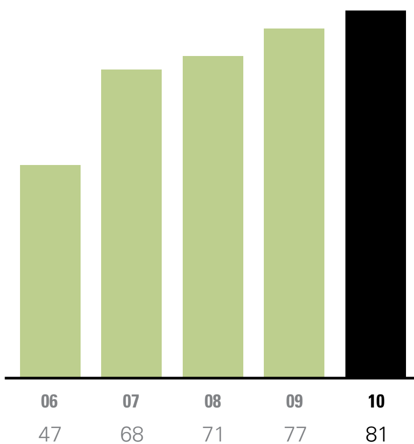
PROTECTING THE ENVIRONMENT

Bodycote operates modern, efficient equipment around the clock. The Group aggregates demand from a wide range of customers to maximise efficiency and minimise energy costs. By replacing under-utilised in-house thermal processing operations with Bodycote's state-of-the-art equipment, the overall amount of energy used by industry can be dramatically reduced, as is explained further in the following pages. The success of Bodycote's processes in addressing these issues is key to its environmental credentials. The Group does not simply aim to minimise its own energy consumption, but also to effect substantial reductions in its customers' energy use.

The replacement, where possible, of harmful materials has reduced the need for disposal of waste products. By acting responsibly the Group has been able to substantially reduce its chlorinated solvent usage and is investing in closed solvent washing systems to recuperate solvent effluent and reduce evaporation emissions.

KPI – ISO 14001 accredited facilities (%)

Reducing the environmental impact of the Group's activities is taken very seriously. Compliance with the requirements of ISO 14001 helps to minimise the risk of adverse environmental effects at Bodycote's locations. At the end of 2010, 81% of our plants had achieved ISO 14001 accreditation – 140 plants out of a total of 173 (2009: 137 out of 178).



Carbon footprint and water consumption

The reduction of CO_2e (carbon dioxide equivalent) and water consumption is a high priority for the Group.

Total CO_2e emissions per £m sales decreased by 5% in 2010 and water usage per £m sales decreased by 8%. The Group's total CO_2 emission data is based on Scope 1 and Scope 2 emissions, as defined by the UK Government's Department for Environment, Food and Rural Affairs, and data relating to this has been calculated to include country-specific electricity conversion factors.

Carbon footprint (tonne CO_2e/£m sales)

Water consumption (thousand M^3/£m sales)

Bodycote is making a commitment to reducing energy and water consumption and specific methods for achieving this will be explored further in 2011.

A GREENER, CLEANER ENVIRONMENT

Reducing any detrimental impact on the environment has become a growing focus of industry worldwide and Bodycote can assist in the drive towards carbon reduction and environmentally friendly approaches in a number of ways.

For example, certain heat treatment and thermally sprayed surface treatments are leading the way in the replacement of older, less environmentally friendly processes such as hard chrome plating.

Future restrictions that will be placed on chrome plating due to health and environmental issues have led many businesses including the major aerospace companies to embark on initiatives to replace it. These companies have highlighted thermal spray coatings as the preferred replacement for chrome plating.

Bodycote has been involved in a number of initiatives to replace chrome plate and results have shown that, in addition to the environmental benefits, thermally sprayed tungsten carbide outperforms hard chrome plate for both wear and corrosion protection.

Modern thermal processing techniques have allowed design engineers and manufacturers to use much lighter materials, such as aluminium for example, and have significantly prolonged component lifetimes. Through the effective use of thermal processing, parts can now be lighter and overall component weight reduced, leading to improved efficiency and reduced fuel consumption.

DIRECTORS' REPORT

The Directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2010.

The Chairman's Statement, the Chief Executive's Review, the Finance Director's Report, and all the information contained on pages 8 to 45 together comprise the Directors' Report for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is a holding company with subsidiaries carrying on business in the provision of thermal processing services. The activities and locations of the principal subsidiary undertakings are set out on pages 99 and 100.

GROUP REVIEW

The Group Review, which encompasses:

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

is provided on pages 8 to 31 of this annual report. This is a review of the development of the businesses of the Group, the financial performance during the year ended 31 December 2010, key performance indicators, a description of the principal risks and uncertainties facing the Group and information about the use of financial instruments. The Group review has been prepared solely to assist the shareholders in assessing the Group's strategies and the potential of those strategies. It should not be relied on by any other party for any other purpose. Forward-looking statements have been made by the Directors in good faith using information available up to the date of this report and such statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks. Since the end of the financial year no important events affecting the business of the Group have occurred.

DIVIDENDS

The Board is recommending a final dividend of 5.75p per ordinary share making a total for the year of 8.7p per share (2009: 8.3p). The final dividend, if approved, will be paid on 6 May 2011 to shareholders on the register at the close of business on 8 April 2011.

SHARE CAPITAL

The Company's issued ordinary share capital as at 31 December 2010 was £32.8m and during the year was increased by the issue of 1,714,205 ordinary shares between 12 March and 22 December 2010 for a total consideration of £618,471 in connection with the Company's executive share incentive schemes. At the Annual General Meeting on 28 April 2010 the shareholders authorised the Company to purchase up to 18,816,771 of its own shares. This authority expires at the conclusion of the forthcoming Annual General Meeting to be held on 27 April 2011, at which time a further authority will be sought from shareholders.

CAPITAL STRUCTURE

Details of the authorised and issued share capital are shown in note 25. The Company has one class of ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 28 and shares held by the Bodycote Employee Benefit Trust abstain from voting and waive dividend. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. The appointment and replacement of Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles of Association may be amended by a special resolution of shareholders. The powers of the Directors are described in the Corporate Governance statement on page 34. Under the Articles of Association the Company has authority to issue ordinary shares with a nominal value of £3,250,168. There are also a number of other agreements that take effect, alter, crystallise or terminate upon a change of control of the Company following a takeover bid such as commercial contracts, bank loan agreements, property lease agreements, employment contracts and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole, and the Directors are not aware of any agreements between the Company and themselves or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

DIRECTORS

The current Directors and their biographical details are listed on page 45 and all served throughout the year. Under the Articles of Association of the Company each Director must retire from office and stand for re-election by shareholders as a minimum at every third annual general meeting in order to continue to serve as a Director. However in view of the newly introduced UK Corporate Governance Code and to further increase accountability, this year all Directors will retire at the Annual General Meeting and stand for re-election by the shareholders if they wish to continue to serve as Directors of the Company. Accordingly, those Directors retiring and offering themselves for re-election at the 2011 Annual General Meeting are Messrs A.M. Thomson, S.C. Harris, D.F. Landless, J. Vogelsang, J.A. Biles and Dr K. Rajagopal. The re-elections of Messrs Thomson and Vogelsang are in accordance with the retirement provisions of the Articles of Association. The service agreements for Messrs Harris and Landless are terminable by 12 months' notice. The remaining Directors do not have a service agreement with the Company and their appointments are terminable by six months' notice (or in the case of the Chairman, Mr Thomson by 12 months' notice).

DIRECTORS' INTERESTS IN CONTRACTS & SHARES

Details of the Executive Directors' service contracts and details of the Directors' interests in the Company's shares and share incentive plans are shown in the Board Report on Remuneration on pages 39 to 43. No Director has had any dealings in any shares or options in the Company since 31 December 2010. Qualifying third party indemnity provision (as defined by section 234 of the Companies Act 2006) has remained in force for the Directors for the year ended 31 December 2010 and, as at the date of this report, remains in force for the benefit of the current Directors in relation to certain losses and liabilities which they may incur (or have incurred) to third parties in the course of their duties. Apart from these exceptions, none of the Directors had a material interest in any contract of significance in relation to the Company and its subsidiaries at any time during the financial year.

POTENTIAL CONFLICTS OF INTEREST

During 2008 the duties owed by directors to a company were codified and extended by the Companies Act 2006 so that directors not only had to declare actual conflicts of interests in transactions as they arose but also had a duty to avoid such conflicts whether real or potential. Potential conflicts of interest could arise where a single director owes a fiduciary duty to more than one organisation (a 'Situational Conflict') which typically will be the case where a director holds directorships in more than one company. In order to ensure that each Director was complying with the new duties, each Director provided the Company with a formal declaration to disclose what Situational Conflicts affected him. The Board reviewed the declarations and approved the existence of each declared Situational Conflict until October 2011 and permitted each affected Director to attend and vote at Bodycote Directors' meetings, on the basis that each such Director continued to keep Bodycote's information confidential, and provided overall that such authorisation remained appropriate and in the interests of shareholders. Where such authorisation becomes inappropriate or not in the interests of Bodycote shareholders, the Chairman or the Nomination Committee, can revoke an authorisation. No such revocations have been made.

EMPLOYMENT

The Group recognises the value that can be added to its future profitability and strength by the efforts of employees. The commitment of employees to excel is key to the Group's continued success. Through their attendance at, or participation in strategy, production, safety and health meetings at site level, employees are kept up to date with the performance and progress of the Group, the contribution to the Group made by their site and are advised of safety and health issues. The Group publishes in 11 languages, via the Group intranet, an electronic magazine for all staff detailing the Group's activities, performance and some of its personalities and has also featured the Group's open door policy under which employee concerns can be voiced on a confidential basis. Approximately 1,600 Bodycote employees are connected to the Bodycote intranet, which improves knowledge of Group activities, and assists greatly with technology exchange and co-ordination. It is the Group's policy to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities, and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled the Group, where practicable, will seek to continue the employment and arrange appropriate training. An equal opportunities policy is in operation in the Group.

RESEARCH AND DEVELOPMENT

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

DONATIONS

Charitable donations during the year net of income tax amounted to £6,000 (2009: £2,750). There were no political contributions in 2009 or 2010.

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 Group were 46 days (2009: 46 days).

SHAREHOLDERS

An analysis of the Company's shareholders and the shares in issue at 18 February 2011 and details of the interests of major shareholders in voting shares notified to the Company pursuant to chapter 5 of the Disclosure and Transparency Rules are given on page 101.

AUDITORS

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

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

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

ANNUAL GENERAL MEETING

The 2011 Annual General Meeting will be held on 27 April 2011 in accordance with the notice being sent to Shareholders with this report.

By order of the Board

J. R. Grime
Secretary
24 February 2011

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

CORPORATE GOVERNANCE STATEMENT

COMPLIANCE WITH 2008 COMBINED CODE

In respect of the financial year 2010 Bodycote's obligation under the Disclosure and Transparency Rules is to prepare a corporate governance statement with reference to The Combined Code on Corporate Governance published by the UK Financial Reporting Council (FRC) in June 2008 (the '2008 Code').

In respect of each subsequent financial year such statement will need to reference the UK Corporate Governance Code issued by the FRC in June 2010 (the 'New Code').

In respect of the year ended 31 December 2010 Bodycote has complied with the provisions of the 2008 Code, save that the Board has taken the view that generally it is the responsibility of the Chief Executive and the Finance Director to manage relationships with institutional investors. The Chairman also meets institutional investors to discuss overall strategy, governance and any concerns that shareholders may have. Only where these more usual channels of communication have failed would the Board expect the Senior Independent or other Non-executive Directors to become involved, notwithstanding that both the 2008 Code and the New Code specify attendance of the Senior Independent Non-executive Director at meetings with major shareholders. Regular feedback by the Company's advisers on investor meetings and results presentations is circulated to all Directors.

Apart from this distinct area, Bodycote was in compliance with the provisions of the 2008 Code throughout 2010.

OPERATION OF THE CODE

Taken together with the Audit Committee Report, the Nomination Committee Report and the Board Report on Remuneration presented on pages 36 to 43, this statement explains how Bodycote has applied the principles of good corporate governance set out in the 2008 Code.

LEADERSHIP

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

The Board met on eleven occasions during 2010, including a specific meeting to review and update the Company's long-term strategy.

The Board of Directors comprises six members, of whom four are Non-executive Directors and two are Executive Directors led by the Company's part-time Non-executive Chairman, Mr A.M. Thomson, who also chairs the Nomination Committee. The Chief Executive is Mr S.C. Harris and the Senior Independent Non-executive Director is Mr J. Vogelsang, who also chairs the Remuneration Committee. The Audit Committee is chaired by Mr J.A. Biles. Brief biographical details of all Directors are given on page 45.

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

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

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

Where required, a Director may seek independent professional advice the cost of which is reimbursed by the Company. All Directors have access to the Company Secretary and they may also address specific issues to the Senior Independent Non-executive Director. In accordance with the Articles of Association, all newly appointed Directors and any who have not stood for re-election at the two previous Annual General Meetings, if eligible, must submit themselves for re-election. Non-executive Directors, including the Chairman, are appointed for fixed terms not exceeding three years from the date of first election by shareholders, after which the appointment may be extended by mutual agreement. A statement of the Directors' responsibilities is set out on page 44. The Board also operates three committees. These are the Nomination Committee, the Remuneration Committee and the Audit Committee.

So that the necessary actions can be taken promptly, a finance committee, comprising the Chairman (or failing him any other non-executive director), the Chief Executive and the Finance Director operates between the dates of scheduled Board meetings and is authorised to make decisions, within limits defined by the Board, in respect of certain finance, treasury, tax or investment matters.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

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

COMMITMENT

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

Director	Full board	Audit Committee	Remuneration Committee	Nomination Committee
	Eligible to attend & attended			
A.M. Thomson	11	–	7	1
S.C. Harris	11	–	–	1
J. Vogelsang	11	4	7	1
J.A. Biles	11	4	7	1
K. Rajagopal	11	4	7	1
D.F. Landless	11	–	–	–

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

PERFORMANCE EVALUATION

During the year, the Board conducted an evaluation of its own performance and that of its committees and individual Directors. The process involved the completion by each Director of a confidential questionnaire in a form consistent with previous years, and including amongst other areas: remit and objectives, Board composition, training and resources, governance, stakeholder engagement, Board procedures and overall effectiveness.

The Company Secretary analysed the completed questionnaires and summarised the findings in a report for the Chairman. The Chairman subsequently conducted one-to-one discussions with each of the Board members after which he reported back to the whole Board on the evaluation process. The responses to the questionnaires demonstrated a high degree of consistency and the evaluation process affirmed the Board's confidence in the Group's system of corporate governance. Arising from the exercise, the Board has concluded that an enhanced focus should be placed on divisional strategies, overall performance evaluation, sustainability and risk management.

Messrs S.C. Harris and D. F. Landless were appraised internally in January and February 2011. The Remuneration and Audit Committees reviewed their own performance in December 2010 and the Nomination Committee reviewed its performance in November 2010.

Led by the Senior Independent Non-executive Director, the Directors have carried out an evaluation of the Chairman's performance in November 2010.

PROPOSALS FOR RE-ELECTION

The Board has decided, in line with the New Code, that all Directors will retire annually and, other than in the case of any Director who has decided to stand down from the Board, will offer themselves for re-election at the Annual General Meeting. Accordingly Messrs A.M. Thomson, S.C. Harris, D.F. Landless, J. Vogelsang, J.A. Biles and Dr K. Rajagopal will stand for re-election and the Board recommends to shareholders that they re-elect all the Directors.

The performance of each Director was evaluated as indicated above and the Board confirms in respect of each that their performance continues to be effective and that each continues to demonstrate commitment to his respective role.

INTERNAL CONTROL & RISK MANAGEMENT

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has applied Principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the Group's significant risks, including risks arising out of Bodycote's corporate and social engagement. The Board continuously and regularly reviews the process, which has been in place from the start of 2000 to the date of approval of this report and which is in accordance with Internal Control: Guidance for Directors on the Combined Code published in September 1999 and with revised guidance on internal control published October 2005. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management systems. It is based principally on reviewing reports from management and from internal audit to consider whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging these review responsibilities.

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

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

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

During 2010, in compliance with provision C.2.1, management performed a specific assessment for the purpose of this annual report. Management's assessment, which has been reviewed by the Audit Committee and the Board, included a review of all Group and operational risks (by means of workshops and interviews) and the risks identified (both before and after mitigating actions) were assessed using conventional impact and likelihood scoring, and further assessment, monitoring and review work was scheduled for 2011. The Group's risk management framework is progressively being embedded throughout the Group. The principal risks and uncertainties affecting the Group are shown in the Finance Director's Report on page 26. No significant previously unidentified risks were uncovered as part of this process, and the necessary actions have been or are being taken to remedy any significant failings or weaknesses identified as part of the reviews.

INVESTOR RELATIONS

The Chief Executive and Finance Director regularly talk with and meet institutional investors, both individually and collectively, and this has enabled institutional investors to increase their understanding of the Group's strategy. The business of the Annual General Meeting comprises a review of the Group's operations for the benefit of shareholders attending. In addition, since 1998, internet users have been able to view up-to-date news on the Group and its share price via the Bodycote website at www.bodycote.com. Users of the website can access news of all recent announcements and copies of results presentations and can enrol to hear live presentations. On a regular basis, Bodycote's financial advisers, corporate brokers and financial public relations consultants provide the Directors with opinion surveys from analysts and investing institutions following visits and meetings with the Chief Executive and Finance Director. As stated on page 34 the Chairman and Senior Independent Non-executive Director are available to discuss any issues not resolved by the Chief Executive and Finance Director. On specific issues, such as the introduction of long term incentive and share matching schemes in 2006 and changes thereto in 2009 and 2010, and in 2008 with the return of cash, the Company will seek the views of leading investors.

By order of the Board

J. R. Grime
Secretary
24 February 2011

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

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is a sub-committee of the Board whose main role is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal controls.

The Committee's responsibilities are set out in written terms of reference which include all matters indicated by the Disclosure and Transparency Rules and the Code, which are available for inspection on the Company's website and include:

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

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee comprises Messrs J.A. Biles, J. Vogelsang and Dr K. Rajagopal who are all independent Non-executive Directors. Their biographical details are set out on page 45 and their remuneration is shown on page 42. The Chairman of the Audit Committee since 16 August 2007 has been Mr J.A. Biles, who was appointed a Director on that date, following a recommendation from the Nomination Committee. The Audit Committee Chairman is considered to have recent and relevant financial experience. Mr Biles is a chartered accountant, who served as a plc finance director (FKI plc from 1998 to 2004 and Chubb Security plc from 1991 to 1997) and is currently also the Chairman of the Audit Committees of Charter International plc (2005) and Hermes Fund Managers Limited (2005). The Company Secretary is secretary to the Audit Committee. The Chairman, Chief Executive, Finance Director, Senior Internal Auditor, Group Financial Controller, Vice-President (Risk and Business Processes), Group Treasurer, Head of Tax, other senior finance personnel and external auditors attend Audit Committee meetings as appropriate by invitation.

MAIN ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met four times during 2010, and in February 2011 to consider this financial report and all Committee members attended the maximum number of meetings they were scheduled to attend.

The Committee also meets separately with the Vice-President (Risk and Business Processes) and with the external auditors, without management being present, after the end of most formal meetings.

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

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

- At their February and July meetings, the Audit Committee reviewed respectively the preliminary and interim announcements of results and the draft reports and accounts for the financial year and the half year. On these occasions the Committee reviewed reports from the external auditors, identifying any accounting or judgemental items requiring its attention (including approval of the processes, assumptions and outcomes to assess fair values and impairments) and commenting on risk management and control matters.
- A quarterly report on internal audit from the Vice-President (Risk and Business Processes) was presented at each meeting and the findings discussed. During the year the plan for the ensuing year's work was considered.
- The external auditors also presented their audit plans at the December and April meetings covering scope of work to be done and during the year there was a detailed review of their management letter covering the auditors' findings in respect of 2009.
- The Audit Committee is also presented with an update on any material litigation in which the Group may be involved.
- At each meeting an update is presented of any new accounting developments and requirements and any changes in corporate governance arrangements that may affect the Group.
- On a regular basis, the Committee reviewed papers on liquidity, banking arrangements and the appropriateness of the going concern assumption for preparation of the financial statements. The Committee's activities supported the Directors in their assessment of the going concern position of the Group, which is set out on page 25.
- During 2010 a new position of Vice-President (Risk and Business Processes) was created with responsibility for developing the Group's risk management framework and enhancing the Group's risk assessment and mitigation activities. This action demonstrates the Board's continued commitment to maintain sound risk management and internal control systems.

During 2010 the Audit Committee also:

- assessed and confirmed the independence of the external auditors;
- having reviewed the effectiveness of the audit, the performance and capabilities of the external auditors and having taken into account their tenure of office from 2002 and whether the position should be formally tendered, recommended to the Board that the Auditors be re-appointed and agreed their fees;
- approved the Group's accounting policies;
- approved the management representations to the external auditors;
- reviewed arrangements for reporting and investigating fraud and employee concerns; normal internal audit activity and operation of the Group's 'Open Door' policy uncovered a small number of potentially fraudulent incidents which were all fully investigated. None had any material financial impact on the Group and, where necessary, systems and procedures were amended to minimise the risk of recurrence;
- reviewed the effectiveness of internal controls and risk management processes and recommended certain changes;
- reviewed the terms of reference for the Audit Committee; and
- assessed the Committee's own effectiveness.

INDEPENDENCE OF EXTERNAL AUDITORS

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

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

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

- audit-related services. The external auditors are invited to provide services where their position as auditors renders them best placed to undertake the work. This includes reporting and certification connected with borrowings, shareholders and circulars, regulatory requirements and work in respect of acquisitions and disposals.
- in the case of other services no contracts in excess of £20,000 in value can be awarded to the external auditors without prior approval from the Chairman of the Audit Committee.
- tax and general consulting work. In general and where conflicts arise, the work is not awarded to the external auditors and is put out to tender.
- there are no contractual restrictions on who the Audit Committee can choose as external auditors.

INTERNAL AUDIT

Internal Audit independently reviews the risk and control processes operated by management. It carries out independent audits in accordance with an internal audit plan which is agreed with the Audit Committee before the start of the financial year. This plan takes account of the risk management framework surrounding major business risks in each operation and provides a high degree of financial and geographical coverage. Where appropriate, either because of language, geographical remoteness or where technical expertise is required, the Internal Audit Department engages third party specialists to conduct Internal Audits. Internal Audit reports include recommendations to improve internal controls together with agreed managerial action plans to resolve issues raised. Internal audit follows up the implementation of recommendations and reports progress to senior management and the Audit Committee. The Committee noted that the 2010 Internal Audit programme was successfully completed with sites representing approximately 70% of Group revenue being the subject of internal audit reports. At the same time there was a declining trend in the requirement for corrective actions. The effectiveness of the Internal Audit function is reviewed and discussed on an annual basis with the Vice President (Risk and Business Processes) and Senior Internal Auditor.

OVERVIEW

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

On behalf of the Audit Committee:

J.A. Biles
Audit Committee Chairman
24 February 2011

REPORT OF THE NOMINATION COMMITTEE

ROLE OF THE NOMINATION COMMITTEE

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

COMPOSITION OF THE NOMINATION COMMITTEE

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

The Chairman acts as the Chairman of the Committee, although the Chairman may not chair the Committee when it is dealing with the matter of succession to the Chairmanship of the Company. Only members of the Committee have the right to attend the Committee meetings. However, other individuals and external advisers may be invited to attend for all or part of any meeting as and when appropriate.

The Company Secretary is secretary to the Committee.

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

MAIN ACTIVITIES OF THE NOMINATION COMMITTEE

Mr A.M. Thomson chairs the Nomination Committee which also comprises Messrs J.A. Biles, J. Vogelsang, S.C. Harris and Dr K. Rajagopal.

In 2010 the Committee discussed performance management and assessment for the Chief Executive and other senior executives and considered and authorised the potential conflicts of interest which might arise where a director has fiduciary responsibilities in respect of other organisations. No inappropriate conflicts of interests exist. The Committee also assigned the Chairman to review and agree with the Chief Executive the Group's objectives for the forthcoming year.

In November 2010 the Nomination Committee, with both Executive Directors in attendance, carried out a formal evaluation of the Board's performance, and reviewed the Board's size and composition, the frequency of and process for Board and committee meetings, and best practice for the handling of a number of Board issues including the review of strategy, succession planning, sustainability, the implications for Bodycote of the UK Bribery Act and risk management.

On behalf of the Committee:

A.M. Thomson
Chairman of the Nomination Committee
24 February 2011

BOARD REPORT ON REMUNERATION

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

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

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

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

THE REMUNERATION COMMITTEE

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

The Committee's full terms of reference are available on the Group's website. The members of the Remuneration Committee during 2010 were J. Vogelsang (Chairman), J.A. Biles, A.M. Thomson and Dr K. Rajagopal. During the year, the Committee has taken advice from Ernst & Young LLP to provide independent advice on remuneration. In addition, the Company received actuarial and other pensions advice from Deloitte LLP in relation to the management of risk arising from the UK final salary pension scheme.

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

REMUNERATION POLICY

The Committee aims to provide a remuneration policy consistent with the Group's overall business strategy and thereby attract and retain high calibre executives, align executives' rewards with the creation of shareholder value and motivate executives to achieve and maintain challenging levels of company and individual performance. Market rates are determined by reference to other companies of similar size, activities and complexity. At the same time, policy in this area is sensitive to the remuneration structure within the Group.

The Committee keeps both the fixed and variable elements of each Executive Director's and senior executive's overall package under review. In recent years, the Committee has progressively increased the proportion of variable as opposed to fixed element of pay, so that currently the total potential from variable performance related pay is now substantially in excess of basic pay.

The Committee also considers the targets set for the variable elements of Executive Directors' and senior executives' remuneration which at all times aim to encourage appropriate behaviours and deliver exceptional and sustainable financial performance measured against the Group's strategic plans.

During the year the Committee met seven times to consider amongst other matters:

- the annual bonus and payments for the financial year ended 31 December 2009;
- the annual bonus structure and performance targets for the financial year ended 31 December 2010;
- basic salaries payable to each of the Executive Directors to ensure they remain both competitive and aligned with remuneration policy;
- the conditional awards made under the Bodycote Incentive Plan and, following shareholder approval at the 2010 AGM of changes to the Bodycote Share Match Plan, the first round of awards under the new Bodycote Co-Investment Plan;
- the disclosure policy in relation to performance targets attaching to awards made under both its short and long term incentive plans as compared to its peers and general market practice; and
- the company's remuneration policy in light of the revised recommendations in the UK Corporate Governance Code (formerly the Combined Code) and the revised ABI guidelines on Executive Remuneration published in December 2009.

FIXED ELEMENTS OF PAY

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

Basic Salary

As part of the Committee's annual review process the basic salaries for each Executive Director and the senior executives were reviewed by the Committee during the year. The review took into account the responsibilities and performance of the individual, current market practice and pay in similar UK engineering businesses, companies who operate in the same sector as Bodycote and companies of a comparable size and scale of operations. The Committee was also mindful of pay levels amongst the employee population.

Pension

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

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

The pension for Mr Landless is provided partly under the Group's UK contributory defined benefit pension scheme, which has a normal retirement age of 65 and which is closed to new members with increases in pensionable salary capped at 3% per annum, and partly through a defined contribution arrangement. The Group's contributions to Mr Landless' defined contribution arrangement are 16% of basic salary above the defined benefit scheme cap.

The defined benefit scheme also provides lump sum death-in-service benefits and pension benefits based on final pensionable salary.

An analysis of the accrued pension entitlements for Mr Landless under the defined benefit pension scheme during 2010 is given on page 42.

Other Fixed Elements

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

VARIABLE ELEMENTS OF PAY

There are three variable elements of pay.

Annual Bonuses

The Committee provided Executive Directors and other senior executives with the opportunity to receive an annual bonus in 2010 of up to 100% of basic salary, subject to meeting targets based upon Group, individual performance and the achievement of personal objectives. For those senior executives with divisional responsibilities, part of the performance-related bonus is also based on their relevant sphere of responsibility. The Committee adopt a weighted basket of measures approach to target setting for annual bonuses that includes a range of key financial and individual performance metrics. The Committee consider this approach the most appropriate in order to ensure behaviours are appropriately balanced.

The measures used for annual bonus payments in respect of 2010, the maximum potential and the level of performance achieved are set out as follows:

Measure	Maximum	Achievement
Group Management Operating Profit	50%	50%
Group Cash Management	30%	30%

Finally, up to 20% of the annual bonus was subject to individual performance objectives. Several performance objectives are set for Executive Directors and all senior executives and these are designed to achieve delivery of key financial and or strategic objectives for the Group.

In addition to the measures set out above, the Committee also has discretion to reduce the awards otherwise earned by up to 10% to take into account the safety performance of the Group.

As a result, the bonus payable was 98% of basic salary for both the Chief Executive and the Finance Director in respect of performance in 2010.

For 2011 the Committee has determined that the bonus opportunity for Executive Directors and senior executives will again be contingent on meeting targets relating to safety, operating profit, cash management and personal objectives. No bonus will be paid for the cash management element unless the level of operating profit achieved is at least 95% of target.

Share Awards

Bodycote Incentive Plan (BIP)

The Company operates the BIP under which Executive Directors and senior executives are rewarded for the delivery of the Company's strategic plan. Final awards are based upon two performance measures, over a three year period:

- 50% of the award is subject to a return on capital employed (ROCE) performance condition; and
- 50% of the award is subject to an earnings per share (EPS) performance condition.

For BIP conditional awards made in 2009, the Committee determined that the entry threshold targets require ROCE equal to 10% and EPS equal to 16 pence for the performance period ending 31 December 2011. For BIP conditional awards made in 2010, the entry threshold targets require ROCE and EPS of 11.1% and 19.8 pence respectively for the performance period ending 31 December 2012.

In the event that the entry threshold target for both EPS and ROCE are not achieved none of the conditional awards will vest. Regardless of ROCE performance, should EPS at the end of the performance period be below 16 pence for awards made in 2009 and 2010 then no award shall vest.

The Committee intends to use the ROCE and EPS measures in combination for BIP Awards made in 2011.

Details of the awards made under the BIP are provided on page 43.

Following completion of the performance period on 31 December 2010, the Remuneration Committee has determined that none of the BIP awards made in 2008 shall vest (2007: Nil).

Deferred Share Awards

Bodycote Co-investment Plan (CIP)

As noted above, certain changes made to the Bodycote Share Match Plan (BSMP) were approved by shareholders, now renamed as the Bodycote Co-Investment Plan. The CIP continues to provide a link between the Company's short and long-term incentive arrangements and the key changes were:

- executives are able to invest in shares up to a value equivalent to 40% of net basic salary regardless of whether a cash bonus has been paid; and
- the performance criterion for awards is an absolute Total Shareholder Return (TSR) target.

The CIP will continue to provide the grant of awards of matching shares to participants on an annual basis in a maximum ratio of 1:1 to the gross investment made in deferred shares. Deferred shares must be held for three years and the threshold target for vesting of the matching shares awarded in 2010 and 2011 is TSR growth of not less than 4% per annum compound in excess of growth in the Consumer Prices Index (CPI). 10% per annum compound growth in excess of growth in the CPI will be required for full vesting.

Details of the awards under the CIP together with previous awards under the BSMP and the joining award made to Mr Harris in October 2008 are noted on page 43.

Following completion of the performance period on 31 December 2010, the Remuneration Committee has determined that none of the share match awards made in 2008 under the BSMP shall vest (2007: Nil).

TOTAL SHAREHOLDER RETURN (TSR)

The graph on page 43 illustrates the Company's TSR performance since 2005 relative to the FTSE All Share Industrial Index of which the Company is a component part. This sector is considered the most appropriate comparator group over the five-year period to December 2010. In line with market practice the calculation for TSR assumes reinvestment of dividends and is based on data provided by Datastream.

SERVICE CONTRACTS

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

EXECUTIVE DIRECTORS' SHAREHOLDING RETENTION POLICY

In 2005 the Committee introduced a shareholding retention policy under which Executive Directors and other senior executives are expected, within five years of that date or commencement of employment if later, to build up a shareholding in the Company. In respect of Executive Directors the expectation is to hold at least 100% of basic salary. As at 31 December 2010, the Committee is satisfied that the Executive Directors have fulfilled this requirement.

NON-EXECUTIVE DIRECTORS

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

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

Approved by the Board:

J. Vogelsang
Chairman of the Remuneration Committee
24 February 2011

EMOLUMENTS DURING THE YEAR – AUDITED

	Basic salary and fees £000	Benefits £000	Annual Bonus £000	Total 2010 £000	Total 2009 £000
Executive Directors					
S.C. Harris	400	26	392	***818**	443
D.F. Landless	268	27	262	**557**	308
	668	53	654	**1,375**	751
Non-executive Directors					
A.M. Thomson	130	–	–	**130**	130
J. Vogelsang	46	–	–	**46**	46
J.A. Biles	47	–	–	**47**	47
K. Rajagopal	40	–	–	**40**	40
	931	53	654	**1,638**	1,014

*S.C. Harris waived his right to the performance-related bonus prior to its determination. The amount of £818,000 shown as emoluments for S.C. Harris includes an amount of £392,000 which has been appointed to an employee benefit trust.

DIRECTORS' INTERESTS – AUDITED

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

Ordinary Shareholdings	31 December 2010 Number of Ordinary Shares	31 December 2009 Number of Ordinary Shares
Executive Directors		
S.C. Harris	**138,690**	98,048
D.F. Landless	**134,948**	156,024
Non-executive Directors		
A.M. Thomson	**41,841**	41,841
J. Vogelsang	**–**	–
J.A. Biles	**23,157**	23,157
K. Rajagopal	**17,368**	17,368

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

DIRECTORS' PENSIONS – AUDITED*

Director	Accrued Annual Pension at 01/01/10 £000	Transfer value at 01/01/10 £000	Real Increase in Accrued Annual Pension £000	Inflation £000	Increase in Accrued Annual Pension £000	Transfer value of real increase in Accrued Annual Pension (less Members' Contributions) £000	Real Increase in Transfer Value Less Members' Contributions £000	Member's Contributions £000	Accrued Annual Pension at 31/12/10 £000	**Transfer Value at 31/12/10 £000
D.F. Landless	37	561	2.5	1.7	4.2	19	82	17	41	686

* Derek Sleight retired as a Director on 27 April 2009 but continued as an employee until his retirement on 6 April 2010. He started to draw his pension with effect from 1 May 2010. On 1 April 2010 his pension was increased by way of a Company augmentation of £175,000 which was contributed to the defined benefit scheme in lieu of pay that he would have earned during a period of notice.

** The Trustee of the Bodycote UK Pension Scheme has not reviewed the basis on which transfer values are calculated in order to allow for the change of statutory indexation from RPI to CPI. Therefore, the above figures continue to assume RPI increases in deferment and payment. However, when the Trustee reviews transfer value assumptions, this is likely to lead to a change in actuarial assumptions that would reduce the transfer value entitlement at the year end to £627,000.

DIRECTORS' INTERESTS UNDER THE BODYCOTE INCENTIVE PLAN – AUDITED

	Interests as at 1 January 2010	Awarded in year	Lapsed in year	Interests as at 31 December 2010	Market price at award date	Vesting date
S.C. Harris	514,138	–	–	514,138	£1.56	February 2012
	–	391,345	–	391,345	£1.79	February 2013
D.F. Landless	76,784	–	(76,784)	–	£2.94	May 2010
	132,275	–	–	132,275	£1.89	May 2011
	344,215	–	–	344,215	£1.56	February 2012
	–	262,004	–	262,004	£1.79	February 2013

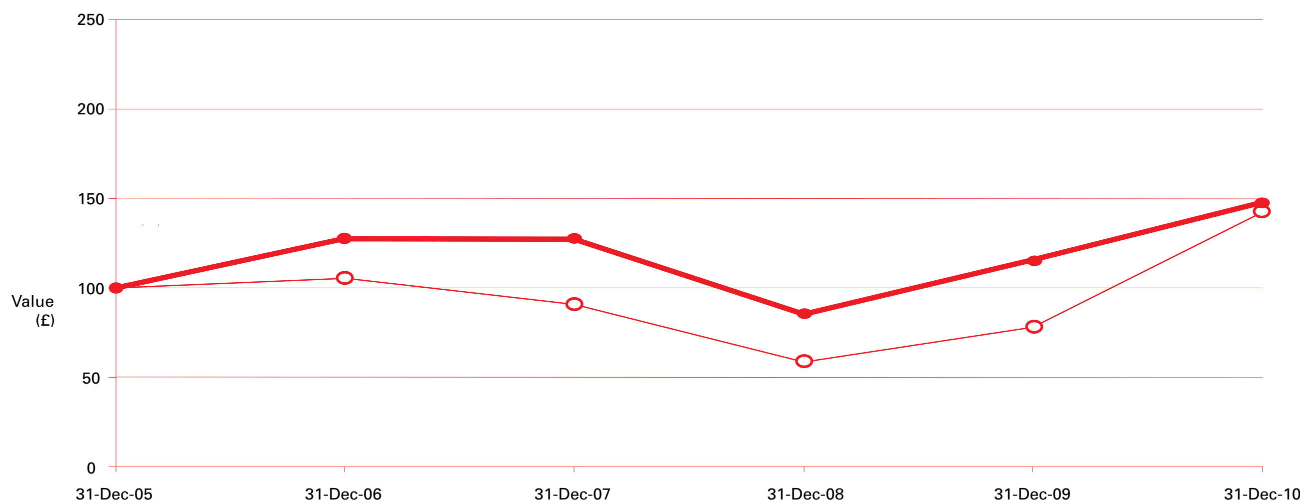
DIRECTORS' INTERESTS UNDER THE BODYCOTE CO-INVESTMENT PLAN (FORMERLY BODYCOTE SHARE MATCH PLAN) – AUDITED

	Interests as at 1 January 2010	*Awarded/(lapsed) in year	As at 31 December 2010	Market price at award date	Earliest Vesting date
S.C. Harris	**145,474	–	145,474	£1.40	March 2012
	23,437	–	23,437	£1.87	March 2012
	–	82,942	82,942	£1.93	May 2013
D.F. Landless	3,380	(3,380)	–	£2.93	May 2010
	8,252	–	8,252	£1.79	March 2011
	4,480	–	4,480	£1.87	March 2012
	–	8,010	8,010	£1.89	May 2013

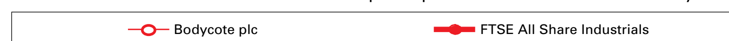
*Shares acquired via investment of the net of tax annual bonus under the Co-investment Plan are eligible for a matching award by reference to the gross amount invested.

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

TOTAL SHAREHOLDER RETURN (TSR)



This graph looks at the value, by 31/12/10, of £100 invested in Bodycote plc on 31/12/05 compared with that of £100 invested in the FTSE All Share Industrials. The points plotted are the values at financial year-ends.



Source: Datastream

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

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

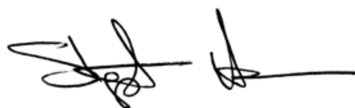
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Chairman's Statement, the Chief Executive's Report, the Finance Director's Report, all the information contained on pages 8 to 43 together comprise the Directors' Report for the year ended 31 December 2010. It includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 24 February 2011 and is signed on its behalf by:



S.C. Harris
Chief Executive
24 February 2011

D.F. Landless
Finance Director
24 February 2011

BOARD OF DIRECTORS AND ADVISERS

BOARD OF DIRECTORS

Executive Directors

S. C. Harris - Chief Executive
Appointed a director on 1 November 2008 and Chief Executive from 12 January 2009. Non-executive Director of Brixton plc from 2006 to 2009. Executive Director at Spectris plc from 2003 to 2008 and at Powell Duffryn plc from 1995 to 2003. Prior to this he held several senior positions in APV Inc. in the United States from 1984 to 1995. Member of the Nomination Committee. A Chartered Engineer.

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

Non-executive Directors

A. M. Thomson - Chairman
Appointed a Director in 2007. Chairman of Hays PLC (2010) and Hamsard 3054 Ltd (Polypipe), and Senior Independent Non-executive director of Johnson Matthey plc and Non-executive Director of Alstom SA. President of the Institute of Chartered Accountants of Scotland. Served as Finance Director of Smiths Group plc from 1995 to 2006 and of Rugby Group plc from 1992 to 1995. Member of the Remuneration Committee and Chairman of the Nomination Committee. A Chartered Accountant.

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

J. A. Biles
Appointed a Director in 2007. Non-executive Director of Charter International plc (2005), Hermes Fund Managers Limited (2005), ArmorGroup International plc (2004 to 2008), and of Northern Ireland Electricity plc (previously Viridian Group plc) (2005 to 2011). Finance Director of FKI plc from 1998 to 2004 and Group Finance Director of Chubb Security PLC (1991 to 1997). Chairman of the Audit Committee and member of the Remuneration and Nomination Committees. A Chartered Accountant.

K. Rajagopal
Appointed a Director on 24 September 2008. Non-executive Director of W.S. Atkins plc (2008), Spirax-Sarco Engineering plc (2009) and E2V Technologies PLC (2010) and member of UK Council for Science and Technology. Executive Director of BOC Group plc (2000 to 2006) and Chief Executive of BOC Edwards (1998 to 2006) and Non-executive Director of Foseco plc (2005 to 2008). Member of the Audit, Remuneration and Nomination Committees. A Mechanical Engineer.

SECRETARY AND REGISTERED OFFICE

J. R. Grime – Solicitor
Springwood Court
Springwood Close
Tytherington Business Park
Macclesfield
Cheshire
SK10 2XF

Tel: +44(0)1625 505300
Fax: +44(0)1625 505313
Registered Number 519057 England and Wales

ADVISERS

Auditors
Deloitte LLP

Principal Bankers
HSBC Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Svenska Handelsbanken AB, Lloyds TSB Bank plc, UniCredit Bank AG, ING Bank NV, Scotiabank Europe plc and Wells Fargo Bank, NA

Solicitors
Eversheds LLP and Herbert Smith LLP

Financial Advisers
Lazard & Co. Limited

Brokers
Credit Suisse Securities (Europe) Limited and Evolution Securities Limited

Registrars
Capita Registrars Limited, Huddersfield

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BODYCOTE PLC

We have audited the group financial statements of Bodycote plc for the year ended 31 December 2010, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Statement of Group Accounting Policies and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. We have also audited the information in the Board Report on Remuneration that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Group Review in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the board on directors remuneration.

OTHER MATTER

We have reported separately on the parent company financial statements of Bodycote plc for the year ended 31 December 2010.

Nicola Mitchell (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Manchester, UK
24 February 2011

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £m	2009 £m	Note
Revenue - continuing operations	**499.8**	435.4	1
Operating profit/(loss) - continuing operations	**51.2**	(50.2)	3
Operating profit prior to exceptional items	**52.1**	8.0	
Amortisation of acquired intangible fixed assets	**(0.9)**	(1.3)	
Impairment charge	**–**	(31.5)	
Major facility closure costs	**–**	(25.4)	
Operating profit/(loss) - continuing operations	**51.2**	(50.2)	
Investment revenue	**0.3**	1.5	5
Finance costs	**(6.3)**	(5.8)	6
Profit/(loss) before taxation - continuing operations	**45.2**	(54.5)	
Taxation	**(11.7)**	3.4	7
Profit/(loss) for the year - continuing operations	**33.5**	(51.1)	
Discontinued operations			
Loss for the year - discontinued operations	**(5.8)**	–	8
Profit/(loss) for the year	**27.7**	(51.1)	
Attributable to:			
Equity holders of the parent	**27.6**	(50.1)	
Non-controlling interests	**0.1**	(1.0)	
	27.7	(51.1)	
Earnings/(loss) per share			10
	Pence	Pence	
From continuing operations:			
Basic	**18.0**	(27.0)	
Diluted	**18.0**	(27.0)	
From continuing and discontinued operations:			
Basic	**14.9**	(27.0)	
Diluted	**14.9**	(27.0)	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £m	2009 £m
Profit/(loss) for the year	**27.7**	(51.1)
Reduction of revaluation surplus	**(0.1)**	–
Exchange gains/(losses) on translation of foreign operations	**9.7**	(4.8)
Actuarial gains/(losses) on defined benefit pension schemes	**3.7**	(3.3)
Tax on items taken directly to equity	**(0.9)**	0.9
Other comprehensive income/(expense) for the year	**12.4**	(7.2)
Total comprehensive income/(expense) for the year	**40.1**	(58.3)
Attributable to:		
Equity holders of the parent	**40.0**	(57.3)
Non-controlling interests	**0.1**	(1.0)
	40.1	(58.3)

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2010

	2010 £m	2009 £m	Note
Non-current assets			
Goodwill	**107.7**	107.9	11
Other intangible assets	**10.4**	10.9	12
Property, plant and equipment	**458.0**	461.8	13
Other investments	**0.5**	0.5	14
Finance lease receivables	**–**	0.5	16
Deferred tax assets	**48.3**	56.9	21
Derivative financial instruments	**–**	0.1	20
Trade and other receivables	**2.6**	3.0	17
	627.5	641.6	
Current assets			
Inventories	**14.4**	11.6	15
Finance lease receivables	**0.4**	0.4	16
Derivative financial instruments	**–**	0.6	20
Trade and other receivables	**99.2**	91.1	17
Cash and bank balances	**23.5**	19.6	17
Assets held for sale	**6.2**	6.2	18
	143.7	129.5	
Total assets	**771.2**	771.1	
Current liabilities			
Trade and other payables	**120.4**	93.2	23
Dividends payable	**–**	5.5	9
Current tax liabilities	**9.6**	11.4	
Obligations under finance leases	**0.4**	0.7	22
Borrowings	**8.9**	6.0	19
Derivative financial instruments	**–**	4.0	20
Provisions	**14.0**	21.3	24
	153.3	142.1	
Net current liabilities	**(9.6)**	(12.6)	
Non-current liabilities			
Borrowings	**64.8**	96.8	19
Retirement benefit obligations	**11.6**	15.0	30
Deferred tax liabilities	**73.1**	73.4	21
Obligations under finance leases	**0.7**	1.6	22
Derivative financial instruments	**–**	0.4	20
Provisions	**12.8**	11.7	24
Other payables	**4.1**	7.5	23
	167.1	206.4	
Total liabilities	**320.4**	348.5	
Net assets	**450.8**	422.6	
Equity			
Share capital	**32.8**	32.5	25
Share premium account	**176.3**	176.0	
Own shares	**(8.0)**	(7.3)	
Other reserves	**138.1**	134.1	
Hedging and translation reserves	**36.0**	26.3	
Retained earnings	**73.9**	58.7	
Equity attributable to equity holders of the parent	**449.1**	420.3	
Non-controlling interests	**1.7**	2.3	
Total equity	**450.8**	422.6	

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 24 February 2011. They were signed on its behalf by:

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 £m	2009 £m	Note
Net cash from operating activities	**95.6**	11.0	26
Investing activities			
Purchases of property, plant and equipment	**(35.2)**	(35.3)	
Proceeds on disposal of property, plant and equipment and intangible assets	**1.4**	4.3	
Purchases of intangible fixed assets	**(2.0)**	(1.2)	
Purchase of non-controlling interest	**(0.8)**	(0.5)	
Disposal of subsidiaries/associates	**–**	6.9	
Lump sum contribution to pension scheme	**–**	(1.5)	
Net cash used in investing activities	**(36.6)**	(27.3)	
Financing activities			
Interest received	**0.3**	2.1	
Interest paid	**(5.8)**	(6.5)	
Dividends paid	**(20.9)**	(20.0)	
Dividends paid to a non-controlling shareholder	**(0.1)**	(0.1)	
Repayments of bank loans	**(34.0)**	(231.9)	
Payments of obligations under finance leases	**(1.3)**	(1.5)	
New bank loans raised	**3.2**	41.1	
New obligations under finance leases	**0.2**	0.2	
Proceeds on issue of ordinary share capital	**0.6**	0.4	
Own shares purchased/settlement of share options	**(0.7)**	0.9	
Net cash used in financing activities	**(58.5)**	(215.3)	
Net increase/(decrease) in cash and cash equivalents	**0.5**	(231.6)	
Cash and cash equivalents at beginning of year	**16.3**	249.5	
Effect of foreign exchange rate changes	**0.8**	(1.6)	
Cash and cash equivalents at end of year	**17.6**	16.3	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
1 January 2009	32.4	175.7	(10.9)	137.3	31.1	126.4	492.0	4.9	496.9
Net loss for the year	–	–	–	–	–	(50.1)	(50.1)	(1.0)	(51.1)
Exchange differences on translation of overseas operations	–	–	–	–	(63.1)	–	(63.1)	(0.2)	(63.3)
Movement on hedges of net investments	–	–	–	–	58.3	–	58.3	–	58.3
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(2.4)	(2.4)	–	(2.4)
Total comprehensive expense for the year	–	–	–	–	(4.8)	(52.5)	(57.3)	(1.2)	(58.5)
Issue of share capital	0.1	0.3	–	–	–	–	0.4	–	0.4
Return of capital to shareholders and redemption of B shares	–	–	–	0.7	–	(0.7)	–	–	–
Acquired in the year/settlement of share options	–	–	0.9	–	–	–	0.9	–	0.9
Share-based payments	–	–	2.7	(3.9)	–	0.9	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	(15.4)	(15.4)	(0.1)	(15.5)
Purchase of non-controlling interest	–	–	–	–	–	–	–	(1.3)	(1.3)
31 December 2009	**32.5**	**176.0**	**(7.3)**	**134.1**	**26.3**	**58.7**	**420.3**	**2.3**	**422.6**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**27.6**	**27.6**	**0.1**	**27.7**
Exchange differences on translation of overseas operations	**–**	**–**	**–**	**–**	**10.7**	**–**	**10.7**	**–**	**10.7**
Movement on hedges of net investments	**–**	**–**	**–**	**–**	**(1.0)**	**–**	**(1.0)**	**–**	**(1.0)**
Reduction of revaluation surplus	**–**	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Actuarial gains on defined benefit pension schemes net of deferred tax	**–**	**–**	**–**	**–**	**–**	**2.8**	**2.8**	**–**	**2.8**
Total comprehensive income for the year	**–**	**–**	**–**	**(0.1)**	**9.7**	**30.4**	**40.0**	**0.1**	**40.1**
Issue of share capital	**0.3**	**0.3**	**–**	**–**	**–**	**–**	**0.6**	**–**	**0.6**
Acquired in the year/settlement of share options	**–**	**–**	**(0.7)**	**–**	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Share-based payments	**–**	**–**	**–**	**4.1**	**–**	**0.2**	**4.3**	**–**	**4.3**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(15.4)**	**(15.4)**	**(0.1)**	**(15.5)**
Purchase of non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
31 December 2010	**32.8**	**176.3**	**(8.0)**	**138.1**	**36.0**	**73.9**	**449.1**	**1.7**	**450.8**

The remaining 1.7 million B shares were redeemed in 2009.

Included in other reserves is the capital redemption reserve arising on redemption of the Group's B shares of £129.4m (2009: £129.4m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2010 3,837,581 (2009: 2,100,427) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 28).

GROUP ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

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

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

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

ADOPTION OF NEW AND REVISED STANDARDS

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IFRS 3 (revised Jan 2008) 'Business Combinations', IAS 27 (amended 2008) 'Consolidated and Separate Financial Statements' and IAS 28 (amended 2008) 'Investments in Associates'

These standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate. IFRS 3 (2008) has also introduced additional disclosure requirements for acquisitions.

IFRIC 17 'Distributions of Non-cash Assets to Owners'

The Interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled.

The following amendments were made as part of Improvements to IFRSs (2009):

Amendments to IFRS 2 'Share-based Payment'

IFRS 2 has been amended following the issue of IFRS 3 (2008), to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2. In addition, the amendments to IFRS 2 clarify the accounting for share-based payment transactions between group entities.

Amendments to IAS 17 'Leases'

IAS 17 has been amended such that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17.

Amendments to IAS 39 'Financial Instruments: Recognition and Measurement'

IAS 39 has been amended to state that options contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date are not excluded from the scope of the standard.

GOING CONCERN

The Directors have at the time of approving the financial statements a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Finance Director's Report on page 25.

BASIS OF CONSOLIDATION

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

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

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

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

INVESTMENTS IN ASSOCIATES

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

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

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

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

NON-CURRENT ASSETS HELD FOR SALE

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

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

GOODWILL

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. If after restatement, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment bi-annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to acquired intangibles, followed by the other tangible assets of the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

REVENUE RECOGNITION

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

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

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

THE GROUP AS LESSEE

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

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

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

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

THE GROUP AS LESSOR

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

FOREIGN CURRENCIES

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

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

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

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

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

BORROWING COSTS

Borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

GOVERNMENT GRANTS

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

OPERATING PROFIT

Operating profit is stated after charging restructuring costs, goodwill impairment, amortisation of acquired intangible assets and after the post-tax share of results of associates but before investment income and finance costs.

DISCONTINUED OPERATIONS

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Group has separately disclosed the results of the Testing division as discontinued following the disposal of the business in October 2008, and subsequent provision adjustment during 2010.

RETIREMENT BENEFIT COSTS

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

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

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

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

TAXATION

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

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

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

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

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

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

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

INVENTORIES

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

FINANCIAL INSTRUMENTS

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

Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for trade receivables, which do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and Cash Equivalents

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

Financial Liabilities and Equity

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

Bank Borrowings

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

Trade Payables

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

Equity Instruments

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

HEDGE ACCOUNTING

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

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

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

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

Fair Value Hedge

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

Cash Flow Hedge

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

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

Net Investment Hedge

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

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

PROVISIONS

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

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

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 'Share-based Payment'.

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

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

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

Provisions for environmental liabilities

The Group provides for the costs of environmental remediation that have been identified, either as part of acquisition due diligence, or in other circumstances where remediation by the Group is required. The provision is reviewed annually.

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of Goodwill and Fixed Assets

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

Retirement Benefit Schemes

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

Taxation

The Group is subject to taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax provision, deferred tax provisions and income statement in the period in which such determination is made.

GENERAL INFORMATION

Bodycote plc is a company incorporated in the United Kingdom under the Companies Acts 1948 to 1980. The address of the registered office is given on page 45. The nature of the Group's operations and its principal activities are set out on page 32 in the Directors' Report.

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

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9: Financial Instruments
- IAS 24 (amended): Related Party Disclosures
- IAS 32 (amended): Classification of Rights Issues
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 (amended): Prepayments of a Minimum Funding Requirement
- IFRS 7 (amended): Disclosure – Transfers of Financial Assets
- IAS 12 (amended): Deferred Tax: Recovery of Underlying Assets
- Improvements to IFRSs (May 2010)

The adoption of IFRS 9, which the Group plans to adopt for the year beginning on 1 January 2013, will impact both the measurement and disclosures of Financial Instruments. The Directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

1. Revenue

	2010 £m	2009 £m
Continuing operations		
Heat treatment and metal joining, hot isostatic pressing and surface technology services	**499.8**	435.4
Other operating income (see note 3)	**2.3**	3.7
Investment revenue (see note 5)	**0.3**	1.5
Total Revenue (as defined in IAS 18, Revenue)	**502.4**	440.6

2. Business and geographical segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance.

The Group's reportable segments have been determined in accordance with the activity of the Group, focusing on key market sectors. Principally, this splits the Group into two business areas being:

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

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

- Western Europe;
- North America; and
- Emerging Markets.

Group	ADE 2010 £m	AGI 2010 £m	Head Office and eliminations 2010 £m	Consolidated 2010 £m
Revenue				
Total revenue	202.1	297.7	–	499.8
Result				
Headline operating profit prior to share-based payments and unallocated corporate expenses	35.1	27.2	–	62.3
Share-based payments	(1.2)	(1.6)	(1.4)	(4.2)
Unallocated corporate expenses	–	–	(6.0)	(6.0)
Headline operating profit/(loss)	33.9	25.6	(7.4)	52.1
Amortisation of acquired intangible fixed assets	(0.4)	(0.5)	–	(0.9)
Segment result	33.5	25.1	(7.4)	51.2
Investment revenue				0.3
Finance costs				(6.3)
Profit before taxation				45.2
Taxation				(11.7)
Profit for the year				33.5

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

2. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2010 £m	North America 2010 £m	Emerging markets 2010 £m	Total ADE 2010 £m
Revenue				
Total revenue	**92.2**	**108.9**	**1.0**	**202.1**
Result				
Headline operating profit prior to share-based payments	**15.7**	**19.5**	**(0.1)**	**35.1**
Share-based payments	**(0.5)**	**(0.7)**	**–**	**(1.2)**
Headline operating profit/(loss)	**15.2**	**18.8**	**(0.1)**	**33.9**
Amortisation of acquired intangible fixed assets	**(0.2)**	**(0.2)**	**–**	**(0.4)**
Segment result	**15.0**	**18.6**	**(0.1)**	**33.5**

Automotive & General Industrial	Western Europe 2010 £m	North America 2010 £m	Emerging markets 2010 £m	Total AGI 2010 £m
Revenue				
Total revenue	**204.6**	**43.0**	**50.1**	**297.7**
Result				
Headline operating profit prior to share-based payments	**21.3**	**5.4**	**0.5**	**27.2**
Share-based payments	**(1.2)**	**(0.3)**	**(0.1)**	**(1.6)**
Headline operating profit	**20.1**	**5.1**	**0.4**	**25.6**
Amortisation of acquired intangible fixed assets	**(0.1)**	**–**	**(0.4)**	**(0.5)**
Segment result	**20.0**	**5.1**	**–**	**25.1**

Group	ADE 2009 £m	AGI 2009 £m	Head Office and eliminations 2009 £m	Consolidated 2009 £m
Revenue				
Total revenue	189.5	245.9	–	435.4
Result				
Headline operating profit prior to share-based payments and unallocated corporate expenses	24.7	(12.3)	–	12.4
Share-based payments	–	–	0.1	0.1
Unallocated corporate expenses	–	–	(4.5)	(4.5)
Headline operating profit/(loss)	24.7	(12.3)	(4.4)	8.0
Amortisation of acquired intangible fixed assets	(0.6)	(0.7)	–	(1.3)
Impairment charge	(5.0)	(25.7)	(0.8)	(31.5)
Major facility closure costs	0.9	(25.9)	(0.4)	(25.4)
Segment result	20.0	(64.6)	(5.6)	(50.2)
Investment revenue				1.5
Finance costs				(5.8)
Loss before taxation				(54.5)
Taxation				3.4
Loss for the year				(51.1)

2. Business and geographical segments continued

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

Automotive & General Industrial	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total AGI 2009 £m
Revenue				
Total revenue	176.2	30.7	39.0	245.9
Result				
Headline operating profit/(loss)	(10.1)	0.6	(2.8)	(12.3)
Amortisation of acquired intangible fixed assets	(0.1)	–	(0.6)	(0.7)
Impairment charge	(3.0)	(20.0)	(2.7)	(25.7)
Major facility closure costs	(16.9)	0.1	(9.1)	(25.9)
Segment result	(30.1)	(19.3)	(15.2)	(64.6)

Other information

Group	**ADE 2010 £m**	**AGI 2010 £m**	**Head Office and eliminations 2010 £m**	**Consolidated 2010 £m**
Capital additions	**10.1**	**25.3**	**1.8**	**37.2**
Depreciation and amortisation	**17.8**	**29.5**	**1.0**	**48.3**
Balance sheet				
Assets:				
Segment assets	**307.0**	**435.7**	**28.0**	**770.7**
Other investments	**–**	**0.5**	**–**	**0.5**
Consolidated total assets	**307.0**	**436.2**	**28.0**	**771.2**
Liabilities:				
Segment liabilities	**64.7**	**123.9**	**131.8**	**320.4**
Segment net assets/(liabilities)	**242.3**	**312.3**	**(103.8)**	**450.8**

2. **Business and geographical segments** continued

Aerospace, Defence & Energy	**Western Europe 2010 £m**	**North America 2010 £m**	**Emerging markets 2010 £m**	**Total ADE 2010 £m**
Capital additions	**6.0**	**4.1**	**–**	**10.1**
Depreciation and amortisation	**9.5**	**8.1**	**0.2**	**17.8**
Balance sheet				
Assets:				
Segment assets	**168.8**	**136.1**	**2.1**	**307.0**
Other investments	**–**	**–**	**–**	**–**
Consolidated total assets	**168.8**	**136.1**	**2.1**	**307.0**
Liabilities:				
Segment liabilities	**29.1**	**35.3**	**0.3**	**64.7**
Segment net assets	**139.7**	**100.8**	**1.8**	**242.3**

Automotive & General Industrial	**Western Europe 2010 £m**	**North America 2010 £m**	**Emerging markets 2010 £m**	**Total AGI 2010 £m**
Capital additions	**13.1**	**2.3**	**9.9**	**25.3**
Depreciation and amortisation	**22.0**	**3.1**	**4.4**	**29.5**
Balance sheet				
Assets:				
Segment assets	**304.1**	**54.4**	**77.2**	**435.7**
Other investments	**0.5**	**–**	**–**	**0.5**
Consolidated total assets	**304.6**	**54.4**	**77.2**	**436.2**
Liabilities:				
Segment liabilities	**94.6**	**15.3**	**14.0**	**123.9**
Segment net assets	**210.0**	**39.1**	**63.2**	**312.3**

Group	ADE 2009 £m	AGI 2009 £m	Head Office and eliminations 2009 £m	Consolidated 2009 £m
Capital additions	21.3	14.2	1.0	36.5
Depreciation and amortisation	17.9	32.3	0.7	50.9
Impairment losses recognised in income	5.9	38.7	0.8	45.4
Balance sheet				
Assets:				
Segment assets	331.2	464.0	(24.6)	770.6
Other investments	–	0.5	–	0.5
Consolidated total assets	331.2	464.5	(24.6)	771.1
Liabilities:				
Segment liabilities	75.2	134.1	139.2	348.5
Segment net assets/(liabilities)	256.0	330.4	(163.8)	422.6

2. Business and geographical segments continued

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

Automotive & General Industrial	Western Europe 2009 £m	North America 2009 £m	Emerging markets 2009 £m	Total AGI 2009 £m
Capital additions	7.9	1.7	4.6	14.2
Depreciation and amortisation	24.6	2.9	4.8	32.3
Impairment losses recognised in income	11.5	20.2	7.0	38.7
Balance sheet				
Assets:				
Segment assets	334.0	58.6	71.4	464.0
Other investments	0.5	–	–	0.5
Consolidated total assets	334.5	58.6	71.4	464.5
Liabilities:				
Segment liabilities	102.4	14.7	17.0	134.1
Segment net assets	232.1	43.9	54.4	330.4

Revenue by country

	2010 £m	2009 £m
USA	**142.8**	123.0
France	**76.3**	74.9
Germany	**61.1**	50.2
UK	**54.7**	52.7
Others	**164.9**	134.6
Total Revenue - continuing operations	**499.8**	435.4

3. Operating profit/(loss)

	Continuing operations 2010 £m	Continuing operations 2009 £m
Revenue	**499.8**	435.4
Cost of sales	**(332.9)**	(321.5)
Gross profit	**166.9**	113.9
Other operating income	**2.3**	3.7
Distribution costs	**(17.4)**	(18.4)
Administration expenses*	**(99.7)**	(90.9)
Other operating expenses	**–**	(0.3)
Amortisation of acquired intangible fixed assets*	**(0.9)**	(1.3)
Impairment charge*	**–**	(31.5)
Major facility closure costs*	**–**	(25.4)
Operating profit/(loss)	**51.2**	(50.2)

*Administration expenses total £100.6m (2009: £149.1m).

Exceptional items comprise:

	2010 £m	2009 £m
Amortisation of acquired intangible fixed assets	**0.9**	1.3
Impairment of goodwill	**–**	29.0
Major facility closure costs	**–**	25.4
Impairment of investment in/loan due from associate	**–**	2.5
	0.9	58.2

Further details of these items are included in the Finance Director's Report on pages 22 to 25.

Profit/(loss) for the year has been arrived at after charging/(crediting):

	2010 £m	2009 £m
Continuing operations:		
Net foreign exchange losses	**–**	0.3
Depreciation of property, plant and equipment	**46.1**	48.5
Amortisation of intangible fixed assets	**2.2**	2.4
Impairment of goodwill	**–**	29.0
Loss/(profit) on disposal of property, plant and equipment	**0.7**	(0.1)
Staff costs (see note 4)	**207.6**	199.2
Auditors' remuneration for audit services (see page 62)	**0.7**	0.8

3. **Operating profit/(loss)** continued

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

	2010 £m	2009 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.7
Total audit fees	**0.7**	0.8
Tax services	**–**	0.1
	0.7	0.9

In addition to the amounts shown above, the auditors received fees of £5,000 (2009: £5,000) for the audit of the Group's pension schemes.

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

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

4. **Staff costs**

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

	2010 Number	2009 Number
ADE:		
Western Europe	**1,001**	1,044
North America	**900**	1,047
Emerging Markets	**10**	10
AGI:		
Western Europe	**2,053**	2,214
North America	**460**	370
Emerging Markets	**1,070**	1,272
Head office	**109**	63
	5,603	6,020

	2010 £m	2009 £m
Their aggregate remuneration comprised:		
Wages and salaries	**172.8**	162.4
Social security costs	**29.6**	32.2
Other pension costs	**5.2**	4.6
	207.6	199.2

Disclosure of individual directors' remuneration, share interests, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Listing Rules of the Financial Services Authority are shown in the tables in the Board Report on Remuneration on pages 39 to 43 and form part of these financial statements.

5. Investment revenue

	2010 £m	2009 £m
Interest on bank deposits	**0.2**	1.3
Other interest receivable	**0.1**	0.2
	0.3	1.5

All investment revenue relates to loans and receivables.

6. Finance costs

	2010 £m	2009 £m
Interest on bank overdrafts and loans*	**1.8**	3.0
Interest on obligations under finance leases	**0.2**	0.3
Interest on derivative financial instruments	**–**	0.1
Interest on pension scheme liabilities	**5.2**	5.1
Return on pension assets	**(4.3)**	(3.8)
Other finance charges*	**3.4**	1.1
Total finance costs	**6.3**	5.8

* Amounts arising on financial liabilities measured at amortised cost.

7. Taxation

	Continuing operations		Discontinued operations		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Current taxation - charge for the year	**8.8**	2.0	**–**	–	**8.8**	2.0
Current taxation - adjustments in respect of previous years	**(3.8)**	1.8	**5.8**	–	**2.0**	1.8
Deferred tax (see note 21)	**6.7**	(7.2)	**–**	–	**6.7**	(7.2)
	11.7	(3.4)	**5.8**	–	**17.5**	(3.4)

UK corporation tax is calculated at 28.0% (2009: 28.0%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Of the total charge to current tax £5.8m (2009: £Nil) is additional provisions relating to taxation expected to arise from the 2008 disposal of the Testing business.

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

	2010 £m	2009 £m
Profit/(loss) before tax:		
Continuing operations	**45.2**	(54.5)
Tax at the UK corporation tax rate of 28.0% (2009: 28.0%)	**12.7**	(15.3)
Tax effect of expenses that are not deductible in determining taxable profit	**(3.8)**	11.8
Deferred tax assets not recognised	**3.7**	6.3
Tax provision in respect of the disposal of the Testing division	**5.8**	–
Tax effect of other adjustments in respect of previous years	**(1.8)**	1.6
Effect of different tax rates of subsidiaries operating in other jurisdictions	**0.9**	(7.8)
Tax expense/(credit) for the year	**17.5**	(3.4)

The tax charge/(credit) on items taken directly to equity is £0.9m (2009: £(0.9)m).

8. Discontinued operations

The Testing business was sold on 17 October 2008. During 2010 various provisions, primarily relating to taxation arising from the sale were reassessed.

The results of the discontinued operations included in the consolidated income statement were as follows:

	2010 £m	2009 £m
Attributable tax expense	**(5.8)**	–
Net loss attributable to discontinued operations	**(5.8)**	–

9. Dividends

	2010 £m	2009 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2009 of 5.35p (2008: 5.35p) per share	**9.9**	9.9
B share special dividend or redemption for the year ended 31 December 2008 of 40.00p per share	**–**	0.7
Interim dividend for the year ended 31 December 2010 of 2.95p (2009: 2.95p) per share	**5.5**	5.5
	15.4	16.1
Proposed final dividend for the year ended 31 December 2010 of 5.75p (2009: 5.35p) per share	**10.9**	10.1

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

10. Earnings/(loss) per share

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

	2010 £m	2009 £m
Earnings/(loss)		
Earnings/(loss) for the purpose of basic earnings/(loss) per share being net profit/(loss) attributable to equity holders of the parent	**27.6**	(50.1)

	2010 Number	2009 Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**185,543,260**	185,557,762
Effect of dilutive potential ordinary shares:		
Share options	**180,586**	16,466
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**185,723,846**	185,574,228

10. **Earnings/(loss) per share** continued

From continuing operations

	2010 **£m**	2009 £m
Earnings/(loss)		
Net profit/(loss) attributable to equity holders of the parent	**27.6**	(50.1)
Adjustments to exclude loss for the year from discontinued operations	**5.8**	–
Profit/(loss) from continuing operations for the purpose of basic earnings/(loss) per share excluding discontinued operations	**33.4**	(50.1)

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

	2010 **Pence**	2009 Pence
Earnings/(loss) per share from continuing and discontinued operations:		
Basic	**14.9**	(27.0)
Diluted	**14.9**	(27.0)

	2010 **Pence**	2009 Pence
Loss per share from discontinued operations:		
Basic	**(3.1)**	–
Diluted	**(3.1)**	–

	2010 **Pence**	2009 Pence
Earnings/(loss) per share from continuing operations:		
Basic	**18.0**	(27.0)
Diluted	**18.0**	(27.0)

	2010 **£m**	2009 £m
Headline earnings		
Net profit/(loss) attributable to equity holders of the parent	**27.6**	(50.1)
Add back:		
Impairment charge	**–**	31.5
Amortisation of acquired intangible fixed assets (net of tax)	**0.8**	1.2
Major facility closure costs (net of tax)	**(0.2)**	18.1
Loss for the year - discontinued operations	**5.8**	–
Headline earnings	**34.0**	0.7

	2010 **Pence**	2009 Pence
Earnings per share from headline earnings:		
Basic	**18.3**	0.4
Diluted	**18.3**	0.4

11. Goodwill

	2010 £m	2009 £m
Cost		
At 1 January	**177.3**	180.3
Exchange differences	**1.3**	(2.1)
Adjustment on acquisition of non-controlling interest	**–**	(0.9)
Adjustment for deferred consideration	**(0.5)**	–
At 31 December	**178.1**	177.3
Accumulated impairment		
At 1 January	**69.4**	38.7
Exchange differences	**1.0**	1.7
Impairment losses for the year	**–**	29.0
At 31 December	**70.4**	69.4
Carrying amount	**107.7**	107.9

Goodwill acquired in a business combination is allocated, at acquisition, to the business units that are expected to benefit from that business combination. After recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	2010 £m	2009 £m
ADE:		
Western Europe	**26.8**	27.4
North America	**37.1**	36.9
AGI:		
Western Europe	**17.9**	18.0
North America	**15.2**	15.2
Emerging Markets	**10.7**	10.4
	107.7	107.9

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

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for those calculations are the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The rate used to discount the forecast cash flows for all cash generating units is 9.5% (2009: 9.5%). A 10% change in the discount rate identified no triggers of impairment. The recoverable amount is the sum of the discounted cash flows over a fifteen year period, being management's expectation of the useful life of the existing asset base.

The Group prepares cash flow forecasts based on management estimates for the next five years. The expected sales reflect management's expectation of how sales will develop at this point in the economic cycle. The expected profit margin reflects management's experience of each cash generating unit's profitability at the forecast level of sales and incorporates the impact of the restructuring programme, where appropriate. Cash flows after five years are based on an estimated growth rate of 3.2% (2009: 3.1%), being the historical weighted average growth in GDP in the markets that the Group operates in. This rate does not exceed the average long-term growth rate for the relevant markets.

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

12. Other intangible assets

	Software £m	Other intangible assets acquired through business combinations £m	Total £m
Cost			
At 1 January 2009	11.4	11.0	22.4
Exchange differences	(0.7)	(0.5)	(1.2)
Additions	1.2	–	1.2
Disposals	(0.2)	–	(0.2)
At 1 January 2010	**11.7**	**10.5**	**22.2**
Exchange differences	**–**	**0.2**	**0.2**
Additions	**2.0**	**–**	**2.0**
Disposals	**(0.5)**	**–**	**(0.5)**
At 31 December 2010	**13.2**	**10.7**	**23.9**
Amortisation			
At 1 January 2009	7.1	2.5	9.6
Exchange differences	(0.5)	–	(0.5)
Charge for the year	1.1	1.3	2.4
Disposals	(0.2)	–	(0.2)
At 1 January 2010	**7.5**	**3.8**	**11.3**
Exchange differences	**–**	**0.1**	**0.1**
Charge for the year	**1.3**	**0.9**	**2.2**
Disposals	**(0.1)**	**–**	**(0.1)**
At 31 December 2010	**8.7**	**4.8**	**13.5**
Carrying amount			
At 31 December 2010	**4.5**	**5.9**	**10.4**
At 31 December 2009	4.2	6.7	10.9

The amortisation periods for intangible assets are:

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

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

13. Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost or valuation							
At 1 January 2009	200.8	11.1	5.0	771.4	38.4	40.6	1,067.3
Additions	0.7	–	0.2	13.2	0.9	20.3	35.3
Exchange differences	(15.0)	(0.4)	0.2	(50.0)	(2.3)	(3.6)	(71.1)
Reclassified as held for sale	(9.8)	–	–	(4.0)	(0.6)	(1.2)	(15.6)
Recategorisation	25.7	(9.1)	16.8	(8.4)	2.4	(27.4)	–
Disposals	(3.7)	–	(0.5)	(25.2)	(2.4)	(0.4)	(32.2)
At 1 January 2010	**198.7**	**1.6**	**21.7**	**697.0**	**36.4**	**28.3**	**983.7**
Additions	**5.0**	**–**	**0.3**	**25.5**	**1.1**	**3.3**	**35.2**
Exchange differences	**1.4**	**0.1**	**0.3**	**10.0**	**0.1**	**1.7**	**13.6**
Reduction of revaluation surplus	**(0.1)**	**–**	**–**	**–**	**–**	**–**	**(0.1)**
Transfer from/(to) assets held for sale	**0.6**	**–**	**–**	**(0.2)**	**(0.1)**	**–**	**0.3**
Recategorisation	**3.5**	**0.1**	**(2.0)**	**7.1**	**0.1**	**(8.8)**	**–**
Disposals	**(2.1)**	**–**	**(0.4)**	**(16.4)**	**(2.6)**	**(0.5)**	**(22.0)**
At 31 December 2010	**207.0**	**1.8**	**19.9**	**723.0**	**35.0**	**24.0**	**1,010.7**
Accumulated depreciation and impairment							
At 1 January 2009	58.4	3.8	2.2	438.9	30.0	0.7	534.0
Charge for the year	5.5	0.1	0.9	39.8	2.2	–	48.5
Impairment loss	8.1	–	0.2	5.2	0.2	0.2	13.9
Exchange differences	(4.5)	(0.2)	0.3	(27.3)	(1.7)	–	(33.4)
On assets reclassified as held for sale	(6.8)	–	–	(3.9)	(0.6)	(0.6)	(11.9)
Recategorisation	8.7	(3.4)	6.8	(13.2)	1.1	–	–
Eliminated on disposals	(3.4)	–	(0.2)	(23.1)	(2.2)	(0.3)	(29.2)
At 1 January 2010	**66.0**	**0.3**	**10.2**	**416.4**	**29.0**	**–**	**521.9**
Charge for the year	**5.2**	**0.3**	**0.8**	**38.0**	**1.8**	**–**	**46.1**
Impairment losses incurred/(reversed)	**(0.2)**	**–**	**–**	**(0.8)**	**–**	**–**	**(1.0)**
Exchange differences	**–**	**–**	**0.3**	**5.0**	**0.3**	**–**	**5.6**
Transfer from/(to) assets held for sale	**0.6**	**–**	**–**	**–**	**(0.1)**	**–**	**0.5**
Recategorisation	**0.4**	**–**	**(0.4)**	**(0.1)**	**0.1**	**–**	**–**
Eliminated on disposals	**(2.1)**	**–**	**(0.4)**	**(15.5)**	**(2.4)**	**–**	**(20.4)**
At 31 December 2010	**69.9**	**0.6**	**10.5**	**443.0**	**28.7**	**–**	**552.7**
Carrying amount							
At 31 December 2010	**137.1**	**1.2**	**9.4**	**280.0**	**6.3**	**24.0**	**458.0**
At 31 December 2009	132.7	1.3	11.5	280.6	7.4	28.3	461.8

The carrying amount of leased assets is £2.1m (2009: £7.4m).

The Group has pledged land and buildings having a carrying amount of approximately £0.4m (2009: £3.2m) to secure banking facilities granted to the Group.

At 31 December 2010 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.5m (2009: £6.7m).

In addition to the above, property, plant and equipment amounting to £6.2m (2009: £5.8m) has been classified as held for sale.

Impairment losses of £Nil (2009: £12.1m) relating to the restructuring programme are recognised within exceptional items.

14. Subsidiaries, associates and other investments

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on page 99 and 100.

	2010 £m	2009 £m
Aggregated amounts relating to associates		
Total assets	–	94.5
Total liabilities	–	170.6
Revenues	–	60.0
Loss	–	(24.2)

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

	2010 £m	2009 £m
Operating profit	–	–
less: Interest	–	–
less: Tax	–	–
Share of results of associates prior to impairment	–	–
Interest in associates	–	–
Sundry investments	**0.5**	0.5

The Group's share of the results of associates of £Nil (2009: £5.9m) has not been recognised as the Board considers that the investments are fully impaired.

The Group's associated company SSCP Coatings S.à.r.l. was recapitalised through a share issue in a new company during the year. The Group chose not to participate in this share issue, and as a result, the Group's percentage holding in the business has significantly reduced to a level where the Group no longer classifies the business as an associate company.

During the prior year the small associate business in Thailand was sold back to the associate partners resulting in a £2.5m loss that was included in the impairment charge in 2009.

15. Inventories

	2010 £m	2009 £m
Raw materials	**10.1**	9.0
Work-in-progress	**4.1**	2.4
Finished goods and goods for resale	**0.2**	0.2
	14.4	11.6

16. Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Amounts receivable under finance leases:				
Within one year	**0.4**	0.4	**0.4**	0.4
In the second to fifth years inclusive	**–**	0.5	**–**	0.5
	0.4	0.9	**0.4**	0.9
Less: unearned finance income	**–**	–		
Present value of minimum lease payments receivable	**0.4**	0.9		

	2010 £m	2009 £m
Analysed as:		
Non-current finance lease receivables (recoverable after 12 months)	**–**	0.5
Current finance lease receivables (recoverable within 12 months)	**0.4**	0.4
	0.4	0.9

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

	2010 £m	2009 £m
Euro	**0.2**	0.6
US Dollar	**0.2**	0.3
	0.4	0.9

The Group has entered into finance leasing arrangements with Ionbond AG, for 3 PVD machines. The average term of finance leases entered into is 7 years. Unguaranteed residual values of assets leased under finance leases at the balance sheet date are £0.4m (2009: £0.9m). The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted approximates to 4.7% (2009: 4.5%). The fair value of the Group's finance lease receivables at 31 December 2010 is estimated at £0.4m (2009: £0.9m). The lease receivables are secured on the related assets.

The maximum exposure to credit risk of finance lease receivables for the current and prior period is the carrying amount as the Group has no allowance for doubtful debts. The finance lease receivables are not past due and are not impaired in the current nor in the prior year.

17. Other financial assets

Trade and other receivables

	2010 £m	2009 £m
Amounts falling due within one year:		
Amount receivable for the supply of services	**85.3**	71.9
Other debtors and prepayments*	**13.9**	19.2
	99.2	91.1
Amounts falling due after more than one year:		
Other debtors and prepayments*	**2.6**	3.0

The average credit period given to customers for the supply of services as at 31 December 2010 is 59 days (2009: 63 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £6.9m (2009: £8.1m). This allowance has been determined by reference to past default experience.

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

* Other financial assets include prepayments and other debtors, which are not included as financial assets under IFRS 7.

17. Other financial assets continued

Credit risk

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

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

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

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Further disclosure of the Group's financial instrument risk management activities is set out in note 20.

Included in the Group's trade receivable balance are debtors with a carrying amount of £16.7m (2009: £16.6m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired receivables:

	2010 £m	2009 £m
Amounts overdue by up to 1 month	**13.2**	12.2
Amounts overdue by 1-2 months	**2.2**	2.1
Amounts overdue by 2-3 months	**0.4**	0.6
Amounts overdue by more than 3 months	**0.9**	1.7
	16.7	16.6

Movement in the allowance for doubtful debts:

	2010 £m	2009 £m
Balance at 1 January	**8.1**	8.4
Impairment losses recognised	**2.6**	3.0
Amounts written off as uncollectable	**(2.2)**	(1.2)
Impairment losses reversed	**(1.5)**	(1.5)
Exchange differences	**(0.1)**	(0.6)
	6.9	8.1

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

Included in the allowance for doubtful debts are individually impaired trade receivables with a gross balance of £8.6m (2009: £10.1m). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables:

	2010 £m	2009 £m
3-12 months	**1.8**	3.4
Over 12 months	**6.8**	6.7
	8.6	10.1

17. Other financial assets continued

Cash and bank balances

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

	2010 £m	2009 £m
Sterling	**0.2**	0.1
Euro	**12.2**	8.1
Swedish Krona	**2.3**	2.4
Polish Zloty	**1.5**	2.8
Brazilian Real	**1.1**	0.2
Swiss Franc	**0.9**	0.7
US Dollar	**0.8**	2.2
Czech Republic Koruna	**0.7**	0.7
Chinese Yuan	**0.7**	0.4
Indian Rupee	**0.5**	0.1
Thai Baht	**0.5**	0.1
Japanese Yen	**0.4**	0.5
Mexican Peso	**0.4**	0.1
Romanian Leu	**0.4**	0.2
Other	**0.9**	1.0
Total cash and bank balances	**23.5**	19.6

18. Assets held for sale

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

	2010 £m	2009 £m
Property, plant and equipment	**6.2**	5.8
Inventories	**–**	0.1
Receivables	**–**	0.3
	6.2	6.2

It is expected that the disposal of these assets will be completed during 2011. The assets held for sale are analysed between operating segments as follows:

	2010 £m	2009 £m
ADE:		
Western Europe	**1.3**	0.9
North America	**0.6**	0.6
AGI:		
Western Europe	**1.8**	2.4
North America	**0.3**	0.7
Emerging Markets	**2.2**	1.6
	6.2	6.2

19. Borrowings

	2010	2009
	£m	£m
Borrowings at amortised cost		
Bank overdrafts	**5.9**	3.3
Loans	**67.8**	99.5
	73.7	102.8
The borrowings are repayable as follows:		
On demand or within one year	**8.9**	6.0
In the second year	**0.1**	0.2
In the third to fifth years	**64.5**	96.3
After five years	**0.2**	0.3
	73.7	102.8
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(8.9)**	(6.0)
Amount due for settlement after 12 months	**64.8**	96.8

Analysis of borrowings by currency:

	Sterling	**Euro**	**US Dollar**	**Swedish Krona**	**Other currencies**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 December 2010						
Bank overdrafts	**–**	**5.0**	**0.8**	**–**	**0.1**	**5.9**
Loans	**48.0**	**8.8**	**9.9**	**0.7**	**0.4**	**67.8**
	48.0	**13.8**	**10.7**	**0.7**	**0.5**	**73.7**
At 31 December 2009						
Bank overdrafts	1.2	1.0	0.3	0.7	0.1	3.3
Loans	75.0	14.5	2.6	7.0	0.4	99.5
	76.2	15.5	2.9	7.7	0.5	102.8

	2010	2009
The weighted average interest rates paid were as follows:	**%**	%
Bank overdrafts and loans	**1.7**	1.6

Loans and finance leases of £1.5m (2009: £3.0m) were arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

19. Borrowings continued

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

	2010 £m	2009 £m
Bank overdrafts	**5.9**	3.3
Loans	**67.8**	99.5

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

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

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

(a) Drawings of £Nil (2009: £Nil) under a Revolving Credit Facility of £110m. This unsecured facility commenced on 8 January 2010 and matures on 31 March 2013. The multi currency drawings under this facility carry an interest rate of between 2.25% and 3.25% above LIBOR (the margin at 31 December 2010 was 2.25%).

(b) Drawings of £64.4m (2009: £96.2m) under a Revolving Credit Facility of €125m. This unsecured facility commenced on 31 July 2006 for a period of seven years. The Euro drawings under this facility carry an interest rate of between 0.80% and 1.10% above LIBOR (the margin at 31 December 2010 was 0.8%).

(c) Letters of credit and loan drawings of £5.6m (2009: £6.5m) under a Revolving Credit and Letter of Credit Facility of $20m. This unsecured facility commenced on 18 February 2010 and matures on 31 March 2013. The US Dollar drawings and Letter of Credit fees under this facility carry a margin/fee of between 1.00% and 3.25% above LIBOR (the margin at 31 December 2010 was 2.25% and the letter of credit fee was 1.00%).

At 31 December 2010 the Group had available £160.9m (2009: £245.8m) of undrawn committed borrowing facilities.

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

20. Derivative financial instruments

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

Asset/(liability)	**Notional amount 2010 £m**	**Fair value 2010 £m**	Notional amount 2009 £m	Fair value 2009 £m
Current				
Forward foreign exchange contracts	**0.9**	**–**	1.3	0.1
Cross currency swaps - fixed/fixed	**–**	**–**	31.2	0.2
Cross currency swaps - floating/floating	**–**	**–**	39.3	(3.3)
Energy contracts	**–**	**–**	1.7	(0.4)
	0.9	**–**	73.5	(3.4)
Non-current				
Forward foreign exchange contracts	**–**	**–**	0.7	–
Cross currency swaps - fixed/fixed	**–**	**–**	10.7	(0.3)
Cross currency swaps - floating/floating	**–**	**–**	–	–
Energy contracts	**–**	**–**	0.1	–
	–	**–**	11.5	(0.3)
Total				
Forward foreign exchange contracts	**0.9**	**–**	2.0	0.1
Cross currency swaps - fixed/fixed	**–**	**–**	41.9	(0.1)
Cross currency swaps - floating/floating	**–**	**–**	39.3	(3.3)
Energy contracts	**–**	**–**	1.8	(0.4)
	0.9	**–**	85.0	(3.7)

20. **Derivative financial instruments** continued

The Group utilises currency derivatives to hedge material future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are primarily denominated in the currencies of the Group's principal markets. The unrecognised gains and losses were not significant in either 2010 or 2009.

In accordance with IFRS 7 'Improving Disclosures about Financial Instruments', the Group's financial instruments are considered to be classified as level 2 instruments. Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

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

During the year the Group's foreign currency denominated cross currency swaps either matured and were not rolled over or unwound.

Asset/(liability)	**Sterling 2010 £m**	**Euro 2010 £m**	**US Dollar 2010 £m**	**Swedish Krona 2010 £m**	**Total fair value 2010 £m**
Forward foreign exchange contracts	**(0.2)**	**0.3**	**0.4**	**(0.5)**	**–**
Fixed/fixed	**–**	**–**	**–**	**–**	**–**
Floating/floating	**–**	**–**	**–**	**–**	**–**
Energy contracts	**–**	**–**	**–**	**–**	**–**
Total	**(0.2)**	**0.3**	**0.4**	**(0.5)**	**–**
On demand or within one year	**(0.2)**	**0.3**	**0.4**	**(0.5)**	**–**
In the second year	**–**	**–**	**–**	**–**	**–**
	(0.2)	**0.3**	**0.4**	**(0.5)**	**–**

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

Financial risk management

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

The Group uses a number of derivative instruments that are transacted, for risk management purposes only, by specialist treasury personnel. The use of financial instruments, including derivatives, is permitted when approved by the Board, where the effect is to minimise risk for the Group. Speculative trading of derivatives or other financial instruments is not permitted. There has been no significant change during the financial year, or since the end of the year, to the types or scope of financial risks faced by the Group.

20. Derivative financial instruments continued

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

As at 31 December 2010, the Group had committed facilities of £230.9m (2009: £348.5m) which exceeded net debt of £51.3m (2009: £85.5m) by 350% (2009: 308%). The Group also uses uncommitted short-term bank facilities to manage short-term liquidity but these facilities are excluded from the liquidity headroom policy. The Group manages longer-term liquidity through committed bank facilities and will, if appropriate, raise funds on capital markets. Following the completion of the £110m Revolving Credit Facility and the $20m Revolving and Letter of Credit facility on 8 January 2010 and 18 February 2010 respectively, the Group's principal committed bank facilities have the following maturity dates:

- £110m Revolving Credit Facility 31 March 2013 (2.2 years)
- €125m Revolving Credit Facility 31 July 2013 (2.6 years)
- $20m Revolving and Letter of Credit Facility 31 March 2013 (2.2 years)

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

As at 31 December 2010, the Group had gross cash of £23.5m (2009: £19.6m).

Interest rate risk
Interest rate risk arises on borrowings and cash balances (and derivative liabilities and assets) which are at floating interest rates. Changes in interest rates could have the effect of either increasing or decreasing the Group's net profit. Under the Group's interest rate management policy, the interest rates on each of the Group's major currency monetary assets and liabilities are managed to achieve the desired mix of fixed and variable rates for each major net currency exposure. The major interest rate risk is to UK rates but exposures also exist to rates in the USA, Europe and Sweden. Measurement of this interest rate risk and its potential volatility to the Group's reported financial performance is undertaken on a monthly basis and the Board uses this information to determine, from time to time, an appropriate mix of fixed and floating rates.

As at 31 December 2010, 3% of net debt was at fixed rates (2009: 3%). The average tenure of the fixed rate debt was 5.2 years (2009: 3.9 years).

Currency risk
Bodycote has operations in 26 countries and is therefore exposed to foreign exchange translation risk when the profits and net assets of these entities are consolidated into the Group accounts.

Over 89% of the Group's sales are in currencies other than sterling (EUR 38%, USD 29%, SEK 7% and BRL 5%). Cumulatively over the year, sterling rates moved such that the sales for the year were £0.3m worse than if sales had been translated at the rates prevailing in 2009.

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

The Group's balance sheet translation policy is not to actively hedge currency net assets. However, where appropriate, the Group will still match centrally held currency borrowings to the net assets. The Group principally borrows in sterling but also maintains debt in US Dollar, Euro and Swedish Krona, consistent with the location of the Group's assets. The Group recognises foreign exchange movements in equity for the translation of net investment hedging instruments and balances. As a result of the Group's change of balance sheet translation policy, £84.6m of cross currency swap liabilities existing at 31 December 2009 were either cancelled or not rolled over at maturity, during the year.

Transaction foreign exchange exposures arise when entities within the Group enter into contracts to pay or receive funds in a currency different from the functional currency of the entity concerned. It is Group policy to hedge exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of foreign exchange forward contracts. Even though approximately 89% of the Group's sales are generated outside the UK, the nature of the business is such that cross border sales and purchases are limited and, other than interest, such exposures are immaterial for the Group.

Market risk sensitivity analysis
The Group has measured the estimated charge to the income statement and equity of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening in sterling against all other currencies from the applicable rates as at 31 December 2010, for all financial instruments with all other variables remaining constant. This analysis is for illustrative purposes only. The sensitivity analysis excludes the impact of market risks on net post employment benefit obligations.

20. Derivative financial instruments continued

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

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

Under these assumptions, a one percentage point fall or rise in market interest rates for all currencies in which the Group has variable net cash or net borrowings at 31 December 2010 would reduce or increase profit before tax by approximately £0.5m (2009: £0.9m). There is no significant impact on equity.

Currency sensitivity
Taking the 2010 sales by currency, a 10% weakening/strengthening in the 2010 cumulative average rates for all currencies versus sterling would have given rise to a +£50m/-£41m movement in sales respectively. The impact on headline operating profit is affected by the mix of losses and profits in the various currencies. However, taking the 2010 operating profit mix, a 10% weakening/strengthening in 2010 cumulative average rates for all currencies would have given rise to a +£6m/-£5m movement in headline operating profit.

Counterparty risk
Counterparty risk encompasses settlement risk on derivative financial instruments and money market contracts and credit risk on cash, time deposits and money market funds. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure there is no significant concentration of credit risk. Group policy is to enter into such transactions only with counterparties with a long-term credit rating of A-/A3 or better. However, acquired businesses occasionally have dealings with banks with lower credit ratings. Business with such banks is moved as soon as practicable.

21. Deferred tax

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

	Accelerated tax depreciation £m	Tax losses £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 January 2009	71.1	(9.3)	(8.9)	(27.1)	25.8
(Credit)/charge to income	(6.0)	(12.7)	5.8	5.7	(7.2)
Credit to equity	–	–	(0.8)	(0.1)	(0.9)
Transfers	(5.4)	9.3	(0.4)	(1.8)	1.7
Exchange differences	(5.5)	0.4	0.2	2.0	(2.9)
At 1 January 2010	**54.2**	**(12.3)**	**(4.1)**	**(21.3)**	**16.5**
(Credit)/charge to income	**(2.5)**	**5.3**	**–**	**3.9**	**6.7**
Charge to equity	**–**	**–**	**0.9**	**–**	**0.9**
Disposal of subsidiaries	**–**	**(0.1)**	**–**	**–**	**(0.1)**
Transfers	**(10.7)**	**(1.7)**	**0.1**	**13.0**	**0.7**
Exchange differences	**–**	**(0.1)**	**–**	**0.2**	**0.1**
Effect of change in tax rate:					
Income statement	**0.1**	**–**	**–**	**(0.1)**	**–**
At 31 December 2010	**41.1**	**(8.9)**	**(3.1)**	**(4.3)**	**24.8**

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

	2010 £m	2009 £m
Deferred tax liabilities	**73.1**	73.4
Deferred tax assets	**(48.3)**	(56.9)
	24.8	16.5

Other deferred tax assets relate to provisions recognised in the financial statements that are not yet deductible for tax purposes, in particular in relation to restructuring charges and local profit differences that are expected to reverse over time.

At the balance sheet date, the Group has unused tax losses of £208.0m (2009: £177.1m) available for offset against future profits. A deferred tax asset has been recognised in respect of £101.0m (2009: £83.4m) of such losses, based on management forecasts of future taxable profits against which the assets can be recovered in the relevant jurisdictions. No deferred tax asset has been recognised in respect of the remaining £107.0m (2009: £93.7m) of such losses. All recognised losses may be carried forward indefinitely.

22. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Amounts payable under finance leases:				
Within one year	**0.5**	1.0	**0.4**	0.7
In the second to fifth years inclusive	**0.5**	1.5	**0.4**	1.2
After five years	**0.3**	0.4	**0.3**	0.4
	1.3	2.9	**1.1**	2.3
Less: future finance charges	**(0.2)**	(0.6)		
Present value of lease obligations	**1.1**	2.3		
Analysed as:				
Amount due for settlement after 12 months			**0.7**	1.6
Amount due for settlement within 12 months (shown under current liabilities)			**0.4**	0.7
			1.1	2.3

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

	2010	2009
Sterling	**0.6**	0.7
US Dollar	**0.3**	0.5
Euro	**0.2**	0.5
Danish Krone	**–**	0.6
	1.1	2.3

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 5.2 years. For the year ended 31 December 2010, the average effective borrowing rate was 7.8% (2009: 7.8%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates to their carrying amount.

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

23. Other financial liabilities

Trade and other payables

	2010 £m	2009 £m
Amounts falling due within one year:		
Trade creditors	**38.6**	29.9
Other taxes and social security*	**16.5**	14.7
Other creditors	**21.8**	11.4
Accruals and deferred income	**43.5**	37.2
	120.4	93.2
Amounts falling due after more than one year:		
Other creditors	**4.1**	7.5

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases as at 31 December 2010 is 46 days (2009: 46 days).

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

*Other financial liabilities include other taxes and social security, which are not included as financial liabilities in IFRS 7.

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

	Less than 1 year 2010 £m	1-2 years 2010 £m	2-5 years 2010 £m	5+ years 2010 £m	Total 2010 £m
Non-interest bearing*	**134.4**	**3.5**	**4.7**	**8.7**	**151.3**
Finance lease liability	**0.5**	**0.3**	**0.2**	**0.3**	**1.3**
Bank loans and overdrafts	**95.5**	**0.2**	**0.2**	**0.3**	**96.2**
Derivative financial instruments	**0.9**	**–**	**–**	**–**	**0.9**
	231.3	**4.0**	**5.1**	**9.3**	**249.7**

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

Of the £96.2m (2009: £118.2m) bank loan and overdraft outflows disclosed above, £Nil (2009: £Nil) and £64.4m (2009: £96.2m) of bank loans are drawn under committed facilities maturing on 31 March 2013 and 31 July 2013 respectively. The overdrafts are on-demand and largely part of pooling arrangements, which include offsetting cash balances. Of the £0.9m (2009: £89.0m) derivative financial instrument outflows disclosed above, £0.9m (2009: £85.1m) are matched by derivative cash inflows.

*Non-interest bearing financial liabilities include other taxes and social security, which are not included as financial liabilities in IFRS 7. These are payable in less than one year.

24. Provisions

	Restructuring £m	Restructuring Environ-mental £m	Environ-mental £m	Total £m
At 1 January 2010	**17.6**	**9.5**	**5.9**	**33.0**
Increase in provision	**5.1**	**1.6**	**0.6**	**7.3**
Release of provision	**(1.8)**	**(0.1)**	**–**	**(1.9)**
Utilisation of provision	**(11.1)**	**(1.3)**	**–**	**(12.4)**
Exchange difference	**0.2**	**0.5**	**0.1**	**0.8**
At 31 December 2010	**10.0**	**10.2**	**6.6**	**26.8**
Included in current liabilities				**14.0**
Included in non-current liabilities				**12.8**
				26.8

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

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

The increase in restructuring provisions is due to the ongoing implementation of the global restructuring initiatives. In addition income of £4.0m was recognised following the disposal of non core assets associated with the restructuring plans. The reversal of certain asset impairments of £0.8m was also recognised in relation to the ongoing restructuring.

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

25. Share capital

	2010 £m	2009 £m
Authorised:		
248,947,368 (2009: 248,947,368) ordinary shares of 17 3/11p each	**43.0**	43.0
325,000,000 (2009: 325,000,000) B shares of 40p each	**130.0**	130.0
Issued and fully paid:		
189,881,917 (2009: 188,167,712) ordinary shares of 17 3/11p each	**32.8**	32.5

26. Notes to the cash flow statement

	2010 £m	2009 £m
Profit/(loss) for the year	**27.7**	(51.1)
Adjustments for:		
Investment revenue	**(0.3)**	(1.5)
Finance costs	**6.3**	5.8
Taxation - continuing and discontinued	**17.5**	(3.4)
Depreciation of property, plant and equipment	**46.1**	48.5
Amortisation of intangible assets	**2.2**	2.4
Loss/(profit) on disposal of property, plant and equipment	**0.7**	(0.1)
Share-based payments	**4.2**	(0.1)
Impairment charge	**–**	31.5
Major facility closure costs	**(1.6)**	12.6
EBITDA*	**102.8**	44.6
(Increase)/decrease in inventories	**(2.7)**	1.4
(Increase)/decrease in receivables	**(4.7)**	29.2
Increase/(decrease) in payables	**15.5**	(21.6)
Decrease in provisions	**(7.0)**	(5.9)
Cash generated by operations	**103.9**	47.7
Cash outflow from settlement of derivative financial instruments	**(2.9)**	(12.3)
Income taxes paid	**(5.4)**	(24.4)
Net cash from operating activities	**95.6**	11.0

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

	2010 £m	2009 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**23.5**	19.6
Bank overdrafts (included in borrowings)	**(5.9)**	(3.3)
	17.6	16.3

27. Operating lease arrangements - the group as lessee

	2010 £m	2009 £m
Minimum lease payments under operating leases recognised as an expense	**14.4**	14.1

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

	2010 £m	2009 £m
Within one year	**11.7**	8.1
In the second to fifth years inclusive	**19.2**	20.0
After five years	**14.6**	12.0
	45.5	40.1

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

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

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

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

Date of grant	Option price in pence	Exercise period	No. of options outstanding 2010	2009
May-00	231.42	2003-2010	**–**	245,316
Apr-01	203.37	2004-2011	**262,002**	471,391
Sep-02	125.76	2005-2012	**112,295**	139,032
Sep-03	147.27	2006-2013	**311,654**	410,581
			685,951	1,266,320

Movements in share options are summarised as follows:

	Number of shares under option 2010	Weighted average exercise price 2010 pence	Number of shares under option 2009	Weighted average exercise price 2009 pence
Outstanding at the beginning of the year	**1,266,320**	**183.95**	2,012,802	197.04
Exercised during the year	**(214,204)**	**167.77**	(261,937)	132.13
Expired during the year	**(366,165)**	**222.16**	(484,545)	267.24
Outstanding and exercisable at the end of the year	**685,951**	**165.18**	1,266,320	183.95

The weighted average share price at the date of exercise for share options exercised during the year was 167.77 pence. The options outstanding at 31 December 2010 had a weighted average exercise price of 165.18 pence, and a weighted average remaining contractual life of 1.6 years. The average share price during the year was 224.2 pence.

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

		2010	2009
Weighted average share price	pence	**157.5**	157.5
Weighted average exercise price	pence	**157.5**	157.5
Expected volatility	%	**42.7**	42.7
Expected life	years	**3.0**	3.0
Risk-free rate	%	**4.0**	4.0
Expected dividends	%	**4.3**	4.3

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

The Group recognised total expenses of £4.2m (2009: income of £0.1m) related to equity-settled share-based payment transactions.

29. Related party transactions

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

Trading transactions
The Group's associated company SSCP Coatings S.à.r.l. was recapitalised through a share issue in a new company during the year. The Group chose not to participate in this share issue, and as a result, the Group's percentage holding in the business has significantly reduced to a level where the Group no longer classifies the business as an associate company.

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

	Sale of goods and services		**Purchase of goods and services**		**Amounts owed by related parties**		**Amounts owed to related parties**	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Associates	**–**	3.3	**–**	0.2	**–**	18.0	**–**	–

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

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

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

	2010 £m	2009 £m
Short-term employee benefits	**1.6**	1.2
Share-based payments	**–**	0.4
	1.6	1.6

Further information about the remuneration of the individual directors is provided in the Board Report on Remuneration on pages 39 to 43.

30. Retirement benefit obligations

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

Defined benefit schemes

	2010 £m	2009 £m
UK Scheme	**(0.6)**	(3.7)
Non-UK schemes	**(11.0)**	(11.3)
	(11.6)	(15.0)

Total expense recognised in income statement

	2010 £m	2009 £m
UK Scheme	**1.1**	1.2
Non-UK schemes	**1.2**	0.4
	2.3	1.6

Further details of the Group's defined benefit arrangements are given in the Finance Director's Report on page 25.

UK Scheme

The Company sponsors the Bodycote UK Pension Scheme which is a funded defined benefit arrangement for certain UK employees. The last full actuarial valuation of the scheme was carried out by a qualified independent actuary as at 6 April 2008 using the projected unit credit method and was updated on an approximate basis to 31 December 2010. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

The contributions made by the employer over the financial year have been £1.0m, comprising £0.6m in respect of benefit accrual and £0.4m in respect of ongoing expense. This level of contribution has been reviewed following the triennial valuation of the Scheme completed as at 6 April 2008 and it is expected that the deficit will be extinguished by December 2016.

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

The UK scheme deficit decreased by £3.1m during the year, primarily as a result of the announced change in the relevant index for the UK scheme from RPI to CPI in respect of the revaluation of deferred members' benefits.

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

	2010 £m	2009 £m
Defined benefit obligation at start of year	**73.6**	63.7
Current service cost	**0.8**	0.8
Interest cost	**4.2**	3.8
Contributions by plan participants	**0.3**	0.4
Actuarial (gain)/loss	**(0.8)**	7.3
Benefits paid, death in service insurance premiums and expenses	**(2.3)**	(2.4)
Defined benefit obligation at end of year	**75.8**	73.6

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

	2010 £m	2009 £m
Fair value of assets at start of year	**69.9**	63.0
Expected return on assets	**3.9**	3.4
Actuarial gain	**2.4**	4.5
Contributions by employer	**1.0**	1.0
Contributions by plan participants	**0.3**	0.4
Benefits paid, death in service insurance premiums and expenses	**(2.3)**	(2.4)
Fair value of assets at end of year	**75.2**	69.9

30. Retirement benefit obligations continued

Total expense recognised in the income statement

	2010 £m	2009 £m
Current service cost	**0.8**	0.8
Interest on pension scheme liabilities	**4.2**	3.8
Expected return on pension scheme assets	**(3.9)**	(3.4)
Total expenses	**1.1**	1.2

The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income since adoption of IAS 19 is £9.9m.

Of the expense for the year, £0.8m (2009: £0.8m) has been included in the operating profit and £0.3m (2009: £0.4m) has been included in finance charges. Actuarial gains and losses have been reported in other comprehensive income.

Assets

	2010 £m	2009 £m	2008 £m
Equities (including property)	**32.2**	26.0	22.1
Bonds (including gilts)	**38.1**	38.7	14.9
Treasury bonds	**–**	–	21.0
Cash	**0.2**	0.1	0.6
With profits insured policy	**–**	0.6	0.3
Hedge funds	**4.7**	4.5	4.1
	75.2	69.9	63.0

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

Expected long-term rates of return

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

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

	2010 % per annum	2009 % per annum	2008 % per annum
Equities	**6.9**	7.3	6.6
Bonds	**4.9**	5.3	4.8
Treasury bonds	**–**	–	5.5
With profits insured policy	**–**	5.3	4.8
Hedge funds	**6.9**	7.3	6.6
Cash	**0.5**	0.5	1.5
Overall for scheme	**5.8**	6.1	5.7

Actual return on plan assets

The actual return on the plan assets for the year ended 31 December 2010 was 8.8% (2009: 12.5%).

30. Retirement benefit obligations continued

Assumptions

	2010 % per annum	2009 % per annum	2008 % per annum
RPI inflation	**3.65**	3.70	3.15
CPI inflation	**3.15**	–	–
Salary increases	**3.00**	3.00	3.00
Rate of discount	**5.50**	5.70	6.00
Allowance for pension in payment increases of RPI or 5% p.a. if less	**3.55**	3.60	3.10
Allowance for pension in payment increases of RPI or 3% p.a. if less	**2.75**	2.80	n/a
Allowance for revaluation of deferred pensions	**3.15**	3.70	3.15
Mortality – current pensioners			
Actuarial tables used	**PA 92 YoB MC, 1% underpin**	PA 92 YoB MC, 1% underpin	PA 92 YoB MC, 1% underpin
Life expectancy for members currently aged 65	**22.5**	22.5	22.5
Mortality – future pensioners			
Actuarial tables used	**PA 92 YoB MC, 1% underpin**	PA 92 YoB MC, 1% underpin	PA 92 YoB MC, 1% underpin
Life expectancy at age 65 for members currently aged 40	**24.0**	24.0	24.0

Impact of changes to assumptions
The impact of changes to certain assumptions on the current deficit and the 2011 charge to the income statement on the UK scheme is shown in the table below:

	Impact on current deficit £m	**Impact on 2011 charge to income statement £m**
Change in discount rate by 0.25% (decrease in rate increases liability)	3.6	–
Change in inflation assumption by 0.25% (increase in rate increases liability)	1.8	0.1
Change in mortality assumption from PA92 YoB, Medium Cohort with a 1% underpin to PA92, Long Cohort with a 1% underpin (change increases liability)	3.7	0.3
Change in the value of equities by 5% (decrease increases liability)	1.4	0.1
Change in the expected return on equities assumption by 0.25%	–	0.1

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

	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation	**75.8**	73.6	63.7
Fair value of plan assets	**(75.2)**	(69.9)	(63.0)
Deficit in the scheme	**0.6**	3.7	0.7

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2010 is that recognised in the balance sheet.

The best estimate of contributions to be paid into the plan for the year ending 31 December 2011 is £0.9m.

30. Retirement benefit obligations continued

Amounts for the current and previous four years

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of assets	**(75.2)**	(69.9)	(63.0)	(47.6)	(43.9)
Present value of defined benefit obligation	**75.8**	73.6	63.7	61.0	67.2
Deficit in the scheme	**0.6**	3.7	0.7	13.4	23.3
Gain/(loss) from experience adjustment on plan liabilities	**–**	–	(0.4)	0.1	–
Gain/(loss) from experience adjustment on plan assets	**2.3**	4.5	(10.7)	(0.8)	0.7

Combined non-UK disclosures

The Group operates schemes in the USA, Brazil and continental Europe. In the US there are three defined benefit pension arrangements. These are Metallurgical Inc Pension Plan, Combined Bodycote Pension Plan and the Supplemental Retirement Plan. All are closed to new accrual. The last full actuarial valuation of these schemes was carried out by a qualified independent actuary as at 1 January 2008 (31 December 2008 for the Metallurgical Plan) and updated on an approximate basis to 31 December 2010. Contributions made by the Company over the year were $0.6m. The Group also operates a defined benefit scheme for 1 employee in Brazil.

In Europe the Group operates defined benefit pension, post retirement and long-service arrangements for certain employees in France, Germany, Italy, Turkey (all of which are unfunded), Switzerland and Liechtenstein.

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

	2010 £m	2009 £m
Defined benefit obligation at start of year	**19.8**	22.6
Current service cost	**0.6**	0.5
Interest cost	**1.0**	1.3
Actuarial loss	**–**	0.9
Benefits paid, death in service insurance premiums and expenses	**(0.9)**	(2.7)
Settlement	**–**	(1.0)
Employee contributions	**0.1**	0.1
Past service cost	**0.6**	–
Exchange rate loss/(gain)	**0.8**	(1.9)
Defined benefit obligation at end of year	**22.0**	19.8

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

	2010 £m	2009 £m
Fair value of assets at start of year	**8.5**	8.4
Expected return on assets	**0.4**	0.4
Actuarial gain	**0.1**	0.6
Contributions by employer	**0.5**	0.5
Contributions by employees	**0.1**	0.1
Benefits paid, death in service insurance premiums and expenses	**(0.3)**	(0.8)
Exchange rate gain/(loss)	**1.1**	(0.7)
Fair value of assets at end of year	**10.4**	8.5

30. Retirement benefit obligations continued

Total expense recognised in the income statement

	2010 £m	2009 £m
Current service cost	**0.6**	0.5
Interest on pension scheme liabilities	**1.0**	1.3
Expected return on pension scheme assets	**(0.4)**	(0.4)
Settlement gain	**–**	(1.0)
Total expenses	**1.2**	0.4

Of the expense for the year, £0.6m (2009: income of £0.5m) has been included in the operating profit and £0.6m (2009: £0.9m) has been included in finance charges. Actuarial gains and losses have been reported in other comprehensive income.

The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income since adoption of IAS 19 is £0.7m.

Assets

	2010 £m	2009 £m	2008 £m
Equities	**1.1**	0.9	1.3
Bonds	**0.6**	0.7	0.8
Cash	**1.3**	0.9	–
Insurance contracts - Brazil	**1.2**	1.0	0.6
Insurance contracts - Switzerland and Liechtenstein	**6.2**	5.0	5.7
	10.4	8.5	8.4

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

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

Actual return on plan assets
The actual return on the plan assets for the year ending 31 December 2010 was 6%.

Assumptions for 2010

	Salary increases % per annum	**Rate of discount % per annum**	**Inflation % per annum**	**Pension increases % per annum**
USA	n/a	5.50	n/a	n/a
Brazil	6.59	10.30	4.50	n/a
France	3.00	4.60	2.00	n/a
Germany	2.50	4.65	n/a	1.75
Italy	n/a	4.00	2.00	n/a
Turkey	n/a	10.00	5.10	n/a
Liechtenstein	2.50	2.75	n/a	n/a
Switzerland	3.00	2.75	n/a	n/a

30. **Retirement benefit obligations** continued

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

	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation	**22.0**	19.8	22.6
Fair value of plan assets	**(10.4)**	(8.5)	(8.4)
Deficit in the scheme	**11.6**	11.3	14.2
Unrecognised prior service cost	**(0.6)**	–	–
Net liability recognised in the balance sheet	**11.0**	11.3	14.2

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2010 is that recognised in the balance sheet.

Amounts for the current and previous four years

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of assets	**(10.4)**	(8.5)	(8.4)	(4.1)	(3.7)
Present value of defined benefit obligation	**22.0**	19.8	22.6	14.6	14.5
Deficit in the scheme	**11.6**	11.3	14.2	10.5	10.8
Gain/(loss) from experience adjustment on plan liabilities	**0.5**	(0.3)	(3.7)	(0.9)	0.6
Gain from experience adjustment on plan assets	**0.1**	0.6	2.9	0.1	0.3
(Loss)/gain from effects of changing assumptions	**(0.5)**	(0.7)	(0.5)	(1.2)	0.3

The only funded plans are those operated in USA, Brazil, Switzerland and Liechtenstein (Sweden having been settled in 2009).
The best estimate of contributions to be paid into the plans for the year ending 31 December 2011 is £0.4m.

FIVE YEAR SUMMARY

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Revenue					
Existing operations	**499.8**	435.4	551.8	465.2	413.9
Discontinued operations	**–**	–	164.9	175.3	144.7
Revenue – continuing and discontinued operations	**499.8**	435.4	716.7	640.5	558.6
Profit for continuing and discontinued operations:					
Headline operating profit	**52.1**	8.0	91.7	91.3	79.7
Share of results of associates' interest and tax	**–**	–	–	–	(0.6)
Amortisation and impairment of goodwill and intangible fixed assets	**(0.9)**	(32.8)	(33.8)	(9.1)	(7.0)
Impairment of investment in associate	**–**	–	(12.1)	–	(8.3)
Major facility closure costs	**–**	(25.4)	(77.6)	(5.4)	(5.0)
Change to pension scheme rules	**–**	–	–	4.1	–
Bid response costs	**–**	–	–	(2.1)	–
Profit on disposal of operations	**–**	–	199.3	–	–
Profit/(loss) before interest and tax	**51.2**	(50.2)	167.5	78.8	58.8
Net interest payable	**(6.0)**	(4.3)	(10.0)	(10.3)	(12.2)
Profit/(loss) before taxation	**45.2**	(54.5)	157.5	68.5	46.6
Taxation	**(17.5)**	3.4	(6.8)	(14.7)	(2.7)
Profit/(loss) after taxation	**27.7**	(51.1)	150.7	53.8	43.9
Non-controlling interests	**(0.1)**	1.0	(0.9)	(1.0)	(0.8)
Profit/(loss) attributable to the equity holders of the parent	**27.6**	(50.1)	149.8	52.8	43.1
Headline earnings per share (pence)	**18.3**	0.4	17.5	16.6	17.3
Dividends per share (pence)	**8.7**	8.3	8.3	8.0	7.0
Assets employed					
Intangible fixed assets	**118.1**	118.8	154.4	227.3	212.3
Tangible fixed assets	**458.0**	461.8	533.3	508.9	448.4
Other assets and liabilities	**(74.0)**	(72.5)	(126.1)	(41.4)	(45.9)
	502.1	508.1	561.6	694.8	614.8
Financed by					
Share capital	**32.8**	32.5	32.4	32.4	32.2
Reserves	**416.3**	387.8	459.6	457.6	417.3
Shareholders' funds	**449.1**	420.3	492.0	490.0	449.5
Non-controlling interests	**1.7**	2.3	4.9	6.6	4.4
Net borrowings	**51.3**	85.5	64.7	198.2	160.9
Capital Employed	**502.1**	508.1	561.6	694.8	614.8
Net assets per share (pence)	**236.5**	223.4	262.4	151.4	139.5
Return on capital employed:					
Headline operating profit (continuing and discontinued operations) divided by average capital employed	**10.1**	1.5	12.6	13.9	13.8

COMPANY BALANCE SHEET
AT 31 DECEMBER 2010

	2010 £m	2009 £m	Note
Fixed assets			
Tangible fixed assets	**3.1**	2.9	2
Investments	**393.2**	395.1	3
	396.3	398.0	
Current assets			
Debtors			
- due within one year	**11.2**	22.6	4
- due after one year	**56.8**	70.3	4
Cash at bank and in hand	**0.7**	2.8	
	68.7	95.7	
Current liabilities			
Creditors : Amounts falling due within one year	**(8.1)**	(13.4)	5
Net current assets	**60.6**	82.3	
Total assets less current liabilities	**456.9**	480.3	
Creditors : Amounts falling due after more than one year	**(0.6)**	(0.5)	5
Net assets	**456.3**	479.8	
Capital and reserves			
Called-up share capital	**32.8**	32.5	7
Share premium account	**176.3**	176.0	7
Other reserves	**124.6**	125.0	7
Profit and loss account	**122.6**	146.3	7
Shareholders' funds	**456.3**	479.8	

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 24 February 2011. They were signed on its behalf by:

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BODYCOTE PLC

We have audited the parent company financial statements of Bodycote plc for the year ended 31 December 2010 which comprise the Company Balance Sheet, the Company Accounting Policies and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

OTHER MATTER

We have reported separately on the group financial statements of Bodycote plc for the year ended 31 December 2010 and the information in the Board Report on Remuneration that is described as having been audited.

Nicola Mitchell (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Manchester, UK
24 February 2011

COMPANY ACCOUNTING POLICIES

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

GOING CONCERN
The Directors have at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Finance Director's Report on page 25.

INVESTMENTS
Investments are held at cost less provision for impairment.

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

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

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

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

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

TANGIBLE FIXED ASSETS
Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on a straight-line basis, to reduce the carrying value to the estimated residual value at the point of sale, at the following annual rates:

Fixtures and fittings:	10% to 20%

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS
The Company has taken advantage of the exemption contained in FRS 8 'Related Party Transactions' not to disclose transactions or balances with wholly-owned entities of the Group.

SHARE-BASED PAYMENTS
The Company has applied the requirements of FRS 20 'Share-based Payment'.

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

1. Loss for the year

Bodycote plc reported a loss for the financial year ended 31 December 2010 of £8.3m (2009: loss £1.8m).

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

Total employee costs (including Executive Directors) were:

	2010 £m	2009 £m
Wages and salaries	**6.7**	3.0
Social security costs	**0.7**	0.3
Other pension costs	**0.5**	0.4
	7.9	3.7

2. Tangible fixed assets

	Fixtures and fittings £m
Cost	
At 1 January 2010	3.9
Additions	1.1
Disposals	(0.4)
At 31 December 2010	**4.6**
Depreciation	
At 1 January 2010	1.0
Charge for the year	0.8
Disposals	(0.3)
At 31 December 2010	**1.5**
Net book value	
At 31 December 2010	**3.1**
At 31 December 2009	2.9

3. Investments

	Shares £m	Shares in associates £m	Loans £m	Total £m
Cost				
At 1 January 2010	401.2	7.3	0.1	408.6
Acquisitions and advances	2.1	–	–	2.1
Disposals and repayments	(3.0)	(7.3)	(0.1)	(10.4)
At 31 December 2010	**400.3**	**–**	**–**	**400.3**
Provision for impairment				
At 1 January 2010	6.2	7.3	–	13.5
Provision in the year	0.9	–	–	0.9
Disposals	–	(7.3)	–	(7.3)
At 31 December 2010	**7.1**	**–**	**–**	**7.1**
Net book value				
At 31 December 2010	**393.2**	**–**	**–**	**393.2**
At 31 December 2009	395.0	–	0.1	395.1

The Company's associated company SSCP Coatings S.à.r.l. was recapitalised through a share issue in a new company during the year. The Company chose not to participate in this share issue, and as a result, the Company's percentage holding in the business has significantly reduced to a level where the Company no longer classifies the business as an associate company.

4. Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**0.5**	11.7
Corporation tax recoverable	**6.3**	7.2
Deferred taxation (note 6)	**2.5**	2.3
Finance lease receivables	**0.4**	0.4
Other debtors and prepayments	**1.5**	1.0
	11.2	22.6
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**56.8**	69.8
Finance lease receivables	**–**	0.5
	56.8	70.3
	68.0	92.9

5. Creditors

	2010 £m	2009 £m
Amounts falling due within one year:		
Bank loans	**–**	2.6
Trade creditors	**0.9**	0.6
Amounts owed to subsidiary undertakings	**2.9**	1.1
Dividends payable	**–**	5.5
Other taxes and social security	**0.1**	0.2
Other creditors	**0.8**	0.5
Accruals and deferred income	**3.4**	2.9
	8.1	13.4
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings	**0.6**	0.5
	0.6	0.5
Bank loans are repayable:		
On demand or within 12 months	**–**	2.6
	–	2.6

6. Deferred tax asset

	£m
At 1 January 2010	2.3
Profit and loss credit	0.2
At 31 December 2010	**2.5**

	2010 £m	2009 £m
Deferred tax is recognised as follows:		
Tax losses	**0.4**	1.7
Other timing differences	**2.1**	0.6
Deferred tax asset	**2.5**	2.3

7. Capital and reserves

Share capital:

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

	Number of shares	£m
At 1 January 2010	188,167,712	32.5
Allotted in the year	1,714,205	0.3
At 31 December 2010	**189,881,917**	**32.8**

Details of share options in issue on the Company's share capital and share-based payments are set out in note 28 to the consolidated financial statements.

Reserves:

	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2010	176.0	125.0	146.3	447.3
Dividends paid	–	–	(15.4)	(15.4)
Loss for the year	–	–	(8.3)	(8.3)
Premium arising on issue of equity shares (net of expenses)	0.3	–	–	0.3
Share-based payments and acquisition of own shares	–	(0.4)	–	(0.4)
At 31 December 2010	**176.3**	**124.6**	**122.6**	**423.5**

The other reserves is stated after deducting £8.0m (2009: £7.3m) relating to shares held in the Bodycote International Employee Benefit Trust. The Bodycote International Employee Benefit Trust holds Bodycote plc shares and satisfies awards made under various employee incentive schemes when issuance of new shares is not appropriate.

At 31 December 2010 3,837,581 (2009: 2,100,427) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust and, following recommendations by the employer, are provisionally allocated to satisfy awards under employee incentive schemes. The trust waives payment of dividend. The market value of these shares was £10.8m (2009: £3.3m).

Included in other reserves is the capital redemption reserve of £129.4m (2009: £129.4m).

8. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £80.5m (2009: £108.1m).

9. Financial Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2010 £m	2009 £m
Within one year	**0.3**	0.3
In the second to fifth years inclusive	**0.8**	0.9
After five years	**0.5**	0.7
	1.6	1.9

Operating lease payments represent rentals payable by the Company for its land and buildings.

10. Pension commitments

The Company participates in a group defined benefit scheme, the details of which are disclosed in note 30 to the consolidated financial statements. However, the Company is unable to identify its share of the underlying assets and liabilities and has therefore accounted for the scheme as if it were a defined contribution scheme. Full disclosures concerning the scheme as required by IAS 19 are set out in note 30 to the consolidated financial statements. These also satisfy the requirements of FRS17 'Retirement Benefits'.

The contributions made by the Company over the financial year to both the defined contribution and the defined benefit schemes amounted to £0.4m (2009: £0.3m) and £0.1m (2009: £0.1m) respectively.

11. Related party transactions

The Company's associated company SSCP Coatings S.à.r.l. was recapitalised through a share issue in a new company during the year. The Company chose not to participate in this share issue, and as a result, the Company's percentage holding in the business has significantly reduced to a level where the Company no longer classifies the business as an associate company.

During the prior year, the Company entered into the following transactions with related parties who are not members of the Group, namely SSCP Coatings S.à.r.l.

	Sale of goods and services		Amounts owed by related parties	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Associates	**–**	2.4	**–**	17.9

Sales of goods and services include payments received from finance leases, the provision of management services and interest receivable. All transactions were made at arm's length.

At 31 December 2009, a provision of £17.0m was recognised against the £17.9m amounts owed by related parties above.

PRINCIPAL SUBSIDIARY UNDERTAKINGS

THERMAL PROCESSING - HEAT TREATMENT AND METAL JOINING

		Country of Incorporation
*Bodycote Heat Treatments Limited	Cambridge, Chard, Cheltenham, Coventry, Derby, Gillingham, Great Barr, Hazel Grove, Macclesfield, Rotherham, Skelmersdale, Stillington and Woodford	England
Bodycote Hardiff GmbH	Landsberg	Germany
Bodycote Wärmebehandlung GmbH	Ebersbach, Eching, Essen, Esslingen, Karben, Korntal, Langenfeld, Langenselbold, Lüdenscheid, Menden, Nürnberg, Otterfing, Remscheid, Sömmerda, Sprockhövel and Wehingen	Germany
Nitrion GmbH	Otterfing	Germany
Bodycote Hardingscentrum BV	Diemen, Hengelo, Tilburg and Venlo	Netherlands
Bodycote Hardiff BV	Apeldoorn	Netherlands
Bodycote Värmebehandling AB	Göteborg, Hudiksvall, Karlskoga, Malmö, Mora, Stockholm, Värnamo and Västerås	Sweden
Bodycote SAS	Ambazac, Amiens, Beaugency, Billy-Berclau, Cernay, Chanteloup les Vignes, Chassieu, Condé sur Noireau, Gemenos, Gennevilliers, Lagny sur Marne, La Monnerie Le Montel, La Talaudière, Le Subdray, Neuilly en Thelle, Nogent, Pusignan, Serres Castet, St Aubin les Elbeuf, St Nicolas d'Aliermont, St Rémy en Mauges, Villaz and Voreppe	France
Techmeta SA	Metz-Tessy	France
Nitruvid SAS	Argenteuil and Gandrange	France
Bodycote Belgium SA	Brussels	Belgium
Bodycote Lämpökäsittely Oy	Pieksämäki, Tampere, Vaasa and Vantaa	Finland
Bodycote Varmebehandling A/S	Herlev and Ejby	Denmark
Bodycote Italia Srl	Gorgonzola	Italy
Bodycote Trattamenti Termici SPA	Flero, Madone and Rodengo	Italy
Bodycote Wärmebehandlung Wien GmbH	Kapfenberg, Marchtrenk and Vienna	Austria
Bodycote Rheintal Wärmebehandlung AG	Schaan	Liechtenstein
Bodycote Schweiz Wärmebehandlung AG	Urdorf	Switzerland
Bodycote HT S.r.o	Brno, Liberec, Krnov, Plzen and Prague	Czech Republic
Bodycote Polska Sp z.o.o	Czestochowa, Chelmno, Kozerki, Swiebodzin, Warsaw and Zabrze	Poland
Bodycote Tratamente Termice SRL (75% owned) ‡	Brasov and Cugir	Romania
Bodycote Hökezelö KFT	Budapest	Hungary
Bodycote Istas Isil Islem Sanayi ve Ticaret AS (60% owned) ‡	Ankara, Bursa, Istanbul and Izmir	Turkey
Bodycote Thermal Processing, Inc.	Fremont, Santa Fe Springs and Huntington Park, Rancho Dominguez, Vernon, Westminster CA, Berlin, Waterbury, South Windsor and Suffield CT, Ipswich and Worcester MA, Canton and Livonia MI, Cincinnati, Cleveland and London OH, Oklahoma City and Tulsa OK, Arlington, Dallas, Houston and Fort Worth TX, Laconia NH, Melrose Park IL, Indianapolis IN, Eden Prairie MN, Rochester NY, Sturtevant and New Berlin WI	USA
Bodycote Thermal Processing Canada, Inc.	Newmarket and Kitchener ON	Canada
Bodycote Thermal Processing Mexico Limited	Silao and Guaymas, Mexico	England
Bodycote Brasimet Processamento Termico Ltda	Campinas, Joinville, Sao Leopoldo and Jundiai	Brazil
Bodycote Wuxi Technology Co. Limited	Wuxi	China
Bodycote (Ningbo) Heat Treatment Co. Limited	Ningbo	China
Bodycote Metallurgical Services India Pvt Limited	Ranjangaon	India

PRINCIPAL SUBSIDIARY UNDERTAKINGS
CONTINUED

THERMAL PROCESSING - HOT ISOSTATIC PRESSING

*Bodycote H.I.P. Ltd	Chesterfield and Hereford	England
Bodycote IMT Inc.	Andover MA, London OH and Princeton KT and Camas WA	USA
Bodycote Heiss-Isostatisches Pressen GmbH	Haag	Germany
Bodycote IMT NV	Sint-Niklaas	Belgium
Bodycote Japan K.K.	Nagoya	Japan
Bodycote SAS	Magny-Cours	France

THERMAL PROCESSING - SURFACE ENGINEERING

*Bodycote Metallurgical Coatings Limited	Knowsley, Macclesfield, Stonehouse, Newport, Neath, Skelmersdale, Wolverhampton and Dubai	England
Bodycote K-Tech, Inc.	Hot Springs, AR	USA
Bodycote Ytbehandling AB	Katrineholm, Karlstad, and Västra Frölunda	Sweden
Bodycote Singapore Pte Ltd	Singapore	Singapore
Bodycote Argentina SA	Buenos Aires	The Argentine

GROUP SERVICES

‡*Thomas Cook & Son Insurance Brokers Limited (75% owned)	Burnley	England

Except where stated, these companies are wholly owned subsidiaries and have only one class of issued shares. Subsidiaries marked * are held directly by Bodycote plc. Entities marked ‡ have been treated as subsidiary undertakings in the financial statements because the Group exercises control over these entities.

SHAREHOLDER ENQUIRIES

Enquiries on the following administrative matters can be addressed to the Company's registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone 0871 664 0300 (calls to 0871 numbers cost 10p per minute plus network extras – lines are open 8.30am until 5.30pm, Monday to Friday) or +44 (0)208 639 3399; Fax: +44 (0)1484 600911; and email; shareholder.services@capitaregistrars.com.

- Change of address
- Lost share certificates or dividend cheques
- Dividend mandates
- Amalgamation of holdings

Forms for these matters can be downloaded from the registrars' website at www.capitaregistrars.com, where shareholders can also check their holdings and details.

SHARE DEALING SERVICE

Information on a low cost share dealing service offered by our registrar is available from Capita on 0871 664 0300 (calls to 0871 numbers cost 10p per minute plus network extras) or at www.capitadeal.com.

SHAREHOLDER ANALYSIS

Analysis of share register as at 18 February 2011:

Holding range	Number of Shareholders	%	Number of shares	%
1 to 1,000	1,095	41.9	483,143	0.3
1,001 to 10,000	1,124	43.0	3,471,321	1.8
10,001 to 100,000	244	9.3	7,368,852	3.9
100,001 to 500,000	87	3.3	18,787,570	9.9
500,001 and over	64	2.5	159,816,482	84.1
	2,614	100.0	189,927,368	100.0

Type of shareholders	% of Shareholders	% of total shares
Directors' interests	0.1	2.2
Major institutional and corporate holdings	7.0	91.6
Other shareholdings	92.9	6.2
	100.0	100.0

As at 24 February 2011 the following voting rights in the Company had been notified in accordance with the Disclosure and Transparency Rules.

	Number of shares	%
Standard Life Investments Ltd	26,580,513	14.00
Schroders plc	13,187,266	6.94
Aberforth Partners LLP	9,427,581	4.96
Baillie Gifford & Co	9,402,000	4.95
Legal & General Group plc	7,546,421	3.97

FINANCIAL CALENDAR

Annual General Meeting	27 April 2011
Final dividend for 2010	6 May 2011
Interim results for 2011	July 2011
Interim dividend for 2011	November 2011
Results for 2011	February 2012

NOTES

NOTES

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