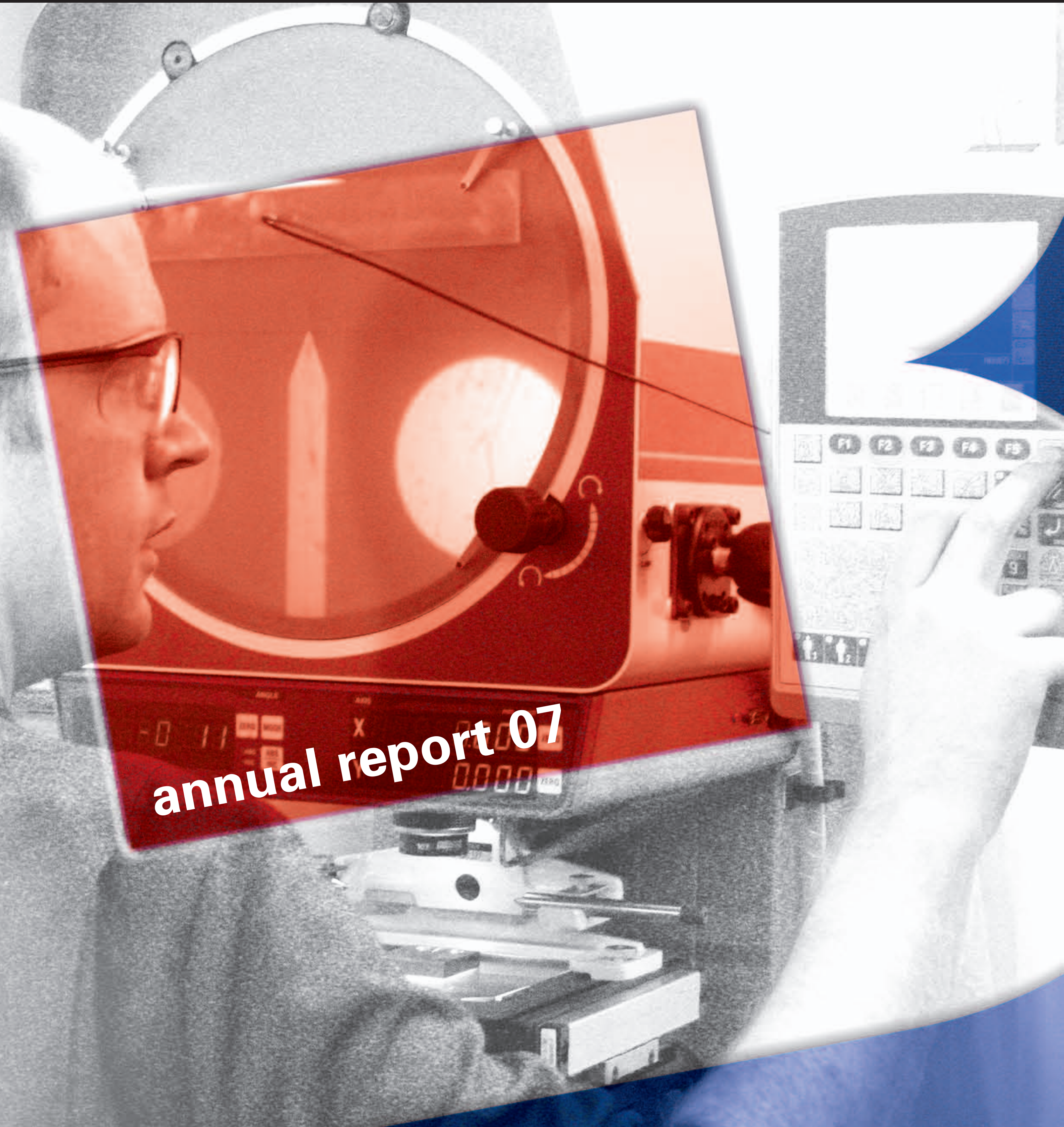


Bodycote

At a glance

Bodycote Thermal Processing

Operating 194 plants in 27 countries; an unrivalled strategically located network, experienced in supporting large multi-national customers and their supply chains, as well as local niche specialists and providing a vital link in the manufacturing process for the automotive, aerospace, construction, power generation, electronics, consumer products and general engineering industries.

Heat Treatments and Metal Joining

Vacuum, sealed quench and induction heat treatment, carburising, carbonitriding, gas and plasma nitriding, nickel, copper, silver and gold brazing, hardening, tempering, Kolsterising®, low pressure carburising and electron beam welding. Expanding in Eastern Europe, Asia and other developing economies and developing low pressure carburising technology in Europe and the USA.

Hot Isostatic Pressing

Applying the unique product enhancement and novel material production benefits of this advanced technology to an increasing number of customers in precision foundry, power generation, aerospace, automotive, medical, precision tooling, and electronic engineering industries. Managing the western world's largest HIP capacity at 11 locations across 6 countries. Developing the Densal® process and other new materials and manufacturing techniques by collaborative projects with market-leading OEMs.

Surface Engineering

Improving the performance, durability and appearance of components and tools by the application of functional and decorative coatings utilising sherardizing, mechanical cladding, plasma spray, organic, anodizing, HVOF and specialist ceramic coatings processes.

Bodycote Testing

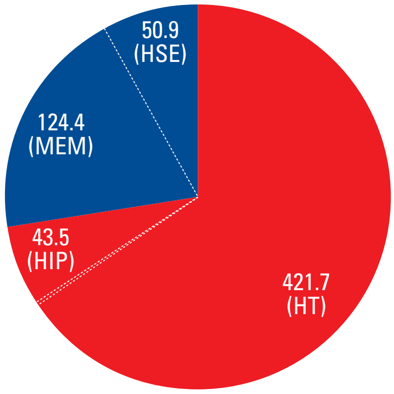
Offering a fully accredited group of 115 testing laboratories in 24 countries for producers and other users, serving international customers and providing a beneficial outsource option for advanced businesses. Measuring, inspecting and certifying the quality and reliability of materials and products for many clients in the fields of civil engineering, food and household goods, pharmaceutical, energy and transportation. Bodycote Testing also provides services to protect the environment and workplace. Consultancy, expert witness and advisory services are also provided.

Materials Testing, Engineering & Technology and Measurement Technologies (MEM)

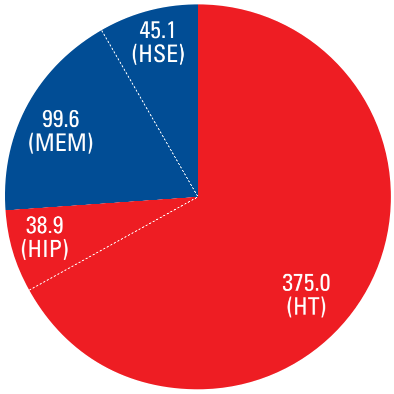
Testing ferrous and non-ferrous alloys, building products, composites and plastics, oils (wear and high voltage) applying mechanical, metallurgical, physical, radiographic and chemical methods. Also providing advanced airframe and engine testing for component integration as well as oilfield, erosion testing, automotive engine development and production testing; and offering complete services within metrology and measurement of instrumentation for the electronic, telecom, medical, electrical and mechanical engineering industries. Bodycote MEM delivers advanced solutions in a cost effective outsource environment enabling customers to reduce costs and focus upon their core business.

Health Sciences and Environmental (HSE)

Testing, evaluation, research and development for food, pharmaceutical and consumer products. Also the sampling and testing for hazardous materials including asbestos, eco-toxicity, stack emission sampling and testing of soils and water. Bodycote HSE brings scientific measurement to facilitate environmental studies and management, and supports a multi-national client base in a highly regulated laboratory environment.



2007 Revenue £640.5m



2006 Revenue £558.6m

Thermal Processing
Heat Treatment (HT)
Hot Isostatic Pressing (HIP)

Testing
Materials Testing, Engineering & Technology and Measurement Technologies (MEM)
Health Sciences and Environmental (HSE)

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 2007 results presentation in the Investor Relation section of the website. We invite you to view and to listen by visiting www.bodycote.com/audiocast

Cover image: Is representative of the growth of services provided by the Bodycote Testing Group and the continuing strengthening of the Bodycote Group.

Bodycote

	2007	2006	Change %
Revenue - Continuing Operations	**£640.5m**	£558.6m	+14.7
Headline Operating Profit[1]	**£91.3m**	£79.7m	+14.6
Operating Profit	**£78.8m**	£58.8m	+34.0
Headline Profit Before Taxation[2]	**£81.0m**	£70.0m	+15.7
Profit Before Taxation	**£68.5m**	£46.6m	+47.0
Basic Headline Earnings Per Share[3]	**20.3p**	17.3p	+17.3
Basic Earnings Per Share	**16.6p**	13.4p	+23.9
Dividend Per Share[4]	**8.0p**	7.0p	+14.3

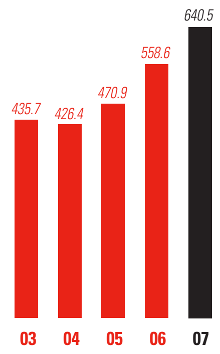
[1] A detailed reconciliation is provided on page 5

[2] A detailed reconciliation is provided on page 8

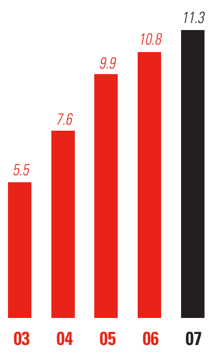
[3] A detailed reconciliation is provided in note 9 on page 44

[4] See note 8 on page 43

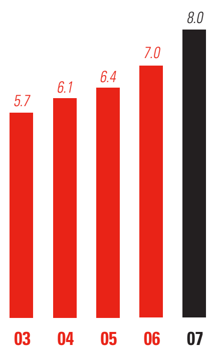
Revenue - Continuing Operations
£ Million



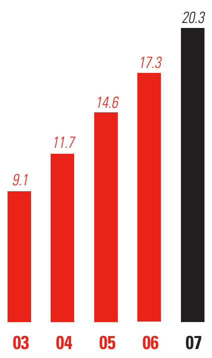
Return on capital employed
%



Dividend Per Share
Pence



Basic Headline Earnings Per Share[3]
Pence



CONTENTS

Chairman's Statement

After an eventful and successful year, Bodycote produced record sales and headline operating profits building on five years of annual improvement. Sales increased 14.7% to £640.5m (2006: £558.6m) and operating profit was up 34.0% to £78.8m (2006: £58.8m). Despite the recent general and specific concerns of the stock market, I am confident that with the increased financial rigour and discipline we have demonstrated in recent years, coupled with the high level of entrepreneurial flair across the Group, Bodycote will continue to prosper and that financial markets will, in due course, reflect the value our customers and staff already recognise in the business.

The board is recommending a final dividend of 5.25p per share (2006: 4.5p), an increase of 16.7%, to be paid on 4 July 2008 to all shareholders on the register at the close of business on 6 June 2008. The total proposed dividend in respect of 2007 is therefore up by 14.3% to 8.0p per share (2006: 7.0p) of which 2.75p per share (2006: 2.5p) has already been paid as an interim dividend. The 2007 total dividend is covered 2.1 times (2006: 1.9 times) by basic earnings per share.

Thermal Processing, the major part of our business, has shown significant improvement in 2007 and we expect that it will continue to do so. Europe, accounting for approximately 70% of sales, performed particularly well in 2007 with good growth from all sectors and return on capital employed of 13.0%. We expect to see further improvement in 2008. In North America there have been areas of strength, primarily related to the aerospace, power generation and oil & gas sectors and areas of softness related to general engineering and automotive, but overall our business continues to grow. In the developing economies of Latin America, Eastern Europe, the Middle East and Asia our footprint is expanding successfully. These long term initiatives are being financed with an inevitable impact on short term performance.

We have grown significantly our Testing businesses over the last three years increasing our range of services across a wider geographical network. This is an exciting and attractive area of our overall business but the results to date, although satisfactory, are below where we expect to be in future.

When I became Chairman in 2002, Bodycote was overstretched and market conditions underwent a severe downturn. Return on capital employed had fallen below the cost of capital. Under the leadership of Chief Executive John Hubbard and with the mantra of restoring our return on capital, we have spent the last six years reshaping and improving the business. We have come a long way in that time and now have a pre-tax return on capital of over 11% and a strategy and commitment to achieve much more. Bodycote today is a far stronger and more resilient business and we have a track record of successfully meeting the challenges that inevitably face any business.

We are committed to a long term approach which implies that we will be professional, ethical and rigorous in all that we do. Being disciplined without being bureaucratic, Bodycote will continue to foster the right entrepreneurial and safe working environment for all our staff. We continue to review all aspects of the business and strategy to ensure that we respond to and take advantage of opportunities as they arise.

In February 2007 Sulzer AG made a takeover approach for the Company but eventually withdrew when it was clear that a majority of shareholders and the Directors believed that the Company was worth more than Sulzer indicated.

Early trading results suggest that 2008 will be another record year for Bodycote. We continue to invest in the business, but we are vigilant in ensuring that Bodycote is in a position to respond to any significant change in economic conditions.

I have served Bodycote as a director since 1994 and am privileged to have been Chairman for the last six years. There have been significant changes and progress during this time with much more to come. The process of refreshing the Board has already commenced. John Biles has joined us as Chairman of the Audit Committee and the Chairman's baton will pass on at the AGM to be held on 30 April 2008. I wish my successor Alan Thomson, who was appointed to the board in December 2007, and everyone at Bodycote continued success.

Finally, I would like to thank everyone at Bodycote for their commitment and dedication and for the support they have given me personally and to the Company.

James AS Wallace

James Wallace
26 February 2008

OPERATIONS

Bodycote provides thermal processing and testing services to manufacturers in virtually every sector of the world economy. From over 300 locations in 35 countries, more than 11,000 employees provide high quality services to over 60,000 customers. The Thermal Processing Strategic Business Unit (SBU) delivered 73% of Group sales compared to 74% in 2006 and saw its sales increase by 12.4%. This SBU is organised into two divisions: Heat Treatment and Hot Isostatic Pressing (HIP). The expansion of this SBU into emerging markets continued through both acquisitions and greenfield start-ups. In line with our strategy to grow rapidly the Testing SBU, sales increased by 21.1% and this SBU now makes up 27% of Group sales compared to 26% in 2006. The Testing SBU is organised into two divisions: Materials Testing, Engineering & Technology and Measurement Technology (MEM) and Health Sciences & Environmental (HSE).

COMPETITIVE ENVIRONMENT

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

REGULATORY ENVIRONMENT

As a service provider to virtually all market sectors and as a business operating in many countries, we are subject to a multitude of quality, safety, environmental and regulatory requirements. We continuously monitor changes in laws, regulations and standards by adopting systems and policies to retain best-in-class compliance. Although this effort is costly in the short term, being a good corporate citizen clearly differentiates us in the market place. Customers have confidence in our quality and the sustainability of our services.

MACRO-ECONOMIC ENVIRONMENT

Generally, the countries in which we operate continue to experience positive manufacturing economic conditions with inflation largely under control, although there is some uncertainty about the near term outlook especially with regard to the USA. Energy prices have remained near record highs during 2007 with different countries experiencing varying levels of movement in unit costs, but, overall, we have marginally reduced energy costs as a percentage of sales. Materials such as nickel, chrome and molybdenum, used in the baskets and fixtures in our thermal processing plants, have significantly increased in price, but we have successfully managed these costs. As a service provider we are ultimately subject to the cyclicality of our customers' requirements. Aerospace, power generation and oil & gas demand continues to be robust. The only significant sector that we serve which has exhibited softness is automotive in North America. However, we continue to offset this softer demand by winning new business in our traditional territories, principally through outsourcing and by expanding into new geographies. In total, automotive sales increased by £14.7m (10.6% growth) in the year.

LONG TERM STRATEGY AND BUSINESS OBJECTIVES

After a thorough review in early 2005, we have articulated a strategy which incorporates four key initiatives, each aimed at enhancing shareholder value and accelerating growth:

- expand the Group into developing manufacturing geographies;
- increase Testing to about half of Group's sales;
- develop our high added value technologies; and
- intensify outsourcing initiatives.

We measure our performance against the delivery of this strategy using the financial and non-financial indicators (shown in the table Key Performance Indicators on page 5).

Our most important indicator is the return on capital employed (ROCE) and further progress has been made in 2007 towards our 5 year target.

Overall return on sales was unchanged, with both Heat Treatment (+1%) and HIP (+3%) increasing while, as anticipated, greenfield investments, mix changes, additional infrastructure costs and difficult trading conditions in our Food and Environmental Testing businesses have resulted in a reduction of margins in the Testing SBU (-3%). Group organic sales growth (9%) was again within our target range.

People costs are the Group's largest expense. Thermal Processing saw a reduction in these costs to 39.5% of sales thus achieving our target of 40%. People costs in Testing however, increased slightly due to the impact of added resources needed to support our acquisition programme.

Capital expenditure was within our target range and was above the level of depreciation, reflecting the Group's establishment of new facilities in emerging markets and also the support of new outsourcing contracts. Additional capital expenditure also reinforces our commitment to additional HIP capacity with the aim of supporting growing demand in aerospace, power generation and oil & gas. We expect to benefit from these investments beginning in 2008 but particularly in 2009 and 2010.

Capacity utilisation is the key factor in improving profitability in Thermal Processing. In 2007 we saw further progress towards our goal of >80% with current utilisation in Heat Treatment at 74% (2006: 72%). HIP utilisation has temporarily decreased following the installation of a new large unit at our Washington facility to 71% (2006: 75%).

We have largely achieved our target of having all the Group's facilities meet the environmental standard ISO 14001 or the laboratory management standard ISO 17025. Significant improvements in our work related accident rates have been achieved over the past four years by a combination of training, systems and cultural change. We remain committed to achieving the highest standards of safety for our people and having zero accidents remains our goal.

During the year, twelve businesses were acquired for net consideration of £32.7m. Ten of these acquisitions were thermal processing businesses, with the remainder being within the Testing SBU.

2007 Group Business Review

FINANCIAL RESULTS FOR 2007

In 2007 Bodycote has again shown strong growth with sales increasing by 14.7% to £640.5m (2006: 18.6% growth to £558.6m). Organic sales accounted for 8.8% (2006: 5.5%) of this improvement before the impact of closed sites and acquisitions for 9.6% (2006: 13.1%). The impact of the movement in exchange rates on translation of sales was adverse by 2.6% (2006: nil).

We have seen increasing demand in several key markets, most notably aerospace, power generation and oil & gas. Outsourcing (Strategic Partnerships and Long Term Agreements) provided £18m of additional sales (17% growth), resulting in a total of £123m in 2007 (2006: £105m). Some notable outsourcing agreements concluded in the year were with Sandvik, Dubai Light Railway, Rolls-Royce, General Motors, AM General, Nokia and Faurecia. Outsourcing sales continue to account for approximately 20% of Group sales and we expect further growth both in absolute terms and as a share of Group activity.

Headline operating profit increased by 14.6% to £91.3m in 2007 (2006: up 17.6% to £79.7m). The impact of exchange rates on the translation of overseas profits was adverse 2.8% (£2.2m) this year (2006: -0.1%).

Operating profit improved by £20.0m due to improved trading and as favourable changes to the rules of the UK final salary pension scheme (£4.1m) more than offset bid response costs (£2.1m) and there was no impairment of investments in associates in 2007 (2006: £8.3m).

Overall, our headline operating margin remained consistent at 14.3% in both 2007 and 2006. Whilst the Heat Treatment business saw its headline margin, as defined on page 5, increase to 14.6% (2006: 13.4%) and HIP to 35.4% (2006: 32.9%), Testing saw its margin fall to 12.0% (2006: 14.7%). This is largely attributable to increased infrastructure costs to support a larger business, greenfield start-up losses and weak performance in the food consumer products and environmental businesses within the Health Science and Environmental division of the Testing SBU in both Canada and the UK.

A charge of £1.7m (2006: £1.0m) has been accrued in head office costs for a share-based long term incentive plan (LTIP) for senior managers which is designed to incentivise growth in profit and ROCE. The LTIP was approved by shareholders at the 2006 AGM. The amount charged reflects the expected fair value, spread over the three year vesting period, adjusted for current progress towards planned targets.

As part of our plans to increase activity in Asia, we have continued to invest in equipment, real estate and in business development. We now have two heat treatment facilities in India, a further two in China and a joint Testing and Thermal Spray location in Singapore. The total operating loss associated with these developments was £1.8m (2006: £0.5m).

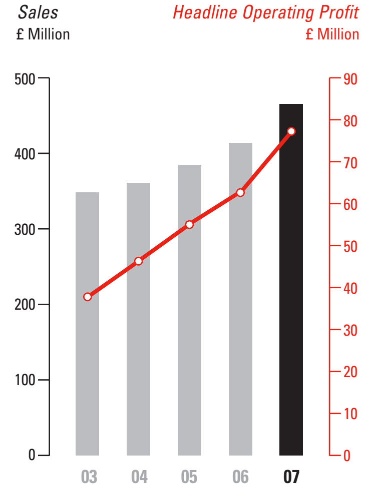
During the year we acquired ten new businesses and the outstanding equity, not already owned by Bodycote, in two others at a net cost of £32.7m. Only one acquisition and the purchase of the remainder of Warrington Fire Research (Aust) Pty Ltd were in Testing as we have been concentrating on the integration of the twelve businesses (38 laboratories) acquired in 2006. We expect significantly more activity in 2008 and by February 26 three businesses at a cost of £10.4m have joined the Group. Of the ten businesses acquired by the Thermal Processing SBU during the year, four are in emerging markets (China, India, Brazil and Argentina), five are focused on high added value specialist technologies in Germany and France and one gives Bodycote the market leading position in the Texas/ Oklahoma aerospace and oil & gas market.

REVIEW BY STRATEGIC BUSINESS UNIT (SBU)

Thermal Processing SBU

Thermal Processing reported sales of £465.2m, an increase of 12.4% on 2006. This was split 8.6% organic, 7.8% acquired and a reduction of 2.3% (£9.5m) in respect of adverse foreign exchange translation impact. ROCE improved to 12.0% (2006: 9.9%) and margins increased to 16.6% (2006: 15.2%). The ten businesses acquired represent fourteen facilities at a net cost of £30.9m. Energy cost increases have been less in 2007 than 2006. Taking the last two years together, all energy cost increases have now been recovered. As part of our continuous review of operations, we closed three heat treatment facilities: Lexington (USA), Charvonnex (France) and Koping (Sweden) with a proportion of the work and some of the equipment transferred to other locations. All of the associated cost has been charged to headline operating profit. However, the costs associated with closing five sites previously treated as exceptional have risen and the associated provision has been increased by £3.4m.

Thermal Processing
Sales and Headline Operating Profit



Heat Treatment Division

The division delivered 12.5% (2006: 7.4%) growth with sales of £421.7m, which accounts for 66% of the Group revenues (2006: 67%). Margins rose to 14.6% (2006: 13.4%).

The UK continued to see strong demand from power generation, aerospace and oil & gas customers resulting in 7.7% organic growth with demand for thermal spray and K-Tech coatings being particularly robust.

Bodycote

Key performance indicators

	2007	2006	5 year target
Financial			
Return on capital employed[1]	**11.3%**	10.8%	Mid teens %
Return on sales[2]	**14.3%**	14.3%	High teens %
Organic sales growth[3]	**8.8%**	5.5%	Mid to high single digit %
People costs as a percentage of sales[4]			
Thermal Processing	**39.5%**	40.7%	40%
Testing	**53.3%**	51.8%	50%
Capital expenditure/depreciation ratio[5]	**1.3x**	1.2x	0.8 – 1.3x
Non financial			
Capacity utilisation (Heat Treatment only)[6]	**74%**	72%	>80%
Capacity utilisation HIP[6]	**71%**	72%	>80%
ISO 14001/17025 compliant facilities[7]	**233**	184	All facilities
Accident frequency[8]	**1.6**	2.2	Zero

Definitions

[1] Headline operating profit as a percentage of average capital employed. Capital employed includes tangible and intangible assets including all previously amortised/impaired goodwill and all non-interest bearing assets and liabilities.

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

[3] Year on year increase in revenue at constant currency from continuing operations excluding revenue from acquisitions made within the prior twelve months.

[4] The salary and benefit costs of all employees as a percentage of revenue from continuing operations.

[5] Net capital expenditure divided by depreciation.

[6] Actual revenues expressed as a percentage of theoretical maximum revenue assuming that heat treatment facilities operate 24 hours per day, 365 days per year.

[7] The number of facilities holding registrations for ISO 14001 or ISO 17025.

[8] Accident frequency - the number of accidents x 200,000 (approximating 100 man years), divided by the total hours worked.

Financial results for 2007

	Revenue[1]		Headline operating profit		Margin	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 %**	2006 %
Heat Treatment	**421.7**	375.0	**61.6**	50.3	**14.6**	13.4
HIP	**43.5**	38.9	**15.4**	12.8	**35.4**	32.9
Thermal Processing	**465.2**	413.9	**77.0**	63.1	**16.6**	15.2
Testing	**175.3**	144.7	**21.0**	21.3	**12.0**	14.7
Head office costs	**–**	–	**(6.7)**	(4.7)	**–**	–
Group Total	**640.5**	558.6	**91.3**	79.7	**14.3**	14.3

Notes

[1] Revenue from continuing operations after deducting inter-segment sales.

Headline operating profit is defined as follows:

	2007 £m	2006 £m
Headline operating profit	**91.3**	79.7
Share of associates' interest and tax	**–**	(0.6)
Amortisation/impairment of acquired intangible fixed assets	**(1.9)**	(1.0)
Impairment of goodwill	**(7.2)**	(6.0)
Impairment of investment in associate	**–**	(8.3)
Change to pension scheme rules	**4.1**	–
Major facility closure costs	**(5.4)**	(5.0)
Bid response costs	**(2.1)**	–
Operating profit from continuing operations per financial statements	**78.8**	58.8

2007 Group Business Review

Our Nordic group continued to perform very well and organic sales growth was an excellent 13.6% (at constant exchange rates) on the back of several additional outsourcing contracts with a variety of blue-chip engineering customers. Demand in Germany and the Netherlands was solid with good automotive growth resulting in an organic sales increase of 9.6% (at constant exchange rates). The acquisition of Nitrion GmbH immediately before the year-end significantly enhances the Group's position in nitriding technologies. Our Eastern European facilities continue to grow strongly with organic growth of 28.8% and a further 31.8% (at constant exchange rates) from the first full year of Bodycote ISTAS in Turkey, in which the Group has a 60% interest. Margins in Eastern Europe are generally good but the results in Turkey have been marginally impacted by costs associated with bringing safety, quality and business systems up to the standard expected by the Group.

France and Belgium made further excellent progress and margins now match other parts of our European business. Organic growth was 7.1% (at constant exchange rates), with increasing demand from both aerospace and automotive customers. The business was also strengthened by the acquisition of Techmeta SAS (electron beam welding) in February and Nitruvid SAS (a nitriding specialist, which Nitrion will complement) in July. Southern Europe had a reasonable year with very strong growth in Austria and Liechtenstein partly offset by softness in Italy and Switzerland.

North America saw organic sales grow 2.0% (at constant exchange rates) in the continuing business, although overall sales dropped by £4.8m (at constant exchange rates). Margins remained consistent with last year at 10.0%. Demand continues to be strong in the aerospace, oil & gas and power generation markets but automotive and general engineering demand is subdued. We continue to review our various locations in the light of our strategy to provide value added services with growth potential. Our investment in low pressure carburizing capability (used for new generation automotive transmission gears in particular) in Silao, Mexico, will begin production in Q3 2008 to complement our Livonia, Michigan, facility which has been operating for 15 months. We are also continuing to look for ways to consolidate the industry in key regions of the USA and the acquisition in December of Metroplex Heat Treat Inc based in Arlington, Texas, secures a leading market position for the Group in Texas/ Oklahoma. 2007 was the first full year for the Group in Brazil following the acquisition of Brasimet. Market conditions were reasonable during the year and the business had a satisfactory performance. Brasimet has a long standing physical vapour deposition (PVD) capability and to enhance our offering in the market place Bodycote acquired the small PVD activities of our associate company, SSCP Coating Sarl, in both Brazil and Argentina.

Our activities in Asia made significant progress with acquisitions in both China and India adding to the start-ups in Singapore, Ranjangaon (India) and Wuxi (China) and we absorbed losses in the greenfield locations of £0.7m.

HIP Division

The division achieved an impressive 17.0% (at constant exchange rates) organic growth rate on the back of strong demand from aerospace, power generation and oil & gas customers and a widening use of the technology especially for powder based near net shapes.

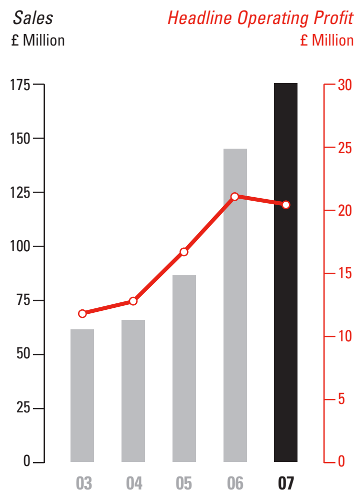
Sales were £43.5m which amounted to 7% of total Group revenues (2006: 7%). Margins were 35.4% (2006: 32.9%). The strong performance balances the disappointing results experienced when end markets were at a cyclical low in 2002/2003. Aerospace and power generation led the growth in North America while power generation and oil & gas demand were the key drivers of European growth. In late December, we purchased the remaining 51% of the equity of Traitements Compression Services SAS, the only provider of HIP services in France.

Testing SBU

Testing recorded sales of £175.3m, an increase of 21.1%. This was split 9.5% organic, 14.9% acquisition and a reduction of £4.8m (3.3%) due to foreign exchange translation impact. ROCE declined to 13.1% and margins slipped to 12.0% (2006: 14.7%) due to the costs associated with the greenfield laboratory (£1.2m), start-ups (Singapore, Bahrain, Croatia, Saudi Arabia, Kuwait, Dubai, Canada, USA and Mexico), additional infrastructure to support the growing business and difficult trading conditions in our environmental and food businesses in both Canada and the UK.

We acquired only one Testing business and the outstanding minority in Warrington Fire Research (Aust) Pty Ltd in 2007 while we concentrated on the integration of the twelve businesses with 38 laboratories that we purchased in 2006. In line with our strategy to grow Testing relative to the size of Thermal Processing, this SBU now represents 27% of the Group's increased revenue (2006: 26%).

Testing
Sales and Headline Operating Profit



Materials Testing, Engineering & Technology and Measurement Technologies (MEM) Division

The division delivered 24.9% sales growth of which 13.0% was organic. Sales were £124.4m, which accounts for 19% of group sales (2006: 18%). Margins were 13.6% (2006: 14.4%). Oil & gas, aerospace and construction demand was robust across all regions, with the Middle East particularly strong. Sales in Asia Pacific were £1.9m (2006: £1.2m).

We continued to progress the expansion of the network into emerging markets, with full service laboratories opened in Croatia, Bahrain, Singapore and Brazil. Outsourcing remains a central plank of the organic growth strategy with a significant number of deals concluded, including aerospace contracts for our laboratories in Pilzen, Czech Republic and Monterrey, Mexico; automotive engine development agreements at Mississauga, Canada; civil engineering/construction contracts in Dubai and control systems contracts at Rockford, Illinois USA.

In response to a tough trading environment in the North American automotive market, a major consolidation project has been undertaken, reducing four sites to one automotive centre of excellence in Warren, Michigan, USA. Know-how continues to be transferred around the Group with a number of areas benefiting, particularly in the emerging economies, as Group expertise is established in these new operations, e.g. Bahrain, Singapore and Mexico. A technical development laboratory has been established in the UK to formalise the roll out of specialist energy/ aerospace related testing activities.

Health Sciences and Environmental (HSE) Division

The division delivered 12.9% sales growth, with sales of £50.9m, which accounts for 8% of Group revenues (2006: 8%). Margins were 8.1% (2006: 15.5%), having been impacted by a combination of pricing pressures, wage inflation and poor weather conditions in the first half in the Environmental business in western Canada and by price pressure in both the Environmental and Food business in the UK. We have been actively addressing these issues and we are continuing to increase our emphasis on added value services. For example, our UK Food & Advisory division successfully tendered for a number of contracts from major retailers which improves our order book visibility for 2008.

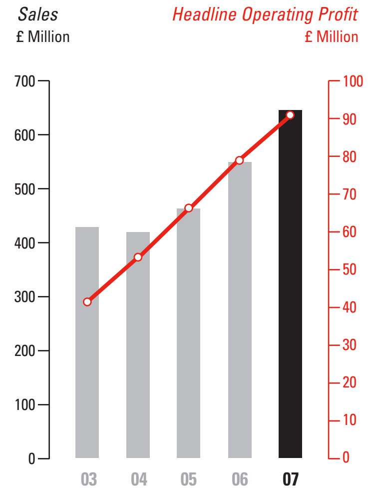
And to enhance our Canadian Environmental performance, we have added three further laboratories through a combination of greenfield, outsourcing and acquisition activity in Hinton and Drayton Valley, both in Alberta and Accutest Laboratories in Ontario.

Following the major acquisition activity in 2006 we have improved operational efficiencies with laboratories closed in Windsor, UK, and in Quebec and Alberta, Canada. We continue to penetrate the fledgling environmental market in the Gulf region with long-term contracts secured in Bahrain, Oman and the UAE. Significant investment is being made in our IS systems to allow clients to download results and sample data from our laboratory information management systems via a client portal over the internet.

Associated Company – SSCP Coating Sarl (SSCP)

SSCP provides high quality PVD coatings to the same market sectors as Bodycote. Trading in 2006 was disappointing and at the beginning of 2007, as part of the refinancing of SSCP, its shareholders agreed that share warrants would be attached to £10.4m of new funding. Bodycote decided that it was in the Group's interest to maintain its shareholding in SSCP and therefore subscribed to a pro rata portion of the new funding for £3.4m. During 2007, trading performance has improved and is expected to continue to do so in 2008. The Group currently owns 24.4% of the share capital of SSCP.

V Group
Sales and Headline Operating Profit



FINANCIAL REVIEW

Revenue

Group revenue from continuing operations was £640.5m, an increase of £81.9m (up 14.7%) on 2006 (£558.6m). Revenue growth for Heat Treatment was £46.7m (up 12.5%), for HIP £4.6m (up 11.8%) and for Testing £30.6m (up 21.1%). Organic growth accounted for £49.4m of total sales growth before the impact of closed sites, which had annualised sales amounting to £7.1m and acquisitions for £53.9m, while foreign currency movements had an adverse impact on revenues of £14.3m mostly resulting from the weakening of the US Dollar.

Operating Profit and Margins

Demand was robust in most of our markets in 2007 with the notable exception of North America. This had a particularly significant effect on our Testing businesses. Increases in energy and commodity prices have eased and we have managed to recover these increases through price increases. Consequently, operating profit increased by 34.0% from £58.8m to £78.8m and the margin increased from 10.5% to 12.3%.

Heat Treatment benefited from strong growth in all of our European markets. Operating profit increased by 61.6% despite the adverse impact of foreign currency movements of 1.6%. Margins increased from 9.2% to 13.3%.

HIP continued to benefit from robust aerospace and power generation demand and showed an increase in operating profit of 21.9%.

2007 Group Business Review

As the US business forms a greater proportion of the HIP SBU, foreign currency movements have had a much greater impact on its results, decreasing operating profit by 5.7%. Despite this margins increased from 32.9% to 35.9%.

Despite difficulties in its North American markets Testing has also continued to invest in building its infrastructure to support its growth plans. Headline operating profit grew by 1.7% before the adverse impact of foreign currency movements of 3.2%, which ultimately resulted in a fall of 1.5% in headline operating profit. Further costs for amortisation/ impairment of acquired intangible assets and goodwill (£4.8m), major facility closure costs (£2.0m) less gains on changes to pension scheme rules (£1.5m) totaled £5.3m (2006: £4.6m) and this resulted in operating profit falling by 6%.

Finance Charge

The net finance charge for the Group was £10.3m compared to £9.1m in 2006, excluding the make whole for the early termination of the US Private Placement senior notes (£3.1m).

Profit before tax

Headline profit before tax was £81.0m compared to £70.0m in 2006. Profit before tax was £68.5m compared to £46.6m in 2006.

Headline Profit Before tax is defined in the table below.

Taxation

Taxation was £14.7m for the year, £12m higher than the 2006 charge which had benefited from tax settlements of £11.2m. The effective tax rate for the Group was 21.5% (2006: 5.8%).

The Group's underlying rate of tax, which represents the tax rate before impairment of goodwill and amortisation of acquired intangibles (both of which are generally not allowable for tax purposes) and before non-recurring items, was 19.0% (2006: 7.7%). The 2006 underlying rate is stated after the impact of specific settlements with tax authorities that reduced the tax liability by £11.2m.

The effective tax rates reflect a blend of rates in the numerous worldwide locations in which Bodycote is present, and many of these have a lower tax rate than the UK standard rate of 30%. Additionally, a number of jurisdictions have reduced their tax rates or have announced tax rate reductions, which have had a favourable impact on the Group's effective rate.

Headline profit before taxation is defined as follows:

	2007 £m	2006 £m
Headline Operating Profit	**91.3**	79.7
Net Finance Charge after the deduction of the early settlement of US Private Placement	**(10.3)**	(9.1)
Share of associates' interest	**–**	(0.6)
Headline Profit Before Tax	**81.0**	70.0
Amortisation/impairment of intangible fixed assets	**(1.9)**	(1.0)
Impairment of goodwill	**(7.2)**	(6.0)
Impairment of investment in associate	**–**	(8.3)
Change to pension scheme rules	**4.1**	-
Major facility closure costs	**(5.4)**	(5.0)
Bid response costs	**(2.1)**	-
Early settlement of US Private Placement	**–**	(3.1)
Profit before tax	**68.5**	46.6

Balance sheet at 31 December 2007

	Assets £m	Liabilities £m	Net assets £m
Property plant and equipment	508.9	–	508.9
Goodwill and intangible assets	227.3	–	227.3
Current assets and liabilities	181.3	(157.2)	24.1
Other non-current assets and liabilities	15.0	(12.0)	3.0
Post retirement obligations	–	(23.9)	(23.9)
Deferred tax	29.7	(74.3)	(44.6)
Total before net debt	962.2	(267.4)	694.8
Net debt	37.7	(235.9)	(198.2)
Total as at 31 December 2007	**999.9**	**(503.3)**	**496.6**
Total as at 31 December 2006	889.4	(435.5)	453.9

Earnings per share

Basic headline earnings per share (as defined in note 9) increased by 17.3% to 20.3p from 17.3p. Basic and diluted earnings per share for the year were 16.6p (2006: 13.4p), an increase of 23.9%

Dividend

The Board has recommended a final dividend of 5.25p bringing the total dividend in 2007 to 8.0p (2006: 7.0p) an increase of 14.3%. The dividend is covered 2.5 times (2006: 2.5 times) by headline earnings per share (as defined in note 9) and 2.1 times (2006: 1.9 times) by basic earnings per share.

CAPITAL STRUCTURE

Our balance sheet at 31 December 2007 can be summarised as set out in the table on the left.

Net assets increased by 9.4% to £496.6m (2006: £453.9m) and net assets per share by 10% to £1.56 (2006: £1.41). The main increases in the assets on the balance sheet were due to an increase in property, plant and equipment of £60.5m and an increase in goodwill and intangible assets of £15.0m, which arose from the acquisitions completed during the year. The increases in assets were partially offset by an increase in net debt of £37.3m.

Net Debt

Group net debt was £198.2m (2006: £160.9m). During the year, additional loans of £36.0m were drawn down under committed facilities. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding. In 2007, a three year committed loan facility of $20m was completed.

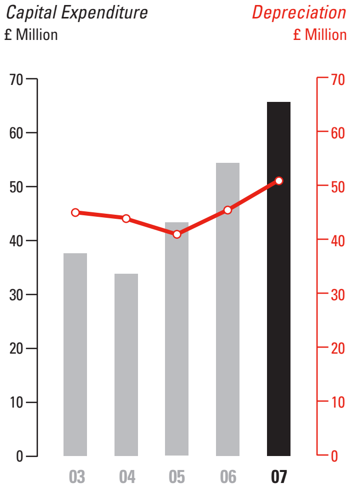
Cash Flow

Cash flow from operating activities was £108.0m compared to £109.2m in 2006, a decrease of 1.1%. After allowing for net capital expenditure of £66.9m (2006: £55.4m), the Group generated operating cash flow of £41.1m compared to £53.8m in 2006. There has been continued focus on cash collection and debtor days have decreased by 2 days to 68 days. Net interest payments in the year were £9.1m (2006: £12.8m) and tax payments were £16.0m (2006: £8.4m). Acquisitions and disposals resulted in net cash outgoings of £32.9m (2006: £86.2m).

Capital Expenditure

Net capital expenditure for the year was £66.9m compared to £55.4m in 2006. The multiple of net capital expenditure to depreciation was 1.3 times as the Group expands into emerging markets and continues to take advantage of outsourcing opportunities. With buoyant demand continuing in most markets, the Group anticipates a ratio of 1.3 times again in the current year. During the year work continued on 21 greenfield investments started since 2006 such as the greenfield heat treatment plant in Mexico, various testing facilities in the Middle East, the new testing facility in Mexico and the construction of our Indian heat treatment facility. Expansion projects with expenditure in 2007 included a new heat treatment plant in Finland, the completion of a large HIP unit in the US and the commencement of work on a new large HIP unit in Sweden.

Capital Expenditure and Depreciation



Borrowing Facilities

At 31 December 2007, Bodycote had three committed bank facilities of £225m (2006: £225m), expiring July 2010; €125m (2006: €125m), expiring July 2013; and $20m (2006: nil) expiring July 2010 totalling £326.9m (2006: £309.2m). At the same date, the three facilities were drawn £175.3m (2006: £140.3m), £44.1m (2006: £43.1m) and £4.6m (2006: nil) respectively, totalling £224.0m (2006: £183.4m).

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. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by the Company's Board of directors, most recently on 13 December 2007.

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 or the Group's approach to the management of those risks.

Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concerns while maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings (as disclosed in note 17), cash and cash equivalents and equity attributable to equity holders of the parent, comprising capital, reserves and retained earnings (as disclosed in notes 23 and 24).

The capital structure is reviewed regularly by the Company's Board of Directors. The Group's policy is to maintain gearing, determined as the proportion of net debt to total capital within defined parameters, allowing movement in the capital structure appropriate to the business cycle and corporate activity. The gearing ratio at 31 December 2007 was 28% (2006: 26%).

The Group's debt funding policy is to borrow centrally, using a mixture of short-term borrowings, longer-term loans and finance leases. These borrowings, together with cash generated from operations, are lent or contributed as equity to certain subsidiaries. The aim of the Group's funding policy is to ensure continuity of finance at reasonable cost, based on committed facilities from several sources, arranged for a spread of maturities.

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 5 year rolling Strategic Plan, an annual budget agreed by the Board each December and a quarterly re-forecast undertaken during the financial year. The resulting forecast net debt is measured against a 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 2007, the Group had committed facilities of £326.9m (2006: £309.2m) which exceed net debt of £198.2m (2006: £160.9m) by 65% (2006: 92%). 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 long term liquidity through long term committed bank facilities and will, if appropriate, raise funds on capital markets. The Group's principal committed bank facility of £225m has a maturity of 2.6 years. The €125m committed bank facility has a maturity of 5.6 years. In addition cash management pooling, netting and concentration techniques are used to minimise borrowings.

Market Risk

Interest rate risk

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

As at 31 December 2007, 6% of net borrowings were at fixed rates for an average period of 3.0 years.

Currency risk

Bodycote has operations in 35 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. Assets are hedged, where appropriate, by matching the currency of borrowings to the net assets. The Group principally borrows in the US Dollar, Euro, Swedish Krona and Canadian Dollar, consistent with the location of the Group's non-sterling assets. The Group also creates further currency financial liabilities and assets using cross currency swaps in order to match currency assets with currency liabilities better. The Group recognises foreign exchange movements in equity for the translation of these net investment hedging instruments and balances. As at 31 December 2007, £231.7m of gross debt and £148.8m of foreign exchange and cross currency swap liabilities were in currencies other than sterling and net cash of £33.3m and cross currency swap assets of £140.2m were in sterling.

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

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. However the nature of the business is such that cross border sales and purchases are limited and, other than currency 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 2007, for all financial instruments with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in such a manner. The sensitivity analysis excludes the impact of market risks on net post employment benefit obligations.

Interest rate sensitivity

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

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

Under these assumptions, a one percentage point fall or rise in market interest rates for all currencies in which the Group has variable net cash (and derivative assets) or net borrowings (and derivative liabilities) at 31 December 2007 would reduce or increase profit before tax by approximately £1.9m. There is no material impact on equity.

Currency sensitivity

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

Under this assumption, a 10% strengthening or weakening of sterling against all exchange rates at 31 December 2007 would have reduced or increased profit before tax and equity (before tax effects) as shown in the table below:

Currency sensitivity - impact +/-

£m	On equity	On profit before tax
CAD	2.3	0.1
Euro	17.5	0.7
SEK	3.8	0.1
USD	9.3	0.5
Other	0.8	0.1
Total	33.7	1.5

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

Counterparty risk

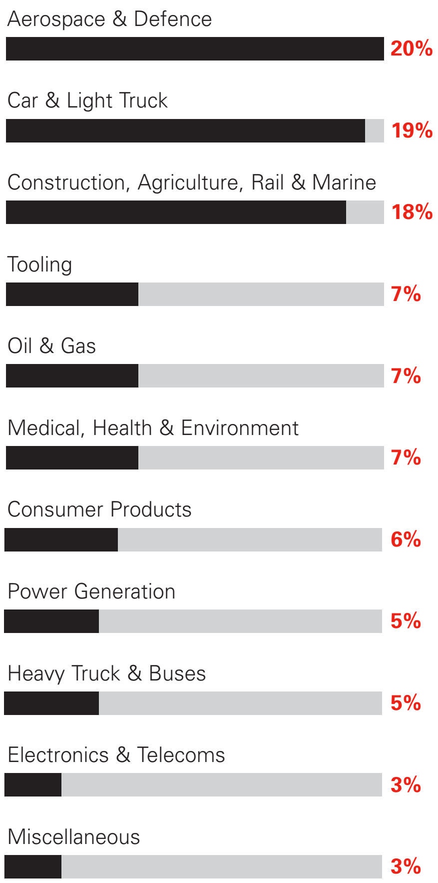
Counterparty risk encompasses settlement risk on derivative financial instruments and money market contracts and credit risk on cash and time deposits. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its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

Credit risk

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

Concentrations of credit risk with respect to trade receivables are limited. The Group has a diverse customer base of over 60,000 customers and is not reliant on any one business sector, end market, or client. The largest customer represents c. 3% of total Group revenue and the top ten customers account for c. 9%. Bodycote's diverse client base provides the Group with balanced demand from a number of sectors as seen below. Management therefore believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables (see note 16).

Market sector analysis



DEFINED BENEFIT PENSION ARRANGEMENTS

The Group has defined benefit pension obligations in the UK, Germany, Sweden, USA and Brazil and cash lump sum obligations in France, Italy and Turkey, which are all reflected in the Group balance sheet. In the UK, the Group has a final salary scheme, which was closed to new members in April 2001, but continues to accrue benefits for the 260 current employee members. The deficit as calculated by the scheme actuary at 31 December 2007 using the principles of IAS 19 is £13.4m.

The Group's Heat Treatment business in Germany has inherited several defined benefit arrangements. They are all unfunded and are closed to new members but existing members continue to accrue benefits. The IAS 19 liability at 31 December 2007 was £2.6m. In Sweden, the Group has two defined benefit arrangements. One is funded and one is unfunded and each is open to new employees. The IAS 19 liability at 31 December 2007 was £2.0m. The Group sponsors five defined benefit pension arrangements in the USA which were inherited with the acquisition of Lindberg and had a total IAS 19 deficit at 31 December 2007 of £0.2m. There are no further accruals on any of these plans. Brasimet operates a defined benefit plan for three senior members of staff. It is fully funded and the members continue to accrue benefits. At 31 December 2007 it had a surplus of £0.1m. In France we operate a plan which pays a cash lump sum on retirement and also for long service. The plan is open to new employees but by its nature is not mortality dependent. It is unfunded and the IAS 19 liability at 31 December 2007 was £4.9 m. Italy and Turkey also have cash lump sum obligations which are open to new members. The IAS 19 liability is £0.7m for Italy and £0.1m for Turkey.

POST BALANCE SHEET EVENTS

After the year end the Group purchased Accutest Laboratories Limited, a Canadian analytical testing business, Metlab (Int.) Ltd in Eire which provides materials testing and non-destructive testing services and Thai Inductions Services Co. Limited, Thailand's largest metallurgical services provider. The total consideration for these transactions was £10.4m.

CHANGE IN ACCOUNTING POLICIES

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

GOING CONCERN

After making enquiries, the directors have formed the opinion that at the time of approving the financial statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

Markets

The key risk we face is a reduction in end market demand, but with the exception of the automotive sector in western markets, forecast demand in the near term appears robust.

Commercial relationships

The Group benefits from many long term and partnership arrangements with key customers. Damage to or loss of any of these relationships may be detrimental to Group results although we believe this is highly unlikely. Given that our top ten customers account for only c. 9% of sales, with the balance made up by many thousands of customers, we have low revenue concentration risk. The Group has no significant supplier dependency.

Competitors

With the exception of HIP, our markets are fragmented and this means that the actions of competitors are typically felt locally rather than across the Group. The small market and concentrated supply of HIP means that there is a greater risk of material impact on this division should competitors add significant capacity.

Human Resources

People are the Group's greatest asset and also form its largest cost. We work hard at maintaining a respectful and trusting relationship with all employees. However, we are mindful that there must be strong control on these costs, which can be flexed more easily in North America, the UK and emerging economies, but much less so in Western Europe where we strive to keep about 15% of our workforce flexible against a background of more restrictive employment laws.

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Safety and Health
Our work environment has numerous and varied risks which we strive to mitigate by providing systems, equipment, training and supervision. Risk is evaluated by internal and external resources so that it is continuously managed and mitigated.

Brand and Reputation
Bodycote is a valuable and well-known business to business brand. Any damage to the brand because of the breakdown of commercial relationships, non-compliance with laws and regulations, misuse of human or other resources in breach of our corporate ethos could have an adverse impact on the Group as a whole. For these reasons Bodycote has instituted an effective programme under which employees can and do use the Group's open door policy to report legitimate concerns about business conduct to the most senior executives and non-executive directors.

Energy
An increase in energy cost is a risk which we have been able to mitigate so far, although with some time lag, through price adjustments or surcharges and we expect to be able to continue this practice.

Operations
Our stringent quality systems, our internal and external auditing as well as our customers verification of our results, minimise the risk of releasing faulty parts or test results into use, which could arise as a result of system or human failure.

Environmental
Some of our heat treatment plants use solvents and other hazardous chemicals in small quantities. There is therefore the potential for ground contamination at our facilities. Past exposures are remediated as and when required. The likelihood of future problems is mitigated by our procedures, typically under the requirement of ISO 14001 environmental systems.

Foreign exchange
Although the Group has all but 17% of its sales generated outside the UK, the overwhelming majority of those sales are supplied locally to customers buying in the currency of our input costs. Consequently transaction risk is low. We are, however, exposed to fluctuation in exchange rates in respect of the translation of non-sterling denominated results. In common with the majority of UK listed companies we do not hedge this exposure. However, we do partially hedge our balance sheet assets and liabilities through a mixture of local currency loans and cross currency swaps.

RESOURCES
The Group has key resources which are critical to its continued success: People, Technology, Approvals and Systems.

People
The strength of our Group primarily rests in our people and one of the key challenges for management is to ensure availability of appropriately qualified people to support our continued growth. We are fortunate to have a competent and committed international team that is well respected in technical and business circles. Most of our acquisitions are based on historical relationships with Bodycote personnel which is a testament to the integrity of our people. The Board has established a remuneration policy which rewards performance while offering competitive base packages. In line with our policy of continuous improvement we have established a leadership development programme to improve the succession pipeline for our future business leadership. With the opportunity for career development we believe we can continue to sustain and grow the Group into the future.

Technology
The technology we apply in delivering our services is mostly generic. The differentiator is in our know-how in applying that technology, the quality standards we adhere to, the depth of technical knowledge we are able to deliver and the consistency of service. In those instances where we have unique technology, we have principally relied upon confidentiality with patent protection for niche areas.

Approvals
We have 56 facilities registered to Nadcap, the international aerospace quality standard. All Thermal Processing facilities are certified to at least one quality standard (e.g. ISO 9001, TS 16949, Nadcap) and by the end of the year 131 out of 194 Thermal Processing facilities were certified to ISO 14001 environmental standards. Testing has 102 of its 115 facilities accredited to the laboratory management standard ISO 17025. Our reputation for strong compliance differentiates us in the market place and assures customers of our ability to deliver consistent quality. This makes our customers' decision to outsource critical components easier.

Systems
Information systems provide the systems that allow us to operate successfully a large distributed network. It is critical that we continue to develop our systems so we can have the most efficient information processes for ourselves, our customers and so we have the ability to identify and control costs across the whole of the Group.
We use computer and internet technology to provide secure real-time job status as well as technical support to our customers.

CORPORATE ETHOS

In achieving Bodycote's aim to be recognised globally as the leading provider of thermal processing and in testing services, the Board has over time developed several principles which will apply in its dealings with stakeholders and the wider community.

Safety, health and the environment

Bodycote has a proactive approach to safety, health and the environment and is committed to the highest practicable standards of safety and health management and to the minimisation of adverse environmental impacts.

Human Resources

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

Ethical Standards

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

Compliance with laws

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

Competition

Bodycote aims to win business in a differentiated high value manner: We do not employ unfair trading methods and we compete vigorously but fairly within the requirements of the applicable laws. Employees are prohibited from either giving or receiving any inducements.

Conflicts of interest

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

Politics

Bodycote does not make political donations.

As a result of these principles, some key areas of focus have emerged, namely in respect of people, safety, health and the environment.

KEY AREAS OF FOCUS

Training and Education

The Group sponsors The Bodycote Educational Foundation, a registered charity, whose aim is to fund relevant educational and training opportunities. These aims are fulfilled by supporting short term student placements at Bodycote facilities to work on specific projects of benefit to the Group. Since 1996, the Foundation has sponsored over 265 students from 10 countries. The Foundation also supports the annual Prize Paper Competition. In its twelfth year, the competition has become one of the most highly regarded in its field. Numerous entries from universities and materials science institutes worldwide follow a rigorous selection process, with five entrants reaching the final presentation judged by management and engineering academics. Winners receive a cash prize, publication in a peer reviewed journal and potential for career development within the Group.

Safety & Health

Appropriate safety and health policies and procedures are in force in both SBUs. In 2004 the Group commenced reporting its performance internally in terms of lost time, frequency and severity of accidents in a uniform manner. As a result, each SBU is now able to benchmark its safety and health performance and formulate criteria for improvements. Bonus payments to Directors and senior executives are in part dependent on achievement of these targets.

Environment

Bodycote has for many years contributed to the reduction of the environmental impact of industry. By adopting the latest technologies as they have become available, Bodycote has provided its customers with environmentally friendly solutions to their heat treatment requirements. The replacement, where possible, of harmful materials has reduced the need for disposal of waste products. At the same time the adoption of high efficiency heating systems has reduced energy consumption and reduced emissions.

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

Bodycote operates modern, efficient heat treatment furnaces around the clock. We aggregate 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 can be dramatically reduced.

The range of services offered across the Group is designed to enhance the suitability and operational lifetime of components and for recycling at the end of their working lives. This increase in the working life of components has a major effect on the amount of raw materials that are processed. Modern treatments also allow new technologies, such as common rail diesel systems, to be introduced within acceptable financial constraints. This, in turn, reduces the environmental impact of motor vehicles by improving fuel consumption and reducing emissions. At every stage where Bodycote is involved in the manufacturing cycle, our operations aim to lessen the overall impact on the environment.

CURRENT TRADING AND PROSPECTS

Our customers in aerospace, oil & gas, power generation and health sciences are forecasting positive growth through 2008 despite widespread predictions of economic slowdown. Many of the markets that Bodycote serves, notably aerospace, power generation and oil & gas, operate on long cycles, with significant committed order books. North American automotive (4.9% of our Group sales) is forecast to build 1% fewer cars and light trucks in 2008, compared to 2007.

Outsourcing by western manufacturers continues to grow with sales reaching £123m in 2007, an increase of 17% (2006: £105m) and this trend is set to continue. Our focus on maximising capacity utilisation will allow us to provide manufacturers with lower overall costs for their thermal processing and testing needs. The increased outsourcing growth has partially been absorbed into existing plant and equipment and in some cases additional equipment has been installed. We expect this pattern to be repeated in 2008.

2007 Group Business Review

Our strategy to increase our presence in developing economies, including those in Asia, Latin America, Eastern Europe and the Middle East, is progressing. Sales now account for 9.1% of Group sales (2006: 4.6%). The early demand for high quality subcontracting is somewhat lower than anticipated in Asia but we remain confident of the long term opportunity. In total our greenfield sites in the emerging markets recorded operating losses of £2.4m in 2007.

We enter 2008 with market conditions for heat treatment remaining favourable in all territories and market sectors with the exception of the Great Lakes area of North America, where much of the work comes from the automotive industry. Given the strength of the order books amongst our aerospace, power generation and oil & gas customer base and, given our market share gains in the automotive sector, we are confident about the Group's prospects not withstanding the uncertainty about the level of consumer demand in 2008, particularly in North America.

HIP continues to experience increasing demand from its key aerospace, power generation and oil & gas markets. A new large HIP vessel went into production in September in the USA and is ramping up sales as forecast. We have expanded our Swedish facility to improve the efficiency of fabricating containers used in powder HIPped near net shape components and in preparation for a new large HIP vessel which will go into production in Q1 2010. The acquisition of the remaining 51% of the equity of Traitements Compression Services SAS in Magny-Cours, France gives us control over this facility enabling us to utilise this capacity in Southern Europe more effectively.

After another good performance in 2007, the MEM division of Testing is expected to continue its success in 2008. The weakness in the North American automotive market has been addressed by restructuring our laboratory facilities in Michigan. In HSE a major cost reduction exercise has been undertaken which has seen us exit several locations in Canada and management has been reorganised accordingly across the whole of North America. Similarly in the UK, a number of environmental facilities have been closed to reduce the cost base and the Food Group have increased their focus on high added value advisory services. We expect a significant improvement in the performance of the HSE division in 2008.

Since the end of 2007 we have acquired three businesses (two Testing, one Thermal Processing) for a total consideration of £10.4m. We have a strong pipeline of acquisition candidates for both Thermal Processing and Testing. On average we expect to continue investing about £60m per annum on acquisitions.

Capital expenditure for 2008 are expected to be at 1.3 times depreciation (2007: 1.3 times) reflecting the continuing investment in greenfield locations in developing economies, expanding our HIP capacity and supporting our continuing outsourcing growth. Ongoing operations require around 0.8 times depreciation to sustain their businesses.

Since the start of the current financial year, trading has been above the levels for the same period in 2007 in both SBUs and in all geographies. We enter 2008 with renewed confidence that we will deliver another successful performance.

Finally, the employees and the Board of Bodycote would like to thank our outgoing Chairman, James Wallace, for his dedicated service to the company. Under James' leadership, Bodycote has been strengthened while growing our businesses in line with our strategy. We all wish James continued success and personal happiness in the future.

J D Hubbard
Chief Executive
26 February 2008

D F Landless
Finance Director
26 February 2008

Bodycote

The Directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2007. The Chairman's Statement, the Group Business Review, the Audit Committee Report, the board report on remuneration and the details of the Board of Directors and Advisers on pages 2 to 28 together comprise the Directors' Report for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is a holding company with subsidiaries carrying on business in the fields of thermal processing and testing services. The activities and locations of the principal subsidiary undertakings are set out on pages 83 to 86. The Group Business Review contains a survey of the Group's activities, significant acquisitions and disposals during the year together with an outline of future developments.

GROUP BUSINESS REVIEW

The enhanced business review for the Group, entitled Group Business Review, is provided on pages 3 to 14 of this annual report. This is a review of the development of the businesses of the Group, including the financial performance during the year ended 31 December 2007, key performance indicators and a description of the principal risks and uncertainties facing the Group. The Group Business 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.

TRADING RESULTS

The profit of the Group before taxation was £68.5m (2006: £46.6m). Profit attributable to shareholders amounted to £52.8m (2006: £43.1m) and, after providing for dividends of £23.4m (2006: £21.0m) and other items of recognised income and expense, the balance of £31.0m (2006: £20.0m) has been transferred to reserves.

DIVIDENDS

The Board is recommending a final dividend of 5.25p per share making a total relating to the year of 8.0p per share (2006: 7.0p). The final dividend, if approved, will be paid on 4 July 2008 to shareholders on the register at the close of business on 6 June 2008.

CAPITAL STRUCTURE

Details of the authorised and issued share capital are shown in note 24. 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 International Employee Benefit Trust abstain from voting and waive dividend. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

The appointment and replacement of Directors is governed by the Company's Articles of Association, the Combined Code, the Companies Act and related legislation and the Articles of Association may be amended by a special resolution of shareholders. The powers of the Directors are described on page 16. Under the Articles of Association the Company has authority to issue 107,831,930 ordinary shares.

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.

SHARE CAPITAL

The Company's issued share capital as at 31 December 2007 was £32.4m and during the year was increased by the issue of 1,505,161 shares of 10p each between 28 February and 16 November 2007 for a total consideration of £3,058,868 pursuant to options granted under the Company's executive share option schemes. At the annual general meeting on 23 May 2007 the shareholders have authorised the Company to purchase up to 32,216,806 of its own shares, and the Company purchased 2,025,000 shares with a nominal value of £202,500 for a total consideration of £3,672,973 to be held in treasury. This authority expires at the conclusion of the forthcoming Annual General Meeting to be held on 30 April 2008, at which time a further authority will be sought from shareholders.

DIRECTORS

The current Directors are listed on page 28 and, with the exception of Mr Biles who was appointed on 16 August 2007 and Mr Thomson who was appointed on 1 December 2007, all served throughout the year. Mr R.T. Scholes retired as a director on 16 August 2007 having served for 9 years as a non-executive director. Messrs J.D. Hubbard and J. Vogelsang are retiring by rotation and, in accordance with the articles of association and each being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Messrs A.M. Thomson and J.A. Biles, appointed as directors since the last annual general meeting, and both being eligible, offer themselves for election by shareholders at the forthcoming annual general meeting. As previously announced the chairman, Mr J.A.S. Wallace will step down as a director at the conclusion of that meeting. The service agreement for Mr Hubbard is terminable by one year's notice. Messrs Thomson, Biles and Vogelsang do not have service agreements with the Company.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS & SHARES

Details of the Executive Directors' service contracts and details of the Directors' interests in the Company's shares, share option schemes and share incentive plans are shown in the Board Report on Remuneration on pages 22 to 27. No Director has had any dealings in any shares or options in the Company since 31 December 2007. Qualifying third party indemnity provision (as defined by section 309C of the Companies Act 1985) has remained in force for the Directors for the year ended 31 December 2007 and, as the date of the 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.

CORPORATE GOVERNANCE

The Group's mission is:

- To provide world class companies with thermal processing and testing services that make a positive contribution to the success of their businesses;
- To earn sustainable profits which attract shareholder interest;
- To engage, develop and retain competent people, harness their enthusiasm and inspire them to excel; and
- To act as a good corporate citizen.

The Group's aim in terms of corporate governance is, therefore, to sustain and support these objectives over the longer term.

Compliance with 2006 Combined Code

Bodycote complies with the provisions of The Combined Code on Corporate Governance published by the UK Financial Reporting Council in June 2006 ('the Code'), save in the following two areas where the reasons for the variance are noted:

(1) Performance evaluation (code provision A.6)

The Board believes a rolling programme of assessments is the most practical and effective method of evaluating Bodycote's control structures. Informal evaluation of Bodycote's actions, control structures and personnel also takes place regularly as part of a continuous momentum for improvement. Bodycote aims to carry out and report on assessments of all committees and the Board itself within a three-year cycle, notwithstanding that the Code lays down an annual frequency for each, and will carry out and report on assessments of all relevant personnel annually.

(2) Investor Relations (code provision D.1.1)

Bodycote believes that generally it is the responsibility of the Chief Executive and the Finance Director to manage relationships with institutional investors. The Chairman has met and the Chairman and Deputy Chairman are available to meet 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 Company expect the Senior Independent or other Non-Executive Directors to become involved, notwithstanding that the Code specifies attendance of the Senior Independent Non-Executive Director at meetings with major shareholders. Regular feedback by the Company's advisers on investor meetings and results presentations is circulated to all Directors. Non-Executive Directors are also encouraged to attend one of the results presentations each year. On specific issues the Chairman will seek the views of Bodycote's leading investors.

Apart from these distinct areas, Bodycote was in compliance with the provisions of the Code throughout 2007.

Operation of the Code

Taken together with the Audit Committee Report and the Board Report on Remuneration presented on pages 20 to 27, this statement explains how Bodycote has applied the principles of good corporate governance set out in the Code.

Leadership

The Board of Directors comprises eight members, of whom four are independent Non-Executive Directors and three are Executive Directors led by the Company's part-time Non-Executive Chairman, Mr J.A.S. Wallace, who also chairs the Nomination Committee. The Chief Executive is Mr J.D. Hubbard. The Deputy Chairman is Mr A.M. Thomson, who will become Chairman after the annual general meeting on 30 April 2008, 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 28. The Board meets at least eight times a year and visits are made to UK and overseas facilities. Certain defined 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
- Employee share incentives and the UK Pension Scheme

In advance of board meetings Directors are supplied with up-to-date information about the trading performance of each operating location, the Group's overall financial position and its achievement against prior year, budgets and forecasts. They are also supplied with the latest available information on Safety, Health and Environmental and risk management issues and details of the safety and health performance of the Group, and each strategic business unit 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 19. The Board also operates three committees. These are the Nomination Committee, the Remuneration Committee and the Audit Committee.

Independence of Non-Executive Directors

The Board considers that Messrs A.M. Thomson, J.A. Biles, J. Vogelsang and L.P. Bermejo 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. In addition there were eight further unscheduled telephone conference meetings of the Board, and a number of ad hoc committee meetings to deal with nomination and bid response issues, which considerably added to the planned workload for Directors.

	Scheduled Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
James Wallace	8(8)	N/A	N/A	4(4)
Alan Thomson	1(1)	1(1)	1(1)	1(1)
John Hubbard	8(8)	N/A	N/A	4(4)
David Landless	8(8)	N/A	N/A	N/A
Derek Sleight	8(8)	N/A	N/A	N/A
Hans Vogelsang	8(8)	4(4)	4(4)	4(4)
Laurent Bermejo	7(8)	3(4)	4(4)	4(4)
Richard Scholes	4(5)	3(3)	3(3)	3(3)
John Biles	3(3)	1(1)	1(1)	1(1)

[figures in brackets indicate the maximum number of scheduled meetings for which the individual was a Board or Committee member.]

Performance Evaluation

All Executive Directors were appraised internally during 2007. In February 2008 the Board carried out its own evaluation of the Board as a whole. The Remuneration and Nomination Committees reviewed their own performance in October 2007 and the Audit Committee reviewed its performance in November 2007. The Chairman assessed the performance of Messrs L.P. Bermejo and J. Vogelsang in October 2007 and Mr J. Vogelsang assessed the performance of Mr Wallace as Chairman in October 2007.

Nomination Committee

Mr J.A.S. Wallace chairs the Nomination Committee which also comprises Messrs A.M. Thomson (from 1 December 2007), J.A. Biles (from 16 August 2007), J. Vogelsang, L.P. Bermejo and J.D. Hubbard. The meetings in 2007 proposed the nominations for re-election at the 2007 Annual General Meeting, and discussed general succession planning and specific positions.

During 2007 the Committee also recommended the appointments of Mr Thomson as Deputy Chairman to succeed Mr Wallace at the 2008 Annual General Meeting and Mr Biles as Audit Committee Chairman in each case following preparation of a job specification, the appointment of external search consultants, and interviews with candidates.

Proposals for Re-election

Mr Vogelsang has served as an independent non-executive director since 2003, Remuneration Committee Chairman since 2004 and Senior Independent Non-Executive Director since 2007. Following a performance evaluation carried out by the Chairman in October 2007 his performance was determined to be effective and that he has devoted time and commitment (having recorded 100% attendance at all regular scheduled Board and committee meetings since appointment in 2003). Following a performance evaluation by the Chairman in February 2008, the Board also proposes the re-election of Mr J.D. Hubbard as a Director.

Internal Control

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

Directors' Report

During 2007, in compliance with provision C.2.1, the Board also performed a specific assessment for the purpose of this annual report. The assessment considered all significant aspects of internal control arising during the period covered by the report including the work of Internal Audit. In addition, the Managing Director of each of the Group's Strategic Business Units reported on the existing internal control procedure and any failings or weaknesses. They identified and made an assessment of the risks affecting the businesses they control, in each case with the assistance of input from those reporting directly to them. Such risks were measured against their own stated objectives, and actions for any improvements were scheduled against a timetable for later verification by Internal Audit. 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 review.

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 now 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 also enrol free for a service that automatically notifies them of results announcements and recent significant Group events. Bodycote's financial advisers, corporate brokers and financial public relations consultants provide Directors with opinion surveys from analysts and investing institutions following visits and meetings with the Chief Executive and Finance Director. Non-Executive Directors are themselves invited to attend analysts' presentations at the time of the regular results announcements. As stated on page 16 the Chairman, Deputy 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, as with the introduction in 2003 of the share option scheme, in 2005 with the stock bonus plan, in 2006 with the introduction of long term incentive and share matching schemes, and in 2007 with the bid approach from Sulzer AG, the Company will seek the views of leading investors.

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, 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. During 2007 the Group published, via the Group extranet, two ten language editions of 'EveryBody Extra' an electronic magazine for all staff detailing the Group's activities, performance and some of its personalities. Approximately 2,500 Bodycote employees are connected to the Bodycote extranet, which will improve knowledge of Group activities, and assist greatly with technology exchange and co-ordination.

The winter 2005 edition of 'EveryBody Extra' featured the Group's open door policy under which employee concerns can be voiced on a confidential basis. 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 £10,650 (2006: £16,600). There were no political contributions.

CREDITORS POLICY

Group operating companies are responsible for agreeing the terms and conditions under which business transactions are conducted. It is Group policy that payments to suppliers are made in accordance with the terms agreed, provided that these suppliers have also complied with applicable terms and conditions. Creditor days at the year end for the Company were 45 days (2006: 45 days).

SHAREHOLDERS

An analysis of the Company's shareholders and the shares in issue at 18 February 2008 and details of major shareholders' interests appearing in the register maintained pursuant to Section 211 of the Companies Act 1985 are given on page 87.

AUDITORS

In accordance with the provisions of section 384 of the Companies Act 1985, a resolution for the reappointment of Deloitte & Touche LLP as auditors is to be proposed at the forthcoming Annual General Meeting.

Each Director of the Company states that, in accordance with and as defined by the Companies Act 1985:-

(1) so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(2) 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 234ZA of the Companies Act 1985.

DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the group financial statements under IFRSs (IFRSs) as adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

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

(1) properly select and apply accounting policies;

(2) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

(3) 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.

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

(a) select suitable accounting policies and then apply them consistently;

(b) make judgments and estimates that are reasonable and prudent; and

(c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. 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.

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting will be held on 30 April 2008 in accordance with the notice being sent to Shareholders.

By order of the Board.

J.R. Grime
Secretary
26 February 2008

Hulley Road
Hurdsfield
Macclesfield
Cheshire
SK10 2SG

Report of the Audit Committee

The Audit Committee is a sub-committee of the board whose role and responsibilities are set out in written terms of reference which are available for inspection on the company's website and include:

- reviewing the interim and full year accounts and results announcements of the company 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 internal financial control and risk management;
- 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 or changing of external auditors and overseeing the process for their selection and making recommendations to the board on their appointment which will be put 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 auditor's independence, objectivity and effectiveness, taking into account professional and regulatory requirements.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee comprises all of the independent non-executive directors whose biographical details are set out on page 28. Their remuneration is shown on page 25.

The Chairman of the Audit Committee since 16 August 2007 has been Mr John Biles, who was appointed a director on this date, following a recommendation from the Nomination Committee. Prior to that date the Chairman was Mr Richard Scholes.

Both Chairmen are considered to have recent and relevant financial experience. Mr Biles is a chartered accountant, who served as a plc finance director (FKI plc from 1988 to 2004 and Chubb Security plc from 1991 to 1997) and is currently also the Chairman of the Audit Committee of ArmorGroup International plc (2004), Charter plc (2005) and Hermes Pensions Management Limited (2005). The Company Secretary is secretary to the Audit Committee. The Chairman, Chief Executive, Finance Director, Corporate Development Director, Head of Internal Audit, Group Financial Controller, Group Treasurer, Head of Tax and external auditors attend Audit Committee meetings as appropriate by invitation. The Committee also meets separately with the Head of Internal Audit and with the external auditors without management being present.

MAIN ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met four times during 2007 and in February 2008 to consider this financial report.

- at their meetings, the Audit Committee reviewed 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 and commenting on risk management and control matters.
- a quarterly report from the Head of Internal Audit was presented at each meeting and the findings discussed. During the year the plan for the ensuing year's work was considered.
- the external auditors also presented their audit plan at the December and May 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 2006.
- executives are, from time to time, required to make presentations to the Audit Committee on risk and other subjects. At the December meeting, presentations on tax and treasury were made and the Group's treasury policies reviewed and updated.
- the Audit Committee has also been presented with information about material litigation.

During 2007 the Audit Committee also:

- assessed the independence of the external auditors;
- having reviewed their performance, recommended to the board to reappoint the auditors and agreed their fees;
- approved the Group's accounting policies;
- approved the management representations to the auditors;
- reviewed arrangements for reporting and investigating fraud and employee concerns;
- reviewed Bodycote business principles;
- reviewed the effectiveness of internal controls and risk management process;
- reviewed the terms of reference for the Audit Committee; and
- assessed the Committee's own effectiveness.

INDEPENDENCE OF EXTERNAL AUDITORS

The Audit Committee has put in place safeguards to ensure that the independence of the audit is not compromised. The policy in respect of services provided by the external auditors is as follows.

- Audit related services. The external auditors are invited to provide services where their position as auditors renders them best placed to undertake the work. This includes reporting and certification connected with borrowings, shareholders and other circulars, regulatory requirements and work in respect of acquisitions and disposals.
- Tax consulting. Where the external auditors are best suited to carry out the work they are asked to do it; this particularly applies to work relating to tax compliance. Major exercises or any work where conflicts would arise are put out to tender.
- General consulting work. In general and where conflicts could arise, the work is not awarded to the external auditors and is put out to tender.

INTERNAL AUDIT

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

The effectiveness of the internal audit function is reviewed and discussed on an annual basis with the Head of Internal Audit.

On behalf of the Audit Committee

J.A. Biles
Audit Committee Chairman
26 February 2008

Board Report on Remuneration

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

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

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and describes how the Board has applied the principles of the Combined Code on Corporate Governance in relation to the remuneration of the Directors.

As required by the Remuneration Report Regulations, a resolution to approve the Board Report on Remuneration will be proposed at the Annual General Meeting of the Company. 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 is responsible for recommending to the Board the remuneration of Executive Directors and senior executives (in all its forms), 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 2007 were J. Vogelsang (Chairman), R.T. Scholes (until 16 August 2007), L.P Bermejo, J.A. Biles (from 16 August 2007) and A.M. Thomson (from 1 December 2007). The Committee has taken advice from Ernst & Young LLP (appointed by the Remuneration Committee in 2006) to provide independent advice in determining appropriate levels of remuneration. In addition, the Company received actuarial and other pensions advice from KPMG LLP (appointed in 2005) in relation to the management of risk arising from the UK final salary pension scheme.

REMUNERATION POLICY

The Committee aims to provide a remuneration policy consistent with the Group's overall business objectives 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 against fixed element of pay.

The changes introduced include:

- Performance related annual bonus initially increased for all executives to a maximum of 60% of base salary in 2006 and 2007 and to 80% for 2008 onwards;
- The 2003 share option scheme being replaced in 2006 by a long term incentive plan known as the Bodycote Incentive Plan; and
- The introduction of the Bodycote Share Match Plan in 2006 with the first awards being made in 2007.

The Committee considers the targets set for the variable element of Executive Directors' and senior executives' remuneration and has sought to encourage and incentivise "stretch" or exceptional and sustainable financial performances, as measured against the Group's strategic plans.

FIXED ELEMENTS OF PAY

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

Base salary

The base salaries for Executive Directors and senior executives are reviewed annually and are determined by taking into account the responsibilities and performance of the individual, having regard to current market practice.

In line with the remuneration policy the Committee has, since 2002, only made inflationary (and where appropriate market) adjustments following benchmarking. The Committee has used UK engineering businesses and FTSE 250 companies, as well as other North American or European companies in similar trades, as comparables. This resulted in the following salaries being set with effect from 1 January 2008:

Mr J D Hubbard	£405,000
Mr D F Landless	£260,000
Mr D R Sleight	£197,600

Pension

Pensions for current UK domiciled Executive Directors are, up to the UK Government salary cap, provided for under the Group's UK contributory final salary pension scheme which has a normal retirement age of 65 and which is closed to new members. The main features, in respect of the Executive Directors are:

a) Pensions from age 65 of 1/60th highest average salary of any consecutive three years out of the last ten years prior to retirement (restricted to the earnings cap where it applies) for each year of pensionable service, and with increases in pensionable salary after 31 December 2006 restricted to 3% each year ('the Salary Limit');

b) A cash death-in-service benefit of four times basic salary at date of death;

c) Spouse or dependant's pension on member's death equal to half member's prospective retirement pension (restricted as before) at 65 on death in service, or half member's pension entitlement on death in retirement;

d) Member's contributions are 8% of basic salary; and

e) For Executive Directors with basic salaries above the Salary Limit or the earnings cap the Group will contribute between 14% and 16% of the excess to a defined contribution arrangement.

An analysis of accrued pension entitlements for the two Directors with accruing benefits under the scheme during 2007 is given on page 27.

Arrangements for Mr Hubbard are for a Company contribution to a defined contribution arrangement of 16% of his basic salary (including any payments being made by the Group into the Group's US 401k retirement plan) from January 2007 onwards. Mr Hubbard is a member of the Group's US 401K retirement plan to which the Group contributed £9,488 (2006: £8,491). Pension contributions for Mr Landless' salary above the earnings cap amounted to £20,573 (2006: £16,156).

Other fixed elements

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

VARIABLE ELEMENTS OF PAY

There are essentially four variable elements of pay.

Annual Bonuses

For 2007 an annual bonus is payable to all Executive Directors and senior executives, based on the Group and individual performance. For those senior executives with Strategic Business Unit (SBU) responsibilities, part of the performance-related bonus is based on their relevant sphere of responsibility. Payment of the maximum cash bonus for 2007 required Executive Directors and senior executives to achieve challenging target increases over 2006 performance in Economic Profit (69.7% of target achieved), ROCE (Group return on capital employed) (58.8% achieved), organic sales (fully achieved) and quantitative improvements in safety and health (fully achieved). As a result, Executive Directors received a cash bonus of 45.7% of basic salary (against a maximum of 60%) and senior executives' cash bonuses ranged from 11.8% to 51.8% depending upon individual SBU performances (again compared to maximum of 60%). Executive Directors and senior executives with SBU responsibilities will have the potential to receive annual cash bonus awards of up to 80% of base salary for 2008 onwards.

Share Awards

In 2006, the Company introduced the Bodycote Incentive Plan (BIP) under which Executive Directors and senior executives are rewarded for the delivery of the Company's Strategic Plan and in particular enhanced Economic Profit. Economic Profit for these purposes is defined as adjusted earnings before interest and tax (EBIT), less a 15% charge per annum for the aggregate average of shareholders' funds, net borrowings and goodwill previously written off to reserves, amortised or impaired. To achieve the improvement in Economic Profit both pre-tax ROCE as well as EBIT improvements have to be made.

The Strategic Plan targets ROCE improvement by approximately one percentage point each year until a mid-teens pre-tax ROCE performance has been achieved. In addition significant growth in EBIT is targeted. Based on the Group's typical capital requirements in the initial three year performance period 2006 to 2008, maximum vesting under the BIP will require a compound annual growth of EBIT of approximately 30%. Minimum vesting will be made for compound annual growth in EBIT of approximately 15%. Below this level no vesting will be made. A sliding scale will be applied to performance between the maximum, target and minimum. Based upon the Group's Economic Profit Performance in 2006 and 2007 the Committee expects final vesting of awards for performance in the three-year periods 2006 to 2008 and 2007 to 2009 to be in the mid-range of possible outcomes. As a result Executive Directors' awards made in 2006 and 2007 and that would vest in 2009 or 2010 respectively could equate to around 100% of their basic 2005 or 2006 salaries (as applicable) using the share price at the date of the award. Details of the awards under the BIP are noted on page 26.

Deferred Share Awards

In addition to the BIP, a new deferred share-matching element, which received shareholder approval at the annual general meeting in 2006, has been introduced to provide a link between the Company's short and long term incentive arrangements. This plan, the Bodycote Share Match Plan ("BSMP"), allows the grant of awards of matching shares to participants on an annual basis. This will be based on the number of shares purchased by participants with the gross amount of monies deferred under their annual bonus arrangements.

This plan first operated in 2007 by reference to the 2006 financial year bonus. Every year, annual bonus up to the value of 20% of base salary may be deferred into Company shares for three years. The maximum level of matching shall be calculated by reference to the gross bonus deferral on a one for one basis subject to the achievement of a robust and challenging ROCE target.

Details of the awards under the BSMP are noted on page 27.
The BSMP replaces the Deferred Restricted Stock Bonus Plan ("DRSBP") which permitted Executive Directors and senior executives to defer up to one-third of their cash bonus payable in 2003 and 2004 for shares to be held for three years and which the Company would then match. It also replaces the Bodycote Short Term Stock Bonus Plan ("STSBP") which was introduced in 2005 as a temporary measure until the BIP and BSMP could be presented to shareholders for approval. Under the STSBP, Executive Directors and senior executives received the maximum awards as a consequence of Bodycote being in the upper quartile of TSR achieved by companies within the FTSE 350 Engineering & Machinery Index and certain other comparator companies. The shares will vest in 2009 and at the end of the holding period, the awards will be enhanced by an amount reflecting dividends paid on the award shares over the three-year period. No further awards will be made under the STSBP or DRSBP following adoption of the BIP and BSMP. Details of shares held by Directors pursuant to the schemes noted are given on page 26.

Board Report on Remuneration

Option Arrangements

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

All outstanding share options have now qualified for exercise. Options granted since 1998 have all qualified on the basis of the increase in headline earnings per share (EPS) since 2002 using the UK GAAP headline EPS data for 2002 to 2004 and the IFRS headline EPS figure for 2005. Having received and reviewed a reconciliation between the two accounting standards (the calculations for which have been approved by the Audit Committee), the Committee were satisfied that each performance criterion had been met by a wide margin.

Share options granted under the 1994 and 1996 share option schemes were only exercisable if, over any rolling period of three years from the date of the award, the growth in the Group's headline EPS exceeds United Kingdom retail inflation by 6% (10% in respect of those options granted in September 2002).

Under the 2003 scheme the value of shares over which options may be granted to an executive in any one year may not normally exceed 1.5 times basic salary. The extent to which options may be exercised will depend on the Company's growth in pre-tax EPS exceeding the growth in the retail price index (RPI) in the three or five year period following grant. Options over shares worth up to 0.5 times salary may be exercised if the growth in EPS exceeds the growth in RPI by 3% per annum.

The Committee believed that the use of growth in pre-tax EPS was at the time the most appropriate measure of the Company's financial performance and was consistent with market practice, when adopted.

The market price of Bodycote's ordinary shares at 31 December 2007 was 186.75p, the range during 2007 was 176p to 325p and the average was 273p. The aggregate gains made by Executive Directors in 2007 before the impact of tax and national insurance were £27,442 for Mr Landless (2006: £123,220) and nil for Mr Sleight (2006: £115,447). An analysis of all Executive Directors' share options is given on page 26.

TOTAL SHAREHOLDER RETURN (TSR)

The graph on page 27 illustrates the Company's TSR performance since 2002 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 2007.

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 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. Legally appropriate factors would be taken into account to mitigate any compensation payment, covering basic salary, annual and long term 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 Hubbard's contract is dated 5 February 2002 and those for Messrs Landless and Sleight are each dated 26 September 2001.

EXTERNAL APPOINTMENTS

The Company believes that there are benefits to the individual and the Company for Executive Directors holding one non-executive directorship in other organisations, provided that they do not conflict with the Company's interests and that, provided the Executive Director's performance is not impaired, he could retain the fees earned in connection with such an appointment. There have been no appointments covered by this policy.

NON-EXECUTIVE DIRECTOR

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 new deputy chairman). Each is terminable under the Company's articles of association, the Companies Act 1985, the Director's resignation or otherwise on six months' notice (twelve months in the case of the Chairman or deputy chairman) if termination occurs before expiry of the term.

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

Approved by the Board

J. Vogelsang
Chairman of the Remuneration Committee
26 February 2008

Directors' emoluments – audited

	Basic salary and fees £000	Benefits £000	Annual Bonus £000	**2007** **Total** **£000**	2006 Total £000
Executive					
J. D. Hubbard	390	24	178	**586**	416
D. F. Landless	250	21	114	**382**	293
D. R. Sleight	190	16	87	**290**	215
	830	61	379	**1,270**	924
Non-Executive					
J. A. S. Wallace	124	–	–	**124**	120
R. T. Scholes (retired 16 August 2007)	31	–	–	**31**	44
J. Vogelsang	42	–	–	**42**	39
L. P. Bermejo	36	–	–	**36**	34
A. M. Thomson (appointed 01 December 2007)	5	–	–	**5**	–
J. A. Biles (appointed 16 August 2007)	17	–	–	**17**	–
	1,085	61	379	**1,525**	1,161

Directors' share 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 2007 Number of shares**	31 December 2006 Number of shares
J.D Hubbard	**962,067**	949,103
D.F Landless	**37,824**	30,520
D.R Sleight	**107,500**	87,500
J.A.S Wallace	**132,287**	57,287
R.T. Scholes	**18,750**	18,750
J.Vogelsang	**–**	–
L.P Bermejo	**–**	–
A. M. Thomson	**25,000**	–
J. A. Biles	**20,000**	–

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.

Executive Directors' Shareholding Retention Policy

The Committee introduced in 2005 a shareholding retention policy under which Executive Directors and other senior executives will be required, within five years, to build up a shareholding in the Company. In respect of Executive Directors the requirement will be for their Directors' interests in shares to be worth at least 100% of basic salary.

Board Report on Remuneration

Share Options – audited

Director	Options as at 1 January 2007	Lapsed	Exercised in year	Options at 31 December 2007	Option prices (pence) at date of grant	Prices (pence) at date of exercise	Dates from which exercisable	Expiry date
J.D Hubbard	44,178	(44,178)	–	–	315.43	–	03/12/2000	03/12/2007
	40,107	–	–	40,107	370.26	–	26/04/2002	26/04/2009
	26,738	–	–	26,738	292.19	–	14/12/2002	14/12/2009
	12,834	–	–	12,834	231.42	–	02/05/2003	02/05/2010
	16,042	–	–	16,042	203.37	–	24/04/2004	24/04/2011
	64,170	–	–	64,170	125.76	–	16/09/2005	16/09/2012
	84,882	–	–	84,882	147.27	–	15/09/2006	15/09/2013
D.F Landless	8,021	–	–	8,021	370.26	–	26/04/2002	26/04/2009
	16,042	–	(16,042)	–	231.42	275.64	02/05/2003	02/05/2007
	21,390	–	(21,390)	–	203.37	298.50	24/04/2004	24/04/2008
D.R Sleight	8,021	–	–	8,021	370.26	–	26/04/2002	26/04/2009

The Performance Criteria are set out in the Option Arrangements section on page 24.

Directors' share interests - Deferred Restricted Stock Bonus Scheme – audited

Director	At 1 January 2007	Awarded in year[1]	Vested in year	At 31 December 2007	Earliest vesting date
J.D Hubbard	37,691	1,004	-	38,695	April 2008
D.F Landless	25,126	669	-	25,795	April 2008
D.R Sleight	19,411	516	-	19,927	April 2008

Directors' share interests - Short Term Stock Bonus Plan – audited

Director	At 1 January 2007	Awarded in year[1]	At 31 December 2007	Market price at award date	Earliest vesting date
J.D Hubbard	63,106	1,682	64,788	£2.58	March 2009
D.F Landless	41,747	1,112	42,859	£2.58	March 2009
D.R Sleight	31,262	833	32,095	£2.58	March 2009

[1]These additional awards take into account the interim and final dividend for the financial year ended 31 December 2006.

Directors' share interests under the Bodycote Incentive Plan – audited

Director	At 1 January 2007	Awarded in year	At 31 December 2007	Market price at award date	Earliest vesting date
J.D Hubbard	125,322	–	125, 322	£2.59	March 2009
	–	110,420	110,420	£2.94	March 2010
D.F Landless	82,905	–	82,905	£2.59	March 2009
	–	76,784	76,784	£2.94	March 2010
D.R Sleight	62,083	–	62,083	£2.59	March 2009
	–	57,078	57,078	£2.94	March 2010

Directors' share interests - Bodycote Share Match Plan – audited

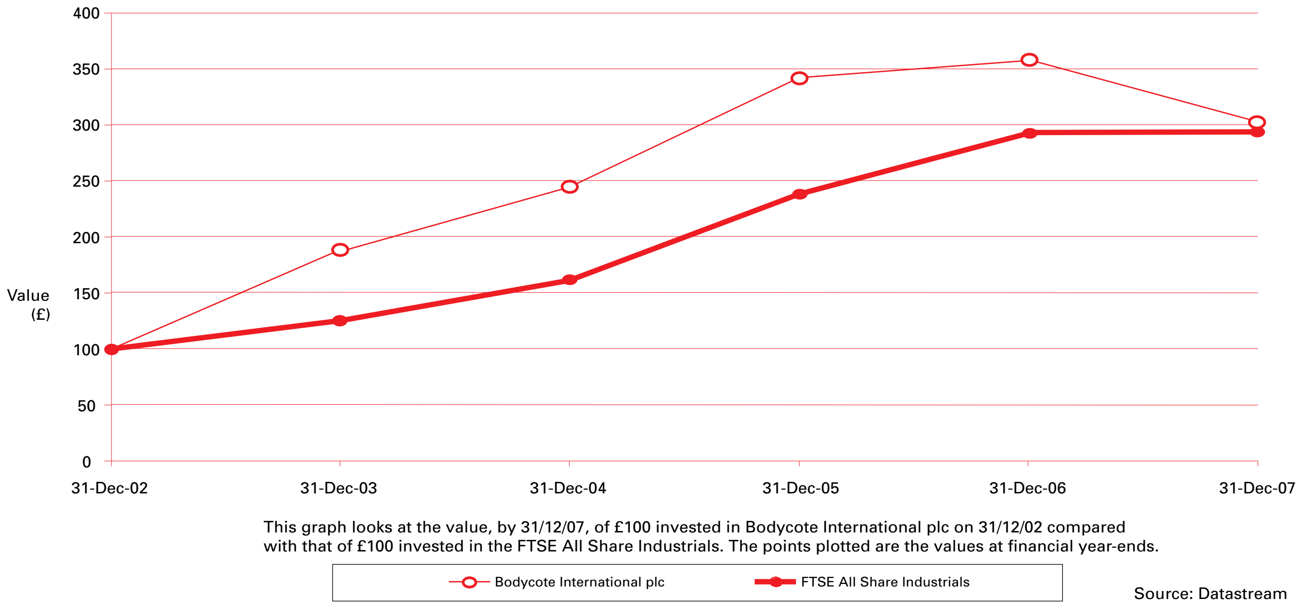
Director	At 1 January 2007	Awarded in year	Potential maximum matching award if performance conditions achieved[1]	At 31 December 2007	Market price at award date	Earliest vesting date
J.D Hubbard	–	12,964	21,793	34,757	£2.93	March 2010
D.F Landless	–	1,994	3,380	5,374	£2.93	March 2010

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

Directors' pensions – audited

Director	Accrued annual pension at 01/01/07 £000	Transfer value at 01/01/07 £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	Members' contributions £000	Accrued annual pension at 31/12/07 £000	Transfer value at 31/12/07 £000
D.F. Landless	14	117	2	–	2	9	35	9	16	165
D.R. Sleight	66	887	3	2	5	28	98	9	72	1,028

Total Shareholder Return (TSR)



This graph looks at the value, by 31/12/07, of £100 invested in Bodycote International plc on 31/12/02 compared with that of £100 invested in the FTSE All Share Industrials. The points plotted are the values at financial year-ends.

Source: Datastream

Board of Directors

EXECUTIVE DIRECTORS

J. D. Hubbard Chief Executive (60) United States
Appointed Chief Executive in January 2002; joined the Board in 2001. Previously served as President of Bodycote's North American Heat Treatment operations from 1996 to 2001. Member of the Nomination Committee. A licensed professional Metallurgical Engineer.

D. F. Landless Finance Director (48)
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.

D. R. Sleight Corporate Development Director (58)
Appointed Corporate Development Director in 2002 having joined the Board in 1996, and served previously as Finance Director (1990 to 1995) and Joint Managing Director (1995 to 2001) of Bodycote's Testing operations. A Chartered Accountant.

NON-EXECUTIVE DIRECTORS

J. A. S. Wallace Chairman (64)
Appointed a Director in 1994 and Chairman in 2002. Chairman of Scapa Group PLC (2007) and Sigma Capital Group plc (2007) and Non-Executive Director of Holidaybreak Plc (2002), NCC Group PLC (2004), The Manchester Airport Group PLC (2008) and The Sanctuary Group PLC (2006 to 2007). Deputy Chairman of Pifco Holdings plc from 1994 to 2001. Chairman of the Nomination Committee. A Chartered Accountant.

A.M. Thomson Deputy Chairman (61)
Appointed a director on 1 December 2007. Chairman of Hamsard 3054 Ltd (Polypipe) and Non-executive director of Johnson Matthey plc, Cross Match Technologies Inc., and Alstom SA. 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 and Nomination Committees. A Chartered Accountant.

J. Vogelsang Senior Independent Non-executive director (65) Netherlands
Appointed in 2003. 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 (60)
Appointed a director on 16 August 2007. Non-executive Director of ArmorGroup International plc (2004), Charter plc (2005) and Hermes Pensions Management Limited (2005). Finance Director of FKI plc from 1998 to 2004 and Group Financial Director of Chubb Security PLC (1991 to 1997). Chairman of the Audit Committee and member of the Remuneration and Nomination Committees. A Chartered Accountant.

L. P. Bermejo (48) France
Appointed in 2003. Executive Vice-President Industry & Facilities Northern & Eastern Europe at Bureau Veritas from 2006, Director for Northern Europe at Dalkia International from 2004, Chief Executive Dalkia Plc (UK and Ireland subsidiary of Veolia Environment) 1999 to 2004, Chief Executive of Dalkia in the Czech and Slovak Republics (1995 to 1999) and DEKRA-Veritas Automobile (1993 to 1995). Member of the Audit, Remuneration and Nomination Committees. A Structural Engineer.

SECRETARY AND REGISTERED OFFICE

J. R. Grime Solicitor
Hulley Road, Hurdsfield, Macclesfield, Cheshire SK10 2SG. Tel: 01625 505300 Fax: 01625 505313. Registered Number 519057 England and Wales.

Advisers

AUDITORS	Deloitte & Touche LLP
PRINCIPAL BANKERS	HSBC Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Svenska Handelsbanken AB, Lloyds TSB Bank plc, Bayerische Hypo und Vereinsbank AG, ING Bank NV and Scotiabank Europe plc
SOLICITORS	Eversheds LLP
BROKERS & FINANCIAL ADVISERS	Credit-Suisse Securities (Europe) Limited and Lehman Brothers Europe Limited
REGISTRARS	Capita Registrars Limited, Huddersfield

Independent Auditors' Report
To The Members Of Bodycote International Plc

Bodycote

We have audited the group financial statements of Bodycote International plc for the year ended 31 December 2007, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, the Statement of Accounting Policies and the related notes 1 to 31. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Board Report on Remuneration that is described as having been audited.

We have reported separately on the parent company financial statements of Bodycote International plc for the year ended 31 December 2007.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report, the Board Report on Remuneration and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Board Report on Remuneration described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes the information presented in the Group Business Review cross-referred from the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the Board Report on Remuneration to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Board Report on Remuneration described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

SEPARATE OPINION IN RELATION TO IFRS

As explained in the statement of accounting policies, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors

Manchester
26 February 2008

Consolidated Income Statement
for the year ended 31 December 2007

	2007 £m	2006 £m	Note
Revenue			
Existing operations	**631.4**	510.3	
Acquisitions	**9.1**	48.3	
	640.5	558.6	1
Operating profit			3
Existing operations	**77.5**	51.3	
Acquisitions	**1.2**	7.2	
Share of results of associates	**0.1**	0.3	13
	78.8	58.8	
Operating profit prior to exceptional items	**91.3**	79.1	
Amortisation/impairment of acquired intangible fixed assets	**(1.9)**	(1.0)	11
Impairment of goodwill	**(7.2)**	(6.0)	10
Major facility closure costs	**(5.4)**	(5.0)	
Impairment of investment in associate	**–**	(8.3)	
Change to pension scheme rules	**4.1**	–	
Bid response costs	**(2.1)**	–	
Operating profit	**78.8**	58.8	
Investment revenue	**3.3**	3.4	5
Finance costs	**(13.6)**	(15.6)	6
Profit before taxation	**68.5**	46.6	
Taxation	**(14.7)**	(2.7)	7
Profit for the year	**53.8**	43.9	
Attributable to:			
Equity holders of the parent	**52.8**	43.1	
Minority interest	**1.0**	0.8	
	53.8	43.9	
	Pence	Pence	
Earnings per share			9
From continuing operations:			
Basic	**16.6**	13.4	
Basic-diluted	**16.6**	13.4	

All activity arose from continuing operations.

Consolidated Balance Sheet
at 31 December 2007

Bodycote

	2007 £m	2006 £m	Note
Non-current assets			
Goodwill	**213.0**	201.9	10
Other intangible assets	**14.3**	10.4	11
Property, plant and equipment	**508.9**	448.4	12
Interests in associates	**0.6**	1.2	13
Finance lease receivables	**1.0**	1.4	15
Deferred tax asset	**29.7**	23.2	19
Derivative financial instruments	**0.1**	0.6	18
Trade and other receivables	**13.3**	11.3	16
	780.9	698.4	
Current assets			
Inventories	**19.8**	13.7	14
Finance lease receivables	**0.4**	0.3	15
Derivative financial instruments	**–**	1.9	18
Trade and other receivables	**159.3**	138.1	16
Cash and cash equivalents	**37.7**	34.7	16
Assets classified as held for sale	**1.8**	2.3	
	219.0	191.0	
Total assets	**999.9**	889.4	
Current liabilities			
Trade and other payables	**124.5**	111.1	21
Dividends payable	**8.8**	8.0	8
Current tax liabilities	**13.0**	6.7	
Obligations under finance leases	**1.7**	1.4	20
Bank overdrafts and loans	**9.0**	4.4	17
Derivative financial instruments	**5.2**	0.2	18
Provisions	**5.7**	2.5	22
	167.9	134.3	
Net current assets	**51.1**	56.7	
Non-current liabilities			
Bank loans	**221.8**	186.5	17
Retirement benefit obligation	**23.9**	32.8	29
Deferred tax liabilities	**74.3**	68.7	19
Obligations under finance leases	**3.4**	3.3	20
Derivative financial instruments	**3.0**	0.1	18
Provisions	**2.2**	4.1	22
Other payables	**6.8**	5.7	21
	335.4	301.2	
Total liabilities	**503.3**	435.5	
Net assets	**496.6**	453.9	
Equity			
Share capital	**32.4**	32.2	23
Share premium account	**305.0**	302.1	24
Own shares	**(11.0)**	(2.4)	24
Other reserves	**6.0**	3.8	24
Hedging and translation reserves	**16.9**	4.4	24
Retained earnings	**140.7**	109.4	24
Equity attributable to equity holders of the parent	**490.0**	449.5	
Minority interest	**6.6**	4.4	
Total equity	**496.6**	453.9	

The financial statements were approved by the Board of Directors and authorised for issue on 26 February 2008. They were signed on its behalf by:

J. D. Hubbard } Directors
D. F. Landless

John D. Hubbard

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	2007 £m	2006 £m	Note
Net cash from operating activities	**108.0**	109.2	26
Investing activities			
Purchases of property, plant and equipment	**(72.5)**	(59.5)	
Proceeds on disposal of property, plant and equipment and intangible assets	**6.6**	4.8	
Purchases of intangible fixed assets	**(1.0)**	(0.7)	
Acquisition of investment in an associate	**(0.2)**	–	
Acquisition of subsidiaries	**(32.7)**	(86.3)	
Disposal of subsidiaries	**–**	0.1	
Net cash used in investing activities	**(99.8)**	(141.6)	
Financing activities			
Interest received	**3.4**	2.9	
Interest paid	**(12.5)**	(15.7)	
Dividends paid	**(22.6)**	(20.5)	
Dividends paid to a minority shareholder	**(0.1)**	(0.1)	
Repayments of bank loans	**(187.1)**	(65.5)	
Payments of obligations under finance leases	**(1.9)**	(1.8)	
New bank loans raised	**216.4**	46.0	
New obligations under finance leases	**0.6**	0.5	
Proceeds on issue of ordinary share capital	**3.1**	1.9	
Own shares purchased/settlement of share options	**(8.6)**	0.1	
Net cash used in financing activities	**(9.3)**	(52.2)	
Net decrease in cash and cash equivalents	**(1.1)**	(84.6)	
Cash and cash equivalents at beginning of year	**33.4**	120.7	
Effect of foreign exchange rate changes	**2.0**	(2.7)	
Cash and cash equivalents at end of year	**34.3**	33.4	

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2007

	2007 £m	2006 £m
Exchange differences on translation of foreign operations	**12.5**	(6.7)
Actuarial gains/(losses) on defined benefit pension schemes	**4.7**	(3.7)
Tax on items taken directly to equity	**(3.1)**	1.6
Net income/(loss) recognised directly in equity	**14.1**	(8.8)
Profit for the year	**53.8**	43.9
Recognised income for the year	**67.9**	35.1
Attributable to:		
Equity holders of the parent	**66.9**	34.3
Minority interests	**1.0**	0.8
	67.9	35.1

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. 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.

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.

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

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

INVESTMENTS IN ASSOCIATES

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

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

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

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

NON-CURRENT ASSETS HELD FOR SALE

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

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

GOODWILL

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

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

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

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

REVENUE RECOGNITION

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

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. Gains and losses arising on retranslation are included in net profit or loss for the period.

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.

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.

INCOME STATEMENT

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

RETIREMENT BENEFIT COSTS

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

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

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

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets.

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.

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, 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.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

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.

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 68 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, 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.

INVENTORIES

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

FINANCIAL INSTRUMENTS

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

Trade Receivables

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

Cash and Cash Equivalents

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

Financial Liabilities and Equity

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

Bank Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using 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.

PROVISIONS

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

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.

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

Accounting Policies

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.

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 forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

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 directly in equity rather than 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.

SHARE-BASED PAYMENTS

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

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. 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

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has 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 IAS19 requires an assessment of the future benefits payable in accordance with actuarial assumptions, which are set out in note 29.

GENERAL INFORMATION

Bodycote International 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 28. The nature of the group's operations and its principal activities are set out on page 15 of the directors' report.

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

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

With the exception of changes in disclosure, the Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

- IFRS 8 Operating segments, issued in November 2006, effective for periods beginning on or after 1 January 2009.
- IFRIC 11 Group and treasury share transactions, issued in November 2006, effective for annual periods beginning on or after 1 March 2007.
- IFRIC 14 IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction, issued in July 2007, effective for annual periods beginning on or after 1 January 2008.
- IAS 23 Borrowing costs, revised version issued in March 2007, effective for annual periods beginning on or after 1 January 2009.
- IAS 1 Presentation of financial statements, revised version issued in September 2007, effective for annual periods beginning on or after 1 January 2009.

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

Bodycote

1. Revenue

	2007 £m	2006 £m
Heat treatment, hot isostatic pressing and testing services	**640.5**	558.6
Other operating income	**5.2**	2.8
Investment revenue (see note 5)	**3.3**	3.4
Total Revenue	**649.0**	564.8

2. Business and geographical segments

	Heat Treatment 2007 £m	Hot Isostatic Pressing 2007 £m	Testing MEM* 2007 £m	Testing HSE* 2007 £m	Head Office and eliminations 2007 £m	Continuing operations 2007 £m
Revenue						
External sales	421.7	43.5	124.4	50.9	–	640.5
Inter-segment sales	–	–	0.8	–	(0.8)	–
Total revenue	421.7	43.5	125.2	50.9	(0.8)	640.5
Result						
Segment result prior to exceptional items and share of associates' profit after tax	61.6	15.3	16.9	4.1	–	97.9
Share of associates' operating profit	–	0.1	–	–	–	0.1
Unallocated corporate expenses	–	–	–	–	(6.7)	(6.7)
Headline operating profit	61.6	15.4	16.9	4.1	(6.7)	91.3
Amortisation/Impairment of acquired intangible assets and impairment of goodwill	(4.3)	–	(0.3)	(4.5)	–	(9.1)
Major facility closure costs	(3.4)	–	(0.4)	(1.6)	–	(5.4)
Change to pension scheme rules	2.0	0.2	1.3	0.2	0.4	4.1
Bid response costs	–	–	–	–	(2.1)	(2.1)
Segment result	55.9	15.6	17.5	(1.8)	(8.4)	78.8
Share of associates' interest and tax	–					–
Operating profit						78.8
Investment revenue						3.3
Finance costs						(13.6)
Profit before tax						68.5
Tax						(14.7)
Profit for the year						53.8

* Testing comprises MEM (Materials Testing, Engineering and Technology and Measurement Technology) and HSE (Health Sciences and Environmental).

These divisions have been presented as separate segments in the current year in line with the Group's internal reporting structure.

2. Business and geographical segments continued

	Heat Treatment 2006 £m	Hot Isostatic Pressing 2006 £m	Testing MEM 2006 £m	Testing HSE 2006 £m	Head Office and eliminations 2006 £m	Continuing operations 2006 £m
Revenue						
External sales	375.0	38.9	99.6	45.1	–	558.6
Inter-segment sales	–	–	0.6	–	(0.6)	–
Total revenue	375.0	38.9	100.2	45.1	(0.6)	558.6
Result						
Segment result prior to exceptional items and share of associates' profit after tax	49.5	12.7	14.3	7.0	–	83.5
Share of associates' operating profit	0.8	0.1	–	–	–	0.9
Unallocated corporate expenses	–	–	–	–	(4.7)	(4.7)
	50.3	12.8	14.3	7.0	(4.7)	79.7
Amortisation/impairment of acquired intangible assets and impairment of goodwill and investment in associate	(10.7)	–	(4.0)	(0.6)	–	(15.3)
Major facility closure costs	(5.0)	–	–	–	–	(5.0)
Segment result	34.6	12.8	10.3	6.4	(4.7)	59.4
Share of associates' interest and tax	(0.6)					(0.6)
Operating profit						58.8
Investment revenue						3.4
Finance costs						(15.6)
Profit before tax						46.6
Tax						(2.7)
Profit for the year						43.9

Inter-segment sales are charged at prevailing market prices.

Other information

	Heat Treatment 2007 £m	**Hot Isostatic Pressing 2007 £m**	**Testing MEM 2007 £m**	**Testing HSE 2007 £m**	**Head Office and eliminations 2007 £m**	**Consolidated 2007 £m**
Capital additions	**44.2**	**12.6**	**13.1**	**3.1**	**0.5**	**73.5**
Depreciation and amortisation	**36.0**	**4.3**	**7.9**	**3.2**	**0.2**	**51.6**
Impairment losses recognised in income	**3.8**	**–**	**0.4**	**4.1**	**–**	**8.3**
Balance sheet						
Assets:						
Segment assets	**941.4**	**100.2**	**152.9**	**82.4**	**(277.6)**	**999.3**
Interests in associates	**0.6**	**–**	**–**	**–**	**–**	**0.6**
Consolidated total assets	**942.0**	**100.2**	**152.9**	**82.4**	**(277.6)**	**999.9**
Liabilities:						
Segment liabilities	**522.9**	**48.2**	**107.5**	**57.9**	**(233.2)**	**503.3**
Segment net assets	**419.1**	**52.0**	**45.4**	**24.5**	**(44.4)**	**496.6**

Bodycote

2. **Business and geographical segments** continued

	Heat Treatment 2006 £m	Hot Isostatic Pressing 2006 £m	Testing MEM 2006 £m	Testing HSE 2006 £m	Head Office and eliminations 2006 £m	Consolidated 2006 £m
Capital additions	38.8	6.6	10.6	3.9	0.3	60.2
Depreciation and amortisation	33.1	4.3	5.9	2.7	0.2	46.2
Impairment losses recognised in income	13.9	–	3.7	0.2	–	17.8
Balance sheet						
Assets:						
Segment assets	772.6	87.2	126.0	70.5	(168.1)	888.2
Interests in associates	1.2	–	–	–	–	1.2
Consolidated total assets	773.8	87.2	126.0	70.5	(168.1)	889.4
Liabilities:						
Segment liabilities	445.7	36.1	107.7	60.3	(214.3)	435.5
Segment net assets	328.1	51.1	18.3	10.2	46.2	453.9

By geographical market

	Revenue **2007** **£m**	Revenue 2006 £m
Europe, Middle East and Africa	**422.0**	356.8
Americas	**215.4**	200.6
Asia Pacific	**3.1**	1.2
	640.5	558.6

	Carrying amount of segment assets **2007** **£m**	Carrying amount of segment assets 2006 £m	Additions to property, plant and equipment and intangible assets **2007** **£m**	Additions to property, plant and equipment and intangible assets 2006 £m
Europe, Middle East and Africa	**395.1**	321.5	**45.4**	37.3
Americas	**101.0**	129.8	**24.0**	19.6
Asia Pacific	**0.5**	2.6	**4.1**	3.3
	496.6	453.9	**73.5**	60.2

3. Operating profit

	Existing operations 2007 £m	Acquisitions 2007 £m	Continuing operations 2007 £m	Existing operations 2006 £m	Acquisitions 2006 £m	Continuing operations 2006 £m
Revenue	**631.4**	**9.1**	**640.5**	510.3	48.3	558.6
Cost of sales	**(412.5)**	**(5.6)**	**(418.1)**	(334.7)	(31.3)	(366.0)
Gross profit	**218.9**	**3.5**	**222.4**	175.6	17.0	192.6
Other operating income	**5.0**	**0.2**	**5.2**	2.8	–	2.8
Distribution costs	**(22.9)**	**(0.7)**	**(23.6)**	(16.5)	(2.1)	(18.6)
Other administration expenses*	**(111.0)**	**(1.8)**	**(112.8)**	(90.7)	(7.1)	(97.8)
Other operating expenses	**–**	**–**	**–**	(0.2)	–	(0.2)
Amortisation/impairment of acquired intangible fixed assets*	**(1.9)**	**–**	**(1.9)**	(0.4)	(0.6)	(1.0)
Impairment of goodwill*	**(7.2)**	**–**	**(7.2)**	(6.0)	–	(6.0)
Major facility closure costs*	**(5.4)**	**–**	**(5.4)**	(5.0)	–	(5.0)
Impairment of investment in associate*	**–**	**–**	**–**	(8.3)	–	(8.3)
Change to pension scheme rules*	**4.1**	**–**	**4.1**	–	–	–
Bid response costs*	**(2.1)**	**–**	**(2.1)**	–	–	–
Operating profit before income from associates	**77.5**	**1.2**	**78.7**	51.3	7.2	58.5
Income from associates after interest and tax			**0.1**			0.3
Operating profit			**78.8**			58.8

*Administration expenses (total £125.3m, 2006: £118.1m).

Exceptional items comprise amortisation/impairment of acquired intangible fixed assets, impairment of goodwill, major facility closure costs, impairment of investment in associate, change to pension scheme rules and bid response costs. Further details of these items are included in the Group Business Review on pages 3 to 14.

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

	2007 £m	2006 £m
Net foreign exchange losses	**0.1**	0.2
Depreciation of property, plant and equipment	**49.3**	44.8
Impairment of investment in associate	**–**	8.3
Amortisation/impairment of acquired intangible fixed assets	**1.9**	1.0
Impairment of goodwill	**7.2**	6.0
(Profit)/loss on disposal of property, plant and equipment	**(0.1)**	0.3
Staff costs (see note 4)	**285.3**	249.4
Auditors' remuneration for audit services (see page 41)	**0.8**	0.7

3. Operating Profit continued

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

	2007 £m	2006 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**0.7**	0.6
Tax Services	**0.4**	0.4
All other services	**–**	–
	1.2	1.1

In addition to the amounts shown above, the auditor received fees of £9,000 (2006: £9,000) for the audit of the Group pension schemes.

Fees payable to the Company's auditor, Deloitte & Touche LLP, and its associates for services other than the statutory audit of the Company are not disclosed in subsidiaries' accounts since the consolidated accounts of the subsidiaries' parent, Bodycote International 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 Report of the Audit Committee and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

4. Staff costs

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

	2007 Number	2006 Number
Heat Treatment	**6,913**	6,418
Hot Isostatic Pressing	**375**	328
Testing MEM	**2,764**	2,367
Testing HSE	**956**	953
	11,008	10,066

Their aggregate remuneration comprised:

	£m	£m
Wages and salaries	**239.0**	211.4
Social security costs	**38.3**	30.0
Other pension costs	**8.0**	8.0
	285.3	249.4

Disclosure of individual director's remuneration, share interests, share options, long term incentive schemes, pension consideration and pension entitlements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are shown in the tables in the Board Report on Remuneration on pages 22 to 27 and form part of these financial statements.

5. Investment revenue

	2007 £m	2006 £m
Interest on bank deposits	**0.8**	1.5
Interest on derivative financial instruments	**1.9**	0.9
Other interest receivable	**0.6**	1.0
	3.3	3.4

All investment revenue relates to loans and receivables.

6. Finance costs

	2007 £m	2006 £m
Interest on bank overdrafts and loans*	**10.8**	10.0
Cost of early settlement of US Dollar private placement debt*	**–**	3.1
Interest on obligations under finance leases	**0.3**	0.4
Interest on pension scheme liabilities	**0.9**	3.3
Return on pension assets	**–**	(2.4)
Other finance charges*	**1.6**	1.2
Total finance costs	**13.6**	15.6

*Amounts arising on financial liabilities measured at amortised cost.

7. Taxation

	2007 £m	2006 £m
Current tax - charge for the year	**17.0**	10.5
Current taxation - adjustments in respect of previous years	**3.4**	1.6
Deferred tax (see note 19)	**(5.7)**	(9.4)
	14.7	2.7

UK corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Reductions in tax rates have been announced in a number of jurisdictions in which Bodycote operates. The impact of these reductions has been included within deferred tax balances and going forward will be reflected in current tax rates.

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

	2007 £m	2006 £m
Profit before tax	**68.5**	46.6
Tax at the UK corporation tax rate of 30% (2006: 30%)	**20.6**	14.0
Tax effect of expenses that are not deductible in determining taxable profit	**0.7**	8.0
Tax effect of utilisation of tax losses not previously recognised	**(0.2)**	(0.9)
Tax settlements in respect of prior years	**(1.6)**	(11.2)
Tax effect of other adjustments in respect of previous periods	**(2.6)**	(3.5)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2.2)**	(3.7)
Tax expense for the year	**14.7**	2.7

The tax charge on items taken directly to equity is £3.1m (2006: credit £1.6m).

8. Dividends

	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2006 of 4.50p (2005: 4.05p) per share	**14.6**	13.0
Interim dividend for the year ended 31 December 2007 of 2.75p (2006: 2.50p) per share	**8.8**	8.0
	23.4	21.0
Proposed final dividend for the year ended 31 December 2007 of 5.25p (2006: 4.50p) per share	**17.0**	14.6

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.

9. Earnings per share

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

	2007 £m	2006 £m
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	**52.8**	43.1

	2007 Number	2006 Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**317,934,910**	320,462,772
Effect of dilutive potential ordinary shares:		
Share options	**732,862**	880,065
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**318,667,772**	321,342,837

	Pence	Pence
Basic	**16.6**	13.4
Diluted	**16.6**	13.4

	2007 £m	2006 £m
Headline earnings		
Net profit attributable to equity holders of the parent	**52.8**	43.1
Add back:		
Impairment of goodwill	**7.2**	6.0
Amortisation/Impairment of acquired intangible fixed assets	**1.9**	1.0
Impairment of investment in associate	**–**	8.3
Major facility closure costs	**3.6**	5.0
Change to pension scheme rules	**(3.0)**	–
Bid response costs	**2.1**	–
Cost of early settlement of US Dollar private placement debt	**–**	3.1
Tax settlements in respect of prior years	**–**	(11.2)
Headline earnings	**64.6**	55.3

	Pence	Pence
Earnings per share from headline earnings:		
Basic	**20.3**	17.3
Diluted	**20.3**	17.2

10. Goodwill

	2007 £m	2006 £m
Cost		
At 1 January	**211.7**	160.0
Exchange differences	**4.0**	(2.1)
Recognised on acquisition of subsidiaries	**14.3**	55.9
Derecognised on disposal of subsidiaries	**–**	(2.1)
At 31 December	**230.0**	211.7
Accumulated impairment losses		
At 1 January	**(9.8)**	(5.8)
Impairment losses for the year	**(7.2)**	(6.0)
Eliminated on disposal of subsidiaries	**–**	2.0
At 31 December	**(17.0)**	(9.8)
Carrying amount	**213.0**	201.9

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 had been allocated as follows:

	2007 £m	2006 £m
Heat Treatment	**143.9**	133.3
Hot Isostatic Pressing	**1.6**	–
Testing MEM	**44.5**	42.9
Testing HSE	**23.0**	25.7
	213.0	201.9

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

The recoverable amounts of the Business Units (cash-generating units) are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the Business Units. The rate used to discount the forecast cash flows for all Business Units is 8.4% (2006: 8.7%).

The Group prepares cash flow forecasts derived from the most recent financial budgets and forecasts approved by management for the next five years and extrapolates cash flows thereafter based on an estimated growth rate of 3.4%, 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. Changes in selling prices and direct costs are based on management forecasts.

Goodwill written off in the year includes the impairment of two North American heat treatment facilities (£3.5m) and the impairment of two UK Testing facilities (£3.7m), and is as the result of difficult trading conditions in the related businesses.

11. Other intangible assets

	Software £m	Other intangible assets acquired through business combinations £m	Total £m
Cost			
At 1 January 2006	6.3	2.0	8.3
Exchange differences	(0.2)	–	(0.2)
Additions	0.7	–	0.7
Acquired on acquisition of subsidiaries	0.7	7.4	8.1
Disposals	(1.4)	–	(1.4)
At 1 January 2007	6.1	9.4	15.5
Exchange differences	0.4	1.0	1.4
Additions	1.0	–	1.0
Acquired on acquisition of subsidiaries	0.3	4.3	4.6
Recategorisation	0.1	–	0.1
Disposals	(0.5)	–	(0.5)
At 31 December 2007	**7.4**	**14.7**	**22.1**
Amortisation			
At 1 January 2006	4.4	0.2	4.6
Charge for the year	0.6	0.8	1.4
Impairment loss	–	0.2	0.2
Acquired on acquisition of subsidiaries	0.3	–	0.3
Disposals	(1.4)	–	(1.4)
At 1 January 2007	3.9	1.2	5.1
Exchange differences	0.2	0.1	0.3
Charge for the year	0.8	1.5	2.3
Impairment loss	–	0.4	0.4
Acquired on acquisition of subsidiaries	0.1	–	0.1
Recategorisation	0.1	–	0.1
Disposals	(0.5)	–	(0.5)
At 31 December 2007	**4.6**	**3.2**	**7.8**
Carrying amount			
At 31 December 2007	**2.8**	**11.5**	**14.3**
At 31 December 2006	2.2	8.2	10.4

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

12. 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 2006	151.2	13.5	7.7	521.5	32.8	21.8	748.5
Additions	4.4	0.2	0.8	27.7	2.3	24.1	59.5
Acquisition of subsidiaries	0.3	2.4	0.3	37.1	2.6	0.8	43.5
Exchange differences	(6.1)	(0.5)	(0.3)	(21.8)	(1.1)	(1.9)	(31.7)
Reclassified as held for sale	(2.0)	–	–	(0.7)	–	–	(2.7)
Recategorisation	2.1	0.3	(0.2)	14.1	0.9	(19.3)	(2.1)
Disposals	(1.6)	(0.3)	–	(13.0)	(2.0)	(0.3)	(17.2)
At 1 January 2007	148.3	15.6	8.3	564.9	35.5	25.2	797.8
Additions	4.4	2.0	2.4	31.0	3.2	29.5	72.5
Acquisition of subsidiaries	7.1	1.1	0.3	16.9	1.0	0.7	27.1
Exchange differences	8.5	1.0	0.2	33.8	2.3	1.0	46.8
Reclassified as held for sale	(1.7)	–	–	–	–	–	(1.7)
Recategorisation	2.8	(0.4)	0.8	27.5	(2.2)	(28.9)	(0.4)
Disposals	(2.2)	(0.7)	(0.2)	(28.4)	(2.3)	–	(33.8)
At 31 December 2007	**167.2**	**18.6**	**11.8**	**645.7**	**37.5**	**27.5**	**908.3**
Accumulated depreciation and impairment							
At 1 January 2006	26.3	7.3	2.8	244.1	25.1	–	305.6
Charge for the year	3.8	0.4	0.4	37.6	2.6	–	44.8
Acquisition of subsidiaries	–	0.7	–	20.7	1.0	–	22.4
Impairment loss	0.6	–	–	2.7	–	–	3.3
Exchange differences	(0.9)	(0.2)	(0.1)	(9.2)	(0.7)	–	(11.1)
On assets reclassified as held for sale	(0.6)	–	–	(0.4)	–	–	(1.0)
Recategorisation	0.2	(0.2)	–	(2.5)	0.5	–	(2.0)
Eliminated on disposals	(0.8)	–	–	(10.0)	(1.8)	–	(12.6)
At 1 January 2007	28.6	8.0	3.1	283.0	26.7	–	349.4
Charge for the year	3.9	0.7	0.8	40.8	3.1	–	49.3
Acquisition of subsidiaries	1.5	0.2	–	5.0	0.8	–	7.5
Impairment loss	–	–	–	0.2	–	–	0.2
Exchange differences	2.2	0.7	–	17.9	1.8	–	22.6
On assets reclassified as held for sale	(1.1)	–	–	–	–	–	(1.1)
Recategorisation	0.2	–	–	2.6	(2.9)	–	(0.1)
Eliminated on disposals	(0.7)	(0.2)	(0.1)	(25.2)	(2.2)	–	(28.4)
At 31 December 2007	**34.6**	**9.4**	**3.8**	**324.3**	**27.3**	**–**	**399.4**
Carrying amount							
At 31 December 2007	**132.6**	**9.2**	**8.0**	**321.4**	**10.2**	**27.5**	**508.9**
At 31 December 2006	119.7	7.6	5.2	281.9	8.8	25.2	448.4

The carrying amount of leased assets is £13.7m (2006: £11.0m).

The Group has pledged land and buildings having a carrying amount of approximately £5.5m (2006: £9.1m) to secure banking facilities granted to the Group.

At 31 December 2007 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £9.6m (2006: £13.8m).

In addition to the above, property, plant and equipment amounting to £1.8m (2006: £2.3m) has been classified as held for sale.

13. Subsidiaries and associates

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given on pages 83 to 86. A list of the significant investments in associates, including the name, country of incorporation and proportion of ownership interest is given on page 79.

	2007 £m	2006 £m
Aggregated amounts relating to associates		
Total assets	**108.6**	137.8
Total liabilities	**132.7**	112.1
Revenues	**65.6**	67.0
Loss	**(15.3)**	(14.8)

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

	2007 £m	2006 £m
Operating profit	**0.1**	0.9
Less: Interest	**–**	(0.6)
Less: Tax	**–**	–
Share of results of associates (prior to impairment)	**0.1**	0.3
Interest in associates	**0.6**	1.2

14. Inventories

	2007 £m	2006 £m
Raw materials	**11.2**	8.7
Work-in-progress	**8.2**	4.9
Finished goods and goods for resale	**0.4**	0.1
	19.8	13.7

15. Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Amounts receivable under finance leases:				
Within one year	**0.4**	0.4	**0.4**	0.3
In the second to fifth years inclusive	**1.1**	1.5	**1.0**	1.4
After five years	**–**	–	**–**	–
	1.5	1.9	**1.4**	1.7
Less: unearned finance income	**(0.1)**	(0.2)		
Present value of minimum lease payments receivable	**1.4**	1.7		

	2007	2006
Analysed as:		
Non-current finance lease receivables (recoverable after 12 months)	**1.0**	1.4
Current finance lease receivables (recoverable within 12 months)	**0.4**	0.3
	1.4	1.7
The present value of minimum lease payments is denominated in the following currencies:		
Euro	**0.9**	1.0
US Dollar	**0.5**	0.7
	1.4	1.7

The Group has entered into finance leasing arrangements with SSCP Coating Sàrl, an associated company, for 3 PVD machines. The average term of finance leases entered into is 7 years. Unguaranteed residual values of assets leased under finance leases at the balance sheet date are £1.4m (2006: £1.7m). 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 4.4%. The fair value of the Group's finance lease receivables at 31 December 2007 is estimated at £1.5m (2006: £1.9m). The lease receivables are secured on the related assets.

16. Other financial assets

	2007 £m	2006 £m
Trade and other receivables		
Amounts falling due within one year:		
Amount receivable for the supply of services	**133.6**	117.5
Other debtors and prepayments	**25.7**	20.6
	159.3	138.1
Amounts falling due after more than one year:	**13.3**	11.3

The average credit period given to customers for the supply of services is 68 days (2006: 70 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £7.2m (2006: £6.9m). 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.

Credit risk

The Group's principal financial assets are bank balances and cash, 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 had 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 are set out in the Group Business Review on pages 3 to 14.

Included in the Group's trade receivable balance are debtors with a carrying amount of £44.5m (2006: £43.6m) 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:

	2007 £m	2006 £m
Amounts overdue by up to 1 month	**27.0**	25.7
Amounts overdue by 1-2 months	**12.6**	11.2
Amounts overdue by 2-3 months	**2.7**	4.0
Amounts overdue by more than 3 months	**2.2**	2.7
	44.5	43.6

Movement in the allowance for doubtful debts:

	2007 £m	2006 £m
Balance at 1 January	**6.9**	6.3
Impairment losses recognised	**4.7**	4.5
Allowance acquired with subsidiaries	**0.4**	1.2
Amounts written off as uncollectable	**(2.4)**	(2.0)
Impairment losses reversed	**(2.8)**	(3.1)
Exchange differences	**0.4**	–
	7.2	6.9

16. Other financial assets continued

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

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of £9.0m (2006: £8.6m) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables

	2007 £m	2006 £m
3-12 months	**4.4**	5.4
Over 12 months	**4.6**	3.2
	9.0	8.6

Bank and cash balances

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

	2007 £m	2006 £m
Sterling	**4.4**	4.3
US Dollar	**5.9**	5.1
Euro	**14.2**	13.2
Swedish Krona	**1.2**	2.2
United Arab Emirates Dirham	**2.9**	2.8
Czech Republic Koruna	**1.7**	1.4
Danish Krone	**1.6**	0.2
Other	**5.8**	5.5
Total bank and cash balances	**37.7**	34.7

17. Bank overdrafts and loans

	2007 £m	2006 £m
Borrowings at amortised cost:		
Bank overdrafts	**3.4**	1.3
Loans	**227.4**	189.6
	230.8	190.9
The borrowings are repayable as follows:		
On demand or within one year	**9.0**	4.4
In the second year	**0.8**	0.8
In the third to fifth years	**175.5**	140.8
After five years	**45.5**	44.9
	230.8	190.9
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(9.0)**	(4.4)
Amount due for settlement after 12 months	**221.8**	186.5

Analysis of borrowings by currency:

	Sterling £m	Euro £m	US$ £m	Swedish Krona £m	Swiss Franc £m	Other currencies £m	Total £m
At 31 December 2007							
Bank overdrafts	**0.4**	**0.2**	**0.3**	**1.5**	**–**	**1.0**	**3.4**
Bank loans	**3.0**	**94.7**	**98.2**	**16.8**	**7.1**	**7.6**	**227.4**
	3.4	**94.9**	**98.5**	**18.3**	**7.1**	**8.6**	**230.8**
At 31 December 2006							
Bank overdrafts	0.3	0.3	0.1	–	–	0.6	1.3
Bank loans	0.6	81.6	85.4	17.2	3.8	1.0	189.6
	0.9	81.9	85.5	17.2	3.8	1.6	190.9

	2007 %	2006 %
The weighted average interest rates paid were as follows:		
Bank overdrafts and loans	**5.1**	5.1

Loans and finance leases of £7.9m (2006: £6.1m) 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.

17. Bank overdrafts and loans continued

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

	2007 £m	2006 £m
Bank overdrafts	**3.4**	1.3
Bank loans	**227.4**	189.6

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

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

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

(a) Drawings of £175.3m (2006: £140.3m) under a Revolving Credit Facility of £225m. This unsecured facility commenced on 29 July 2005 for a period of five years. The multi currency drawings under this facility carry an interest rate of between 0.50% and 0.75% above LIBOR (the margin at 31 December 2007 was 0.5%).

(b) Drawings of £44.1m (2006: £43.1) 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 2007 was 0.8%).

(c) Letters of credit drawings of £4.6m (2006: £Nil) under a Revolving Credit and Letter of Credit Facility of $20m. This unsecured facility commenced on 17 August 2007 for a period of three years. The US Dollar drawings and Letter of Credit fees under this facility carry a margin/fee of between 0.50% and 0.75% above LIBOR (the margin / fee at 31 December 2007 was 0.5%).

At 31 December 2007 the Group had available £102.9m (2006: £125.8m) of undrawn committed borrowing facilities.

18. Derivative financial instruments

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

	Notional amount 2007 £m	**Fair value 2007 £m**	Notional amount 2006 £m	Fair value 2006 £m
Asset/(liability)				
Current				
Forward foreign exchange contracts	**11.6**	**–**	0.3	–
Cross currency swaps - fixed/fixed	**23.6**	**(1.8)**	20.2	0.1
Cross currency swaps - floating/floating	**51.6**	**(3.4)**	51.2	1.6
	86.8	**(5.2)**	71.7	1.7
Non-current				
Cross currency swaps - fixed/fixed	**41.7**	**(2.7)**	10.1	–
Cross currency swaps - floating/floating	**13.3**	**(0.2)**	31.3	0.5
	55.0	**(2.9)**	41.4	0.5
Total				
Forward foreign exchange contracts	**11.6**	**–**	0.3	–
Cross currency swaps - fixed/fixed	**65.3**	**(4.5)**	30.3	0.1
Cross currency swaps - floating/floating	**64.9**	**(3.6)**	82.5	2.1
	141.8	**(8.1)**	113.1	2.2

18. Derivative financial instruments continued

The Group utilises currency derivatives to hedge material future transactions and cash flows. The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are primarily denominated in the currencies of the Group's principal markets. The unrecognised gains and losses were not material either in 2007 or 2006.

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

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

	Sterling 2007 £m	**Euro 2007 £m**	**Swedish Krona 2007 £m**	**Danish Krone 2007 £m**	**Canadian Dollar 2007 £m**	**Swiss Franc 2007 £m**	**Total fair value 2007 £m**
Asset/(liability)							
Fixed/fixed	**65.3**	**(58.4)**	**(3.3)**	**–**	**(6.6)**	**(1.5)**	**(4.5)**
Floating/floating	**64.9**	**(31.6)**	**(17.7)**	**(4.9)**	**(9.3)**	**(5.0)**	**(3.6)**
Total	**130.2**	**(90.0)**	**(21.0)**	**(4.9)**	**(15.9)**	**(6.5)**	**(8.1)**
On demand or within one year	**77.5**	**(42.5)**	**(21.0)**	**(4.9)**	**(9.3)**	**(5.0)**	**(5.2)**
In the second year	**52.7**	**(47.5)**	**–**	**–**	**(6.6)**	**(1.5)**	**(2.9)**
	130.2	**(90.0)**	**(21.0)**	**(4.9)**	**(15.9)**	**(6.5)**	**(8.1)**

	Sterling 2006 £m	Euro 2006 £m	Swedish Krona 2006 £m	Danish Krone 2006 £m	Canadian Dollar 2006 £m	Swiss Franc 2006 £m	Total fair value 2006 £m
Asset/(liability)							
Fixed/fixed	30.4	(30.3)	–	–	–	–	0.1
Floating/floating	84.5	(40.4)	(17.5)	(4.5)	(13.8)	(6.2)	2.1
Total	114.9	(70.7)	(17.5)	(4.5)	(13.8)	(6.2)	2.2
On demand or within one year	73.0	(40.4)	(10.4)	(4.5)	(11.4)	(4.6)	1.7
In the second year	41.9	(30.3)	(7.1)	–	(2.4)	(1.6)	0.5
	114.9	(70.7)	(17.5)	(4.5)	(13.8)	(6.2)	2.2

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.

Additional information on financial instruments is given in the Group Business Review on pages 3 to 14.

19. 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 2006	67.8	(4.5)	(8.7)	2.6	57.2
Charge/(credit) to income	(4.1)	2.4	(0.1)	(7.6)	(9.4)
Charge to equity	–	–	(1.6)	–	(1.6)
Acquisition of subsidiaries	0.3	(0.2)	(0.1)	0.1	0.1
Exchange differences	(2.0)	2.5	1.4	(2.7)	(0.8)
At 1 January 2007	62.0	0.2	(9.1)	(7.6)	45.5
Charge/(credit) to income	2.5	(1.6)	0.4	(4.6)	(3.3)
Charge to equity	–	–	2.8	–	2.8
Acquisition of subsidiaries	0.4	–	(0.2)	(0.4)	(0.2)
Exchange differences	2.4	(0.8)	(0.7)	1.0	1.9
Effect of change in tax rate:					
Income statement	(2.4)	–	0.1	(0.1)	(2.4)
Equity	–	–	0.3	–	0.3
At 31 December 2007	**64.9**	**(2.2)**	**(6.4)**	**(11.7)**	**44.6**

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:

	2007 £m	2006 £m
Deferred tax liabilities	**74.3**	68.7
Deferred tax assets	**(29.7)**	(23.2)
	44.6	45.5

At the balance sheet date, the Group has unused tax losses of £18.2m (2006: £17.2m) available for offset against future profits. A deferred tax asset has been recognised in respect of £16.7m (2006: £15.4m) of such losses. No deferred tax asset has been recognised in respect of the remaining £1.5m (2006: £1.8m) of such losses. All losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £474.0m (2006: £348.0m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

20. Obligations under finance leases

	Minimum lease payments 2007 £m	Minimum lease payments 2006 £m	Present value of minimum lease payments 2007 £m	Present value of minimum lease payments 2006 £m
Amounts payable under finance leases:				
Within one year	**2.0**	1.7	**1.7**	1.4
In the second to fifth years inclusive	**3.4**	3.1	**2.7**	2.5
After five years	**0.8**	0.8	**0.7**	0.8
	6.2	5.6	**5.1**	4.7
Less: future finance charges	**(1.1)**	(0.9)		
Present value of lease obligations	**5.1**	4.7		

	2007 £m	2006 £m
Analysed as:		
Amount due for settlement after 12 months	**3.4**	3.3
Amount due for settlement within 12 months (shown as current liabilities)	**1.7**	1.4
	5.1	4.7

The present value of minimum lease payments were denominated in the following currencies:	2007 £m	2006 £m
Euro	**2.6**	1.7
Sterling	**0.8**	0.9
Danish Krone	**0.7**	0.8
US Dollar	**0.7**	0.7
Other	**0.3**	0.6
	5.1	4.7

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3.8 years. For the year ended 31 December 2007, the average effective borrowing rate was 7.8% (2006: 7.2%). 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.

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21. Other financial liabilities

	2007 £m	2006 £m
Trade and other payables		
Amounts falling due within one year:		
Trade creditors	**43.7**	43.7
Other taxes and social security	**18.5**	17.1
Other creditors	**12.2**	8.8
Accruals and deferred income	**50.1**	41.5
	124.5	111.1
Amounts falling due after more than one year:		
Other creditors	**6.8**	5.7

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 53 days (2006: 69 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

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

	Less than 1 year 2007 £m	**1-2 years 2007 £m**	**2-5 years 2007 £m**	**5+ years 2007 £m**	**Total 2007 £m**
Non-interest bearing	**130.2**	**4.5**	**1.2**	**3.3**	**139.2**
Finance lease liability	**1.9**	**1.4**	**2.0**	**0.7**	**6.0**
Bank loans and overdrafts	**273.9**	**0.9**	**0.3**	**1.4**	**276.5**
Derivative financial instruments	**93.9**	**61.9**	**–**	**–**	**155.8**
	499.9	**68.7**	**3.5**	**5.4**	**577.5**

	Less than 1 year 2006 £m	1-2 years 2006 £m	2-5 years 2006 £m	5+ years 2006 £m	Total 2006 £m
Non-interest bearing	113.6	5.3	1.0	3.5	123.4
Finance lease liability	1.5	1.5	1.5	0.9	5.4
Bank loans and overdrafts	232.1	1.1	0.5	1.9	235.6
Derivative financial instruments	69.6	46.6	–	–	116.2
	416.8	54.5	3.0	6.3	480.6

Of the £276.5m (2006: £235.6m) bank loan and overdraft outflows disclosed above, £175.3m (2006: £140.3m) and £44.1m (2006: £43.1m) of bank loans are drawn under committed facilities maturing on 31 July 2010 and 31 July 2013 respectively. The overdrafts are on-demand and largely part of pooling arrangements, which include offsetting cash balances. Of the £155.8m (2006: £116.2m) derivative financial instrument outflows disclosed above, £148.6m (2006: £120.1m) are matched by derivative cash inflows.

22. Provisions

	Restructuring provision £m	Environmental £m	Total £m
At 1 January 2007	0.8	5.8	6.6
Increase of provision	4.1	2.0	6.1
On acquisition of subsidiary	–	0.7	0.7
Release of provision	–	(0.1)	(0.1)
Utilisation of provision	(3.3)	(2.2)	(5.5)
Exchange difference	–	0.1	0.1
At 31 December 2007	**1.6**	**6.3**	**7.9**
Included in current liabilities			5.7
Included in non-current liabilities			2.2
			7.9

The restructuring provision relates to the remaining costs associated with the closure of various Heat Treatment and Testing sites.

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.

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

23. Share capital

	2007 £m	2006 £m
Authorised 430,000,000 (2006: 430,000,000) ordinary shares of 10p each	**43.0**	43.0
Issued and fully paid 323,673,223 (2006: 322,168,062) ordinary shares of 10p each	**32.4**	32.2

The Company has one class of ordinary shares which carry no right to fixed income. Movements in share capital during the year relate to the exercise of share options.

24. Reserves

	Share premium £m	Own shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Total £m
At 1 January 2006	300.3	(2.5)	1.7	11.1	89.4	400.0
Premium arising on issue of equity shares	1.8	–	–	–	–	1.8
Settlement of share options	–	0.1	–	–	–	0.1
Share based payments	–	–	2.1	–	–	2.1
Exchange differences on translation of overseas operations	–	–	–	(6.7)	–	(6.7)
Dividends paid	–	–	–	–	(21.0)	(21.0)
Net profit for the year	–	–	–	–	43.1	43.1
Other items taken directly to equity	–	–	–	–	(2.1)	(2.1)
At 1 January 2007	302.1	(2.4)	3.8	4.4	109.4	417.3
Premium arising on issue of equity shares	2.9	–	–	–	–	2.9
Acquired in the year/settlement of share options	–	(8.6)	–	–	–	(8.6)
Share based payments	–	–	2.5	–	–	2.5
Release of revaluation reserve on disposal of assets	–	–	(0.3)	–	0.3	–
Exchange differences on translation of overseas operations	–	–	–	22.2	–	22.2
Movement on hedges of net investments	–	–	–	(9.7)	–	(9.7)
Dividends paid	–	–	–	–	(23.4)	(23.4)
Net profit for the year	–	–	–	–	52.8	52.8
Other items taken directly to equity	–	–	–	–	1.6	1.6
At 31 December 2007	**305.0**	**(11.0)**	**6.0**	**16.9**	**140.7**	**457.6**

The own shares reserve represents the cost of shares in Bodycote International plc purchased in the market, some of which are held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 28).

Minority interest

	2007 £m	2006 £m
At 1 January	**4.4**	1.4
Share of profits for the year	**1.0**	0.8
On acquisition of subsidiaries	**0.8**	2.2
Purchase of minority interest	**(0.1)**	–
Dividend paid to minority shareholder	**(0.1)**	(0.1)
Exchange difference	**0.6**	0.1
At 31 December	**6.6**	4.4

25. Acquisition of subsidiaries

The Group acquired the following subsidiaries during the year:

Interest	Date of acquisition	% of shares acquired	Principal activity
Techmeta SA	01 Feb 2007	87.7	Thermal Processing
Ionbond do Brasil Tretamento de Superficies Ltda	24 Apr 2007	100.0	Thermal Processing
IonBond Argentina SA	24 Apr 2007	80.0	Thermal Processing
Ningbo Jiangdong Ruidahong Heat Treatment Co. Ltd	01 Jul 2007	100.0	Thermal Processing
Nitruvid SAS	06 Jul 2007	100.0	Thermal Processing
Metroplex Heat Treat Inc.	12 Dec 2007	100.0	Thermal Processing
Nitrion GmbH	18 Dec 2007	100.0	Thermal Processing
Traitements Compression Services SA	21 Dec 2007	51.0	Thermal Processing

In addition the Group acquired the remaining minority interest of the following subsidiary during the year:

Interest	Date of acquisition	% of shares acquired	Principal activity
Warrington Fire Research (Aust) Pty Ltd	28 Nov 2007	49.0	Testing MEM

In addition the Group acquired the following businesses during the year:

Interest	Date of acquisition	Principal activity
SSCP Coating S.a.r.l., Indian Heat Treatment facilities	01 Mar 2007	Thermal Processing
Newalta Corporation, Drayton Valley laboratory	20 Jun 2007	Testing HSE
Matrax SAS, Heat Treatment business	26 Dec 2007	Thermal Processing

All transactions have been accounted for by the purchase method of accounting and are summarised below. These acquisitions have been aggregated as they are considered individually immaterial to the Group's results.

25. Acquisition of subsidiaries continued

	Thermal Processing £m	Testing £m	Total Group £m
Book value and fair value of net assets acquired:			
Intangible assets:			
At book value	0.2	–	0.2
Fair value adjustment	4.3	–	4.3
At fair value	4.5	–	4.5
Deferred tax assets/(liabilities):			
At book value	0.2	–	0.2
Fair value adjustment	(0.9)	–	(0.9)
At fair value	(0.7)	–	(0.7)
Property, plant and equipment	19.3	0.2	19.5
Inventories	1.6	–	1.6
Trade and other receivables	6.2	0.2	6.4
Cash and cash equivalents	3.9	–	3.9
Trade and other payables	(7.5)	–	(7.5)
Current tax asset/(liability)	(0.8)	–	(0.8)
Bank loans	(0.1)	–	(0.1)
Finance leases	(1.5)	–	(1.5)
Retirement benefit obligations	(1.2)	–	(1.2)
	23.7	0.4	24.1
Minority interest	(0.8)	0.1	(0.7)
Transfer of associate investment	(1.1)	–	(1.1)
Goodwill	13.0	1.3	14.3
Total consideration	34.8	1.8	36.6
Satisfied by:			
Cash	34.3	1.8	36.1
Directly attributable costs	0.5	–	0.5
	34.8	1.8	36.6
Net cash outflow arising on acquisition:			
Cash consideration	34.8	1.8	36.6
Cash and cash equivalents acquired	(3.9)	–	(3.9)
	30.9	1.8	32.7

The goodwill arising on the acquisitions is attributable to the anticipated profitability of the distribution of the Group's services in new markets and the anticipated future operating synergies from the combination. The acquired businesses contributed £9.1m revenue and £1.2m to the Group's profit before tax for the period between the dates of acquisition and the balance sheet date. If the acquisition of all the businesses had been completed on the first day of the financial year, Group revenues for continuing operations for the year would have been £658.4m and Group profit attributable to equity holders of the parent would have been £53.3m.

26. Notes to the cash flow statement

	2007 £m	2006 £m
Operating profit	**78.8**	58.8
Share of associates' interest and tax	**–**	0.6
Depreciation of property, plant and equipment	**49.3**	44.8
Amortisation/impairment of intangible assets	**2.7**	1.6
Impairment of goodwill	**7.2**	6.0
Major facility closure costs	**5.4**	5.0
Impairment of investment in associate	**–**	8.3
Change to pension scheme rules	**(4.1)**	–
Bid response costs	**2.1**	–
EBITDA*	**141.4**	125.1
(Gain)/loss on disposal of property, plant and equipment	**(0.1)**	0.3
Income from associates	**(0.1)**	(0.9)
Share-based payments	**2.5**	2.1
Operating cash flows before movements in working capital	**143.7**	126.6
Increase in inventories	**(3.7)**	(0.4)
Increase in receivables	**(8.4)**	(15.5)
(Decrease)/increase in payables	**(2.9)**	9.5
Decrease in provisions	**(5.4)**	(2.6)
Cash generated by operations	**123.3**	117.6
Cash inflow from settlement of derivative financial instruments	**0.7**	–
Income taxes paid	**(16.0)**	(8.4)
Net cash from operating activities	**108.0**	109.2

*Earnings before interest, tax, depreciation, amortisation and other exceptional items.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

27. Operating lease arrangements - the Group as lessee

	2007 **£m**	2006 £m
Minimum lease payments under operating leases recognised as an expense	**15.2**	12.5

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:

	2007 **£m**	2006 £m
Within one year	**13.3**	11.9
In the second to fifth years inclusive	**29.6**	24.5
After five years	**11.1**	7.6
	54.0	44.0

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

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

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

Date of grant	Option price in pence	Exercise period	No of options outstanding **2007**	2006
May-97	241.92	2000-2007	**–**	434,398
Dec-97	315.43	2000-2007	**–**	502,119
Jan-98	353.06	2001-2008	**184,447**	187,121
May-98	475.92	2001-2008	**33,688**	33,688
Oct-98	285.18	2001-2008	**189,023**	233,137
Apr-99	370.26	2002-2009	**175,129**	181,813
May-99	329.12	2002-2009	**–**	16,042
Dec-99	292.19	2002-2009	**58,823**	58,823
May-00	231.42	2003-2010	**342,095**	726,117
Apr-01	203.37	2004-2011	**639,810**	873,752
Apr-01	203.37	2004-2008*	**21,390**	21,390
Sep-02	125.76	2005-2012	**359,667**	555,729
Sep-02	125.76	2005-2009*	**25,349**	31,231
Sep-03	147.27	2006-2013	**702,614**	998,736
			2,732,035	4,854,096

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

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

Movements in share options are summarised as follows:

	2007 Number of shares under option	**2007 Weighted average exercise price pence**	2006 Number of shares under option	2006 Weighted average exercise price pence
Outstanding at beginning of period	**4,854,096**	**219.98**	6,932,702	226.00
Exercised during the period	**(1,505,161)**	**203.23**	(1,013,202)	184.82
Expired during the period	**(616,900)**	**302.85**	(1,065,404)	292.37
Outstanding at the end of the period	**2,732,035**	**210.50**	4,854,096	219.98
Exercisable at the end of the period	**2,732,035**	**210.50**	4,854,096	219.98

The weighted average share price at the date of exercise for share options exercised during the period was 301.00 pence. The options outstanding at 31 December 2007 had a weighted average exercise price of 210.50 pence, and a weighted average remaining contractual life of 4.0 years. The average share price during the year was 273.00 pence.

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

		2007	2006
Weighted average share price	pence	**157.5**	157.5
Weighted average exercise price	pence	**157.5**	157.5
Expected volatility		**0.4**	0.4
Expected life	years	**3.0**	3.0
Risk-free rate	%	**4.0**	4.0
Expected dividends	pence	**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 £2.5m (2006: £2.1m) related to equity-settled share-based payment transactions.

29. Retirement benefit schemes

The Group operated a number of pension schemes 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 as follows:

Defined benefit obligation less fair value of assets at the end of the year

	2007 £m	2006 £m
UK Scheme	**13.4**	23.3
American Schemes	**0.2**	0.4
European Schemes	**10.3**	9.1
	23.9	32.8

Total expense recognised in income statement

	2007 £m	2006 £m
UK Scheme	**(2.4)**	2.1
American Schemes	**–**	0.2
European Schemes	**0.7**	0.7
	(1.7)	3.0

UK Scheme

The Company sponsors the Bodycote International UK Pension Scheme which is a funded defined benefit arrangement for UK employees. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 6 April 2005 and updated on an approximate basis to 31 December 2007.

The contributions made by the employer over the financial year have been £1.3m, equivalent to approximately 14% of pensionable pay plus a special contribution of £1.9m. This level of contribution has been reviewed following the triennial valuation of the scheme completed as at 6 April 2005 and it is expected that the deficit will be extinguished in no more than ten years.

It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside the profit and loss account and in the statement of recognised income and expense.

29. Retirement benefit schemes continued

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

	2007 £m	2006 £m
Defined benefit obligation at start of year	**67.2**	59.5
Current service cost	**1.3**	1.5
Interest cost	**3.2**	2.9
Past service credit	**(4.1)**	–
Contributions by plan participants	**0.6**	0.6
Actuarial (gain)/loss	**(4.9)**	3.8
Benefits paid, death in service insurance premiums and expenses	**(2.3)**	(1.1)
Defined benefit obligation at end of year	**61.0**	67.2

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

	2007 £m	2006 £m
Fair value of assets at start of year	**43.9**	37.7
Expected return on assets	**2.8**	2.3
Actuarial (loss)/gain	**(0.8)**	0.7
Contributions by employer	**3.3**	3.7
Contributions by plan participants	**0.6**	0.6
Benefits paid, death in service insurance premiums and expenses	**(2.2)**	(1.1)
Fair value of assets at end of year	**47.6**	43.9

Total expense recognised in the income statement

	2007 £m	2006 £m
Current service cost	**1.3**	1.5
Interest on pension scheme liabilities	**3.2**	2.9
Past service credit	**(4.1)**	–
Expected return on pension scheme assets	**(2.8)**	(2.3)
Total expense	**(2.4)**	2.1

The cumulative amount of actuarial losses recognised in the statement of recognised income and expenses since adoption of IAS 19 is £0.1m.

29. **Retirement benefit schemes** continued

Assets

	2007 £m	2006 £m	2005 £m
Equities	**29.2**	28.1	25.1
Bonds	**11.7**	9.6	7.0
Cash	**0.5**	3.2	–
With profits insured policy	**1.5**	3.0	5.6
Hedge funds	**4.7**	–	–
	47.6	43.9	37.7

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

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

	2007 % per annum	2006 % per annum	2005 % per annum
Equities	**7.4**	7.5	7.5
Bonds	**5.0**	4.8	4.3
With profits insured policy	**5.1**	4.6	4.1
Hedge funds	**7.4**	–	–
Cash	**5.5**	5.0	4.5
Overall for scheme	**6.7**	6.3	6.4

Actual return on plan assets

The actual return on the plan assets over the year ended 31 December 2007 was 4.6%.

Assumptions

	2007 % per annum	2006 % per annum	2005 % per annum
Inflation	3.35	3.0	3.0
Salary increases	3.0	4.25	4.25
Rate of discount	5.6	5.0	4.8
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.35	3.0	3.0
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.65	3.0	3.0

Mortality - current pensioners			
Actuarial tables used	**pa 92 YOB MC**	pa 92 YOB MC	
Life expectancy for members currently aged 65	**21.9**	21.8	
Mortality - future pensioners			
Actuarial tables used	**pa 92 YOB MC**	pa 92 YOB MC	
Life expectancy at age 65 for members currently aged 40	**23.2**	23.2	

29. Retirement benefit schemes continued

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

	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	**(61.0)**	(67.2)	(59.5)
Fair value of plan assets	**47.6**	43.9	37.7
Deficit in the scheme	**(13.4)**	(23.3)	(21.8)

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2007 is that recognised in the balance sheet.

The best estimate of contributions to be paid into the plan for the year ending 31 December 2008 is £3.3m.

Amounts for the current and previous four years

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Fair value of assets	**47.6**	43.9	37.7	30.0	26.1
Defined benefit obligation	**(61.0)**	(67.2)	(59.5)	(50.7)	(38.6)
Deficit in the plan	**(13.4)**	(23.3)	(21.8)	(20.7)	(12.5)
Experience adjustment on plan liabilities	**(0.1)**	–	0.4	0.1	0.1
Experience adjustment on plan assets	**(0.8)**	0.7	4.5	0.9	2.4
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	**4.8**	(3.8)	(6.0)	(9.4)	(1.9)

Combined American disclosures

The Group sponsors five defined benefit pension arrangements in the USA. These are Metallurgical Inc Pension Plan, Lakeside Heat Treating, Lansing (UAW), St Louis Hourly and the Supplemental Retirement Plan. The last full actuarial valuation of these schemes was carried out by a qualified independent actuary as at 1 January 2004 (1 September 2004 for the Metallurgical Plan) and updated on an approximate basis to 31 December 2007. The contributions made by the employer over the financial year were $0.2m. The Group also operates a defined benefits scheme, acquired on 26 October 2006, for 3 employees in Brazil.

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

	2007 £m	2006 £m
Defined benefit obligation at start of year	**2.6**	2.9
Current service cost	**–**	0.1
Interest cost	**0.2**	0.2
Actuarial gain	**(0.1)**	(0.3)
Acquisition	**–**	0.2
Benefits paid, death in service insurance premiums and expenses	**(0.1)**	(0.2)
Exchange rate loss/(gain)	**0.1**	(0.3)
Defined benefit obligation at end of year	**2.7**	2.6

29. Retirement benefit schemes continued

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

	2007 £m	2006 £m
Fair value of assets at start of year	**2.2**	1.9
Expected return on assets	**0.2**	0.1
Actuarial gains	**–**	0.3
Contributions by employer	**0.2**	0.2
Benefits paid, death in service insurance premiums and expenses	**(0.1)**	(0.2)
Acquisition	**–**	0.2
Exchange rate loss	**–**	(0.3)
Fair value of assets at end of year	**2.5**	2.2

Total expense recognised in the income statement

	2007 £m	2006 £m
Current service cost	**–**	0.1
Interest on pension scheme liabilities	**0.2**	0.2
Expected return on pension scheme assets	**(0.2)**	(0.1)
Total expense	**–**	0.2

The cumulative amount of actuarial gains recognised in the statement of recognised income and expenses since adoption of IAS 19 is £0.7m.

Assets

	2007 £m	2006 £m	2005 £m
Equities	**1.4**	1.3	1.2
Bonds	**0.5**	0.3	0.5
Cash	**0.1**	0.3	0.2
Insurance contracts	**0.5**	0.3	–
	2.5	2.2	1.9

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 cash and bonds is equal to an expected real rate of return of 2.0%. The expected long-term return on bonds is a weighted average of real return of 3.25% on long duration bonds and 4.5% on high-yield bonds. The expected rate of return on equities is a weighted average of 6.0% real return on US large caps, 6.5% real return on US small caps, 6.0% real return on international and 8.0% real return on emerging markets. These returns were then adjusted to reflect 2.5% inflation, a rebalancing/diversification adjustment and an active management adjustment. The expected rate of return on insurance contracts has been calculated based on 10.24% per annum in line with the expected return on the policies held in Brazil.

29. Retirement benefit schemes continued

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

	2007 % per annum	2006 % per annum	2005 % per annum
Equities	**9.8**	9.1	7.0
Bonds	**6.5**	5.0	5.0
Cash	**5.2**	5.0	2.25
Insurance policy	**10.2**	10.2	–
Overall for scheme	**9.0**	8.1	5.9

Actual return on plan assets

The actual return on the plan assets over the year ending 31 December 2007 was 5.7%.

Assumptions

	USA 2007 % per annum	**Brazil 2007 % per annum**
Salary increases	**–**	**6.1**
Rate of discount	**6.5**	**10.2**
Price inflation	**2.5**	**4.0**

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

	2007 £m	2006 £m	2005 £m
Defined benefit obligation	**(2.7)**	(2.6)	(2.9)
Fair value of plan assets	**2.5**	2.2	1.9
Deficit in scheme	**(0.2)**	(0.4)	(1.0)

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2007 is that recognised in the balance sheet.

The best estimate of contributions to be paid into the plan for the year ending 31 December 2008 is £0.3m.

Amounts for the current and previous four years

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Fair value of assets	**2.5**	2.2	1.9	1.7	1.8
Defined benefit obligation	**(2.7)**	(2.6)	(2.9)	(2.6)	(3.0)
Deficit in plan	**(0.2)**	(0.4)	(1.0)	(0.9)	(1.2)
Experience adjustment on plan liabilities	**–**	–	–	0.2	(0.1)
Experience adjustment on plan assets	**0.1**	0.3	–	0.1	0.1
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	**–**	0.3	–	–	–

29. Retirement benefit schemes continued

Continental European schemes

The Group operates schemes for employees in France, Germany, Italy, Sweden and Turkey. With the exception of the scheme for Bodycote Metech AB all schemes are unfunded.

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

	2007 £m	2006 £m
Defined benefit obligation at start of year	**10.6**	7.1
Current service cost	**0.3**	0.3
Interest cost	**0.5**	0.4
Actuarial (gain)/loss	**(0.3)**	1.2
Benefits paid	**(1.0)**	(0.2)
Curtailments	**(0.1)**	–
Acquisitions	**1.2**	1.9
Exchange rate loss/(gain)	**0.7**	(0.1)
Defined benefit obligation at end of year	**11.9**	10.6

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

	2007 £m	2006 £m
Fair value of assets at start of year	**1.5**	–
Acquisitions	**–**	1.5
Exchange rate gain	**0.1**	–
Fair value of assets at end of year	**1.6**	1.5

Total expense recognised in the income statement

	2007 £m	2006 £m
Current service cost	**0.3**	0.3
Interest on pension scheme liabilities	**0.5**	0.4
Expected return on plan assets	**–**	–
Curtailments	**(0.1)**	–
Total expense	**0.7**	0.7

The cumulative amount of actuarial gains recognised in the statement of recognised income and expenses since adoption of IAS 19 is £0.1m. All assets are held in an insured contract. The expected long-term return of this contract is 2.0% per annum.

Assumptions

	France 2007 % per annum	**Germany 2007 % per annum**	**Italy 2007 % per annum**	**Sweden 2007 % per annum**	**Turkey 2007 % per annum**
Salary increases	3.8	2.5	–	3.0	–
Rate of discount	5.5	5.4	5.5	4.8	11.0
Price inflation	2.0	–	2.0	2.0	5.0
Pensions increases	–	1.8	–	–	–

29. Retirement benefit schemes continued

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

	2007 **£m**	2006 £m	2005 £m
Defined benefit obligation	**(11.9)**	(10.6)	(7.1)
Fair value of plan assets	**1.6**	1.5	–
Deficit in scheme	**(10.3)**	(9.1)	(7.1)

Effects in changes in assumptions underlying the present value of the liabilities	**1.2**	–	–
Experience gains/(losses) on plan liabilities	**(0.9)**	0.6	(1.6)
Gain on acquisition	**–**	0.4	–

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2007 is that recognised in the balance sheet. As the scheme is unfunded the best estimate of contributions to be paid into the plans for the year ending 31 December 2007 is nil.

Note on plan assets

There are assets held in trust for pension purposes within Bodycote Metech AB (acquired on 26 April 2006). The opening balance of £1.5m and the closing balance of £1.6m for these assets is reflected in the balance sheet above.

30. Events after the balance sheet date

After the year-end the Group purchased Accutest Laboratories Limited, a Canadian analytical testing business, Metlab (Int.) Ltd in the Republic of Ireland, which provides materials testing and non-destructive testing services, and TISCO, Thailand's largest metallurgical services provider. The total consideration for these transactions was £10.4m.

31. Related party transactions

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

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sale of goods and services		Purchase of goods and services		Amounts owed by related parties		Amounts owed to related parties	
	2007 **£m**	2006 £m	**2007** **£m**	2006 £m	**2007** **£m**	2006 £m	**2007** **£m**	2006 £m
Associates	**2.0**	2.1	**0.1**	0.7	**12.2**	9.3	**–**	0.7

Sales of goods and services include the sale of property, payments received from finance leases (see note 15) and the provision of managment services. All transactions were made at arms length. The amounts outstanding will be settled in cash, of which £0.8m is secured. No guarantees have been given or received. £1.1m of provisions have been made for doubtful debts and expensed during the year in respect of the amounts owed by related parties. The remuneration of the Board of Directors, who are considered key management personnel of the Group was as follows:

	2007 **£m**	2006 £m
Wages and salaries	**1.5**	1.2
Share-based payments	**0.2**	0.4
	1.7	1.6

Further information about the remuneration of the individual directors is provided in the Board Report on Remuneration on pages 22 to 27.

Five Year Summary

Bodycote

	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m	IFRS 2004 £m	UK GAAP 2003 £m
Revenue					
Existing operations	**640.5**	558.6	470.9	426.4	435.7
Discontinued operations	**–**	–	1.5	30.8	12.7
Revenue - continuing and discontinued operations	**640.5**	558.6	472.4	457.2	448.4
Profit/(losses) for continuing and discontinued operations:					
Headline operating profit	**91.3**	79.7	67.8	53.1	41.7
Share of results of associates' interest and tax	**–**	(0.6)	(0.8)	–	–
(Gain)/loss on disposal of tangible and intangible fixed assets	**(0.1)**	0.3	(0.6)	0.5	–
Amortisation and impairment of goodwill and intangibles	**(9.1)**	(7.0)	(6.0)	–	(9.1)
Impairment of investment in associate	**–**	(8.3)	–	–	–
Major facility closure costs	**(5.4)**	(5.0)	–	–	–
Change to pension scheme rules	**4.1**	–	–	–	–
Bid response costs	**(2.1)**	–	–	–	–
Operating exceptional items	**–**	–	–	–	(7.5)
Operating profit before restructuring and disposals of operations and fixed assets	**78.7**	59.1	60.4	53.6	25.1
(Loss)/profit on disposal of operations	**–**	–	–	(3.8)	3.5
Restructuring costs	**–**	–	–	(7.4)	(30.0)
Gain/(loss) on disposal of fixed assets	**0.1**	(0.3)	0.6	(0.5)	–
Profit/(loss) before interest and tax	**78.8**	58.8	61.0	41.9	(1.4)
Net interest payable	**(10.3)**	(12.2)	(8.3)	(8.8)	(9.7)
Profit/(loss) before taxation	**68.5**	46.6	52.7	33.1	(11.1)
Taxation	**(14.7)**	(2.7)	(11.8)	(4.6)	(6.2)
Profit/(loss) after taxation	**53.8**	43.9	40.9	28.5	(17.3)
Minority interests	**(1.0)**	(0.8)	(0.2)	(0.2)	(0.1)
Profit/(loss) attributable to the equity holders of the parent	**52.8**	43.1	40.7	28.3	(17.4)
Headline earnings per share (pence)	**20.3**	17.3	14.6	11.7	9.1
Dividends per share (pence)	**8.0**	7.0	6.4	6.1	5.7
Assets employed					
Intangible fixed assets	**227.3**	212.3	157.9	141.1	137.5
Tangible fixed assets	**508.9**	448.4	442.9	425.9	478.7
Other current assets and liabilities	**(41.4)**	(45.9)	(58.7)	(54.7)	(34.1)
	694.8	614.8	542.1	512.3	582.1
Financed by					
Share capital	**32.4**	32.2	32.1	32.1	25.7
Reserves	**457.6**	417.3	400.0	388.9	345.2
Shareholders' funds	**490.0**	449.5	432.1	421.0	370.9
Minority interests	**6.6**	4.4	1.4	1.0	0.9
Net borrowings	**198.2**	160.9	108.6	90.3	210.3
	694.8	614.8	542.1	512.3	582.1
Net assets per share (pence)	**151.4**	139.5	134.5	131.2	144.5
Return on capital employed:					
Headline operating profit before amortisation of acquired intangibles and impairment of goodwill (%)	**13.9**	13.8	12.9	9.7	6.9
Profit/(loss) before interest and tax (%)	**12.0**	10.2	11.6	7.7	(0.2)
Return on capital employed (including cumulative goodwill written back to reserves):					
Headline operating profit before amortisation of acquired intangibles and impairment of goodwill (%)	**11.3**	10.8	9.9	7.6	5.5

Company Balance Sheet
as at 31 December 2007

	2007 £m	2006 £m	Note
Fixed assets			
Tangible fixed assets	**1.0**	0.6	2
Investments	**422.7**	849.4	3
	423.7	850.0	
Current assets			
Debtors	**50.7**	27.2	4
Cash at bank and in hand	**4.1**	0.1	
	54.8	27.3	
Current liabilities			
Creditors: Amounts falling due within one year	**(21.2)**	(18.7)	5
Net current assets	**33.6**	8.6	
Total assets less current liabilities	**457.3**	858.6	
Non-current liabilities			
Creditors: Amounts falling due after more than one year	**(67.7)**	(473.5)	5
Net assets	**389.6**	385.1	
Capital and reserves			
Called-up share capital	**32.4**	32.2	7
Share premium account	**305.0**	302.1	7
Currency and other reserves	**(6.9)**	4.5	7
Profit and loss account	**59.1**	46.3	7
Equity shareholders' funds	**389.6**	385.1	

Approved by the Board of Directors on 26 February 2008 and signed on its behalf by:

J. D. Hubbard } Directors
D. F. Landless

The accompanying notes and statement of accounting policies are an integral part of these financial statements.

Independent Auditors' Report
to the members of Bodycote International plc

We have audited the parent company financial statements of Bodycote International plc for the year ended 31 December 2007, which comprise the Balance Sheet and the related notes 1 to 11. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Bodycote International plc for the year ended 31 December 2007 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report, the Board Report on Remuneration and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Board Report on Remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes the information presented in the Group Business Review cross-referred from the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors

Manchester
26 February 2008

Accounting Policies

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The accounting policies have been applied consistently throughout the year and the preceding year in dealing with items that are considered material in relation to the Company's financial statements.

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

INVESTMENTS

Investments are held at cost less provision for impairment.

PENSION COSTS

For defined benefit schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

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 over the period of the lease.

THE COMPANY AS LESSOR

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

TANGIBLE FIXED ASSETS

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

Land	nil
Fixtures and fittings	10% to 20%
Plant and machinery	5% to 20%
Leasehold property	over the period of the lease
Buildings	2%
Motor vehicles	20% to 33%

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

TAXATION

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

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

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

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

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

DEBT

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

The use of financial derivatives is governed by group policies approved by the board of directors, which provide written principles on the use of financial derivatives.

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

HEDGE ACCOUNTING

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

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

Fair Value Hedge

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

Cash Flow Hedge

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

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

Notes to the Company Financial Statements
Year ended 31 December 2007

1. Profit for the year

As permitted under section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. Bodycote International plc reported a profit for the financial year ended 31 December 2007 of £1.5m (2006: £53.0m). The auditors' remuneration for audit services to the Company was £0.1m (2006: £0.1m). Total employee costs (including Executive Directors) were:

	2007 £m	2006 £m
Wages and salaries	**4.6**	4.5
Social security costs	**0.5**	0.4
Other pension costs	**0.3**	0.2
	5.4	5.1

2. Tangible Fixed Assets

	Fixtures and fittings £m
Cost	
At 1 January 2007	1.0
Additions	0.5
At 31 December 2007	1.5
Depreciation	
At 1 January 2007	0.4
Charge for the year	0.1
At 31 December 2007	0.5
Net book value	
At 31 December 2007	1.0
At 31 December 2006	0.6

3. Investments

	Shares £m	Shares in associates £m	Loans £m	Total £m
Cost				
1 January 2007	401.0	7.3	457.0	865.3
Acquisitions and advances	2.7	–	331.9	334.6
Disposals and repayments	–	–	(770.6)	(770.6)
Currency adjustments	–	–	9.3	9.3
At 31 December 2007	403.7	7.3	27.6	438.6
Provision for impairment				
1 January 2007 and 31 December 2007	8.6	7.3	–	15.9
Net book value				
At 31 December 2007	395.1	–	27.6	422.7
At 31 December 2006	392.4	–	457.0	849.4

Shares in associates comprise:

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

4. Debtors

	2007 £m	2006 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**4.1**	10.4
Corporation tax recoverable	**0.4**	2.6
Deferred taxation	**3.3**	1.2
Finance lease receivables	**0.4**	0.4
Derivative financial instruments	**–**	1.9
Other debtors and prepayments	**1.8**	2.8
	10.0	19.3
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**30.8**	–
Finance lease receivables	**1.1**	1.5
Derivative financial instruments	**–**	0.6
Other debtors	**8.8**	5.8
	40.7	7.9
	50.7	27.2

5. Creditors

	2007 £m	2006 £m
Amounts falling due within one year:		
Bank loans	–	2.0
Bank overdrafts	**8.5**	5.0
Trade creditors	**0.3**	1.1
Amounts owed to subsidiary undertakings	**1.4**	0.5
Dividends payable	**8.8**	8.0
Other taxes and social security	**0.1**	0.2
Derivative financial instruments	–	0.2
Other creditors	**0.5**	0.7
Accruals and deferred income	**1.6**	1.0
	21.2	18.7

	2007 £m	2006 £m
Amounts falling due after more than one year:		
Bank loans	–	183.4
Amounts owed to subsidiary undertakings	**67.6**	289.8
Derivative financial instruments	–	0.1
Other creditors	**0.1**	0.2
	67.7	473.5

	2007 £m	2006 £m
Bank loans are repayable:		
After 5 years	–	43.1
Between 2 and 5 years	–	140.3
Between 1 and 2 years	–	–
	–	183.4
On demand or within 12 months	–	2.0
	–	185.4

6. Deferred taxation

	Deferred tax £m
At 1 January 2007	1.2
Profit and loss credit	0.2
Reclassification from corporation tax recoverable	1.9
At 31 December 2007	**3.3**

Deferred tax

	2007 £m	2006 £m
Deferred tax is (recognised)/provided as follows:		
Accelerated capital allowances	–	0.1
Tax losses	**(1.9)**	–
Other timing differences	**(1.4)**	(1.3)
Deferred tax asset	**(3.3)**	(1.2)

7. Capital and reserves

Share capital:

	2007 £m	2006 £m
Authorised 430,000,000 (2006: 430,000,000) ordinary shares of 10p each	**43.0**	43.0
Allotted, called-up and fully paid 323,673,223 (2006: 322,168,062) ordinary shares of 10p each	**32.4**	32.2

Details of share options in issue on the Company's share capital and share-based payments are set out in note 28 to the group financial statements.

Reserves:

	Share premium account £m	**Other reserves £m**	**Profit and loss account £m**	**Total £m**
At 1 January 2007	302.1	4.5	46.3	352.9
Dividends paid	–	–	(23.4)	(23.4)
Profit for the year	–	–	1.5	1.5
Bonus issue of debentures	–	–	30.0	30.0
Reclassification	–	(4.7)	4.7	–
Premium arising on issue of equity shares (net of expenses)	2.9	–	–	2.9
Share based payments and acquisition of own shares	–	(6.7)	–	(6.7)
At 31 December 2007	305.0	(6.9)	59.1	357.2

The other reserve is stated after deducting £7.3m (2006: £2.4m) relating to shares held in the Bodycote International Employee Benefit Trust and £3.7m (2006: £nil) relating to shares held in treasury. The Bodycote International Employee Benefit Trust holds Bodycote International plc shares and satisfies awards made under various employee incentive schemes when issuance of new shares is not appropriate.

At 31 December 2007 3,112,931 (2006: 1,235,110) shares were held by the Bodycote International Employee Benefit Trust and following recommendations by the employer are provisionally allocated to satisfy awards under employee incentive schemes. The trust waives payment of dividend. The market value of these was £5.8m (2006: £2.8m).

At 31 December 2007 2,025,000 (2006: nil) shares were held in treasury. The market value of these was £3.8m (2006: £nil).

On 25 June 2007 Bodycote European Holdings Limited, a wholly owned subsidiary of the Company, created and issued to Bodycote International plc £30m of debenture securities redeemable not later than 25 June 2012.

8. Contingent liabilities

The company has guaranteed bank overdrafts and loans of certain subsidiary undertakings amounting to £225.6m (2006: £3.1m).

9. Pension commitments

The Company participates in a group defined benefit scheme, the details of which are disclosed in note 29 to the group 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 29 to the group financial statements.

10. Derivative financial instruments

Forward foreign exchange derivative contracts

The Company utilises forward foreign exchange derivatives to hedge material future transactions and cash flow. 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 and currency interest flows. The unrecognised gains and losses were not material in either 2007 or 2006.

Cross currency swaps

During the year the Company entered into foreign currency denominated cross currency swaps that were designated as a hedging instrument for the purposes of hedging the translation of its foreign operations. These contracts are entered into either with both currencies at floating interest rates (generally based on 3 month LIBOR interest rates) or both currencies at fixed interest rates.

During the year the cross currency swap contracts of the Company were novated to Bodycote Finance Limited, a wholly owned subsidiary of the Company.

Interest rate derivatives

The Company'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 Company may use interest rate derivative contracts to manage its exposure to interest rate movements within Group policy. However at the balance sheet date the Company had no interest rate derivative contracts.

Full disclosure of the fair value of derivative financial instruments are set out in note 18 to the group financial statements.

11. Related party transactions

During the year, the company entered into the following transactions with related parties who are not members of the Group:

	Sale of goods and services		Amounts owed by related parties	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Associates	**1.3**	0.8	**12.0**	8.0

Sales of goods and services include payments received from finance leases, the provision of management services and interest receivable. All transactions were made at arms length.

The amounts outstanding will be settled in cash, of which £0.8m is secured. No guarantees have been given or received.
£1.1m of provisions have been made for doubtful debts and expensed during the year in respect of the amounts owed by related parties.

Principal Subsidiary Undertakings

Bodycote

Thermal Processing - Heat Treatment & Metal Joining

		Country of incorporation or registration
*Bodycote Heat Treatments Limited	Cambridge, Chard, Cheltenham, Coventry, Derby, Gillingham, Great Barr, Hazel Grove, Macclesfield, Morden, Rotherham, Skelmersdale, Stillington and Woodford	England
Bodycote Wärmebehandlung GmbH	Ebersbach, Eching, Essen, Esslingen, Karben, Köln, Korntal, Landsberg, Langenselbold, Lüdenscheid, Menden, Nürnberg, Remscheid, Sömmerda, Sprockhövel and Wehingen	Germany
Nitrion GmbH	Munich	Germany
Bodycote Hardingscentrum BV	Diemen, Hengelo, Tilburg and Venlo	Netherlands
Bodycote Hardiff BV	Apeldoorn	Netherlands
Bodycote Värmebehandling AB	Anderstorp, Göteborg, Karlskoga, Malmö, Mora, Stockholm, Värnamo and Västerås	Sweden
Bodycote SAS	Ambazac, Amiens, Beaugency, Brétigny sur Orge, Billy-Berclau, Cernay, Chanteloup les Vignes, Charleville Mézières, Chassieu, Condé sur Noireau, Gemenos, Gennevilliers, Lagny sur Marne, La Monnerie Le Montel, La Talaudière, Le Subdray, Neuilly sur Marne, Neuilly en Thelle, Nogent, Pusignan, Serres Castet, St Aubin les Elbeuf, St Dié, St Nicolas d'Aliermont, St Rémy en Mauges, Thyez and Voreppe	France
Applications du Brasage des Materiaux et des Traitements SA	Villaz	France
Techmeta SA	Metz-Tessy	France
Nitruvid SAS	Argenteuil, Fraisses and Gandrange	France
Bodycote Belgium	Brussels and Nivelles	Belgium
Bodycote Lämpökäsittely Oy	Hämeenlinna, Pieksämäki, Tampere, Vaasa and Vantaa	Finland
Bodycote Haustrup A/S	Herlev and Ejby	Denmark
Bodycote Italia Srl	Gorgonzola	Italy
Bodycote Trattamenti Termici SPA	Flero, Madone and Rodengo	Italy
Bodycote Austria Wärmebehandlung GmbH	Kapfenberg, Marchtrenck and Vienna	Austria
Bodycote Rheintal Wärmebehandlung AG	Schaan	Liechtenstein
Bodycote Switzerland Wärmebehandlung AG	Fallanden and Urdorf	Switzerland
Bodycote HT S.r.o.	Brno,Liberec, Modrice, Pilzen, Prague and Pribram	Czech Republic
Bodycote Polska Sp z.o.o.	Czestochowa, Chelmno, Grodzisk Mazowiecki, Warsaw and Zabrze	Poland
Bodycote Tratamente Termice SRL (75% owned)‡	Brasov, Bucharest and Cugir	Romania
Bodycote Hokezelo KFT	Budapest	Hungary
Istas Isil Islem Sanayi ve Ticaret AS (60% owned)‡	Adana, Ankara, Bursa, Istanbul and Izmir	Turkey
Bodycote IMT Inc.	London OH and Camas WA	USA
Bodycote Thermal Processing, Inc.	Fremont, San Diego, Santa Fe Springs, Santa Ana, Gardena, Huntington Park, Rancho Dominguez, Vernon, Westminster and Tarzana CA, Berlin, Waterbury, South Windsor and Suffield CT, Ipswich and Worcester MA, Canton and Livonia MI, Cincinnati and Cleveland OH, Oklahoma City and Tulsa OK, 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 Metroplex Heat Treat, Inc.	Arlington TX	USA

Principal Subsidiary Undertakings

Thermal Processing - Heat Treatment & Metal Joining continued

Bodycote Canada, Inc.	Newmarket and Kitchener ON	Canada
Bodycote Thermal Processing de Mexico S de RL de CV	Silao	Mexico
Brasimet Commercio e Industria SA	Campinas, Guarulhos, Joinville, Sao Leopoldo and Sao Paulo	Brazil
Bodycote Wuxi Technology Co. Limited	Wuxi	China
Bodycote (Ningbo) Heat Treatment Co. Limited	Ningbo	China
Bodycote Metallurgical Services India Pte Limited	Pimpri, Ranjangaon and Gurgaon	India
Bodycote Thai Thermal Processing Limited (90% owned)‡	Bangkok	Thailand

Vacuum and sealed quench and induction heat treatment, carburising, carbonitriding, gas and plasma nitriding, nickel, copper, silver and gold brazing, hardening, tempering, kolsterising, low pressure carburising and electron beam welding.

Thermal Processing - Hot Isostatic Pressing

*Bodycote H.I.P. Limited	Chesterfield and Hereford	England
Bodycote IMT Inc.	Andover MA, London OH, Princeton KT and Camas WA	USA
Bodycote Heiss-Isostatisches Pressen GmbH	Haag	German
Bodycote IMT NV	Sint-Niklaas	Belgium
Bodycote Hot Isostatic Pressing AB	Surahammar	Sweden
Traitements Compression Services SA	Magny Cours	France

Application of the hot isostatic process and the manufacture of specialist steels and products using hot isostatic pressing technology.

Thermal Processing - Surface Engineering

		Country of incorporation or registration
*Bodycote Metallurgical Coatings Limited	Knowsley, Macclesfield, Stonehouse and Wolverhampton	England
Bodycote K-Tech, Inc	Hot Springs AR	USA
Bodycote Ytbehandling AB	Katrineholm, Karlstad and Västra Frölunda	Sweden
Bodycote Surface Engineering GmbH & Co KG.	Kaufbeuren	Germany
Bodycote Singapore Pte Limited	Singapore	Singapore
IonBond do Brasil Tretamento de Superficies Ltda	Sorocaba	Brazil
IonBond Argentina SA	Buenas Aires	The Argentine

Surface engineering for product improvement including sherardizing, mechanical cladding, organic, plasma spray, anodising and ceramic coating and physical vapour deposition.

Testing

Bodycote Testing Limited	Arundel, Birmingham, Bridgwater, Broxburn, Burton-on-Trent, Camberley, Daventry, Doncaster, Droitwich, Dudley, Eccles, Glasgow, Greenock, Grimsby, Hillington, Lancaster, London, Middlesbrough, Newcastle, Newbridge, Nuneaton, Runcorn, Seaham, Sheffield, Shotton, Sittingbourne, Sutton Coldfield, Warrington, Washington and Willenhall.	Scotland
Bodycote Consultus Limited	Cork	Eire
Bodycote Metlab Limited	Cork, Dublin and Galway	Eire
Bodycote Materials Testing BV	Emmen and Spijkenisse	Netherlands
Bodycote Materials Testing A/S	Sandnes	Norway
Bodycote Materials Testing Srl	Crema	Italy
Bodycote CTR Srl	Padua	Italy
Bodycote Materials Testing Services Limited	Abu Dhabi	Guernsey
Al Futtaim Bodycote Materials Testing Services LLC (49% owned)‡	Dubai	Dubai
Bodycote Materials Testing Services Limited Company & LLC (70% owned)‡	Muscat and Sohar	Oman
Bodycote Materials Testing Services LLC (24.5% owned)‡	Doha	Qatar
Bodycote Testing Limited	Manama	Bahrain
Bodycote Testing (Saudi Arabia) LLC	Al Khobar	Saudi Arabia
Bodycote Materials Testing Inc.	Glendale Heights, Melrose Park, Rockford and Skokie IL, Houston TX, Santa Fe Springs CA, Warren MI, Gary and Rockport IN, Mount Pleasant TN, and Portland OR.	USA
Bodycote Canada Inc.	Burlington, Cambridge and Mississauga ON, Ste Foy, St Bruno and Pointe Claire QC, Calgary, Edmonton, Grande Prairie, Lethbridge, Hinton and Drayton Valley AB, Surrey and Fort St John BC and Winnipeg MB, and Saltillo (Mexico)	Canada
Accutest Laboratories Limited	Ottawa, Kingston and Thorold ON	Canada
Bodycote Polymer AB	Nyköping	Sweden
Bodycote CMK AB	Karlskoga	Sweden
Bodycote Materials Testing AB	Stockholm, Tannefors and Malmslätt	Sweden
Bodycote Metech AB	Arboga, Göteborg, Ludvika, Linköping and Jonköping (Sweden), Oulu and Nummela (Finland), Hamburg (Germany) and Karup and Taastrup (Denmark)	Sweden
Bodycote Materials Testing s.r.o.	Pilzen	Czech Republic
Bodycote Singapore Pte Limited	Singapore	Singapore
Warrington Fire Research Group Limited	Hong Kong, Melbourne (Vict.), Brisbane, Sydney, Abu Dhabi, Dubai, Ghent and Sint-Niklaas	England

Testing, calibration and consultancy services for producers and users. Mechanical, metallurgical corrosion, physical, radiographic and chemical testing of ferrous and non-ferrous alloys, building products, ceramics, composites and plastics, oils (wear and high voltage) and lifetime assessment of polymers. Healthcare testing, microbiological assessment, water analysis, fire, drug, pharmaceutical, asbestos and food product testing. Automotive engine structural and environmental exposure testing. Calibration and maintenance of instruments and devices. Fire safety engineering consultancy services.

Principal Subsidiary Undertakings

Group Services

*Thomas Cook & Son Insurance Brokers Limited (75% owned)	Burnley	England

Insurance broking, industrial and commercial risk management, independent financial advisers.

*Coalescence Limited	Edinburgh	Scotland

Information Services

Bodycote Property Holdings Inc.	Mississauga ON	Canada

Managers of the Group's property interests.

Except where stated, these companies are wholly owned subsidiaries and have only one class of issued shares. Subsidiaries marked with an asterisk* are held directly by Bodycote International plc. Entities marked ‡ have been treated as subsidiary undertakings in the financial statements because the Group exercises control over these entities.

Financial Calendar

Bodycote

Annual general meeting	30 April 2008
Final dividend for 2007	4 July 2008
Interim results for 2008	July 2008
Interim dividend for 2008	January 2009
Results for 2008	February 2009

Shareholder Enquiries

Enquiries on the following administrative matters can be addressed to the Company's registrars, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA. Telephone: 0871 664 0300 (calls to 0871 numbers cost 10p per minute plus network extras) 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 17 February 2008

Holding range:	Number of shareholders	%	Number of Shares	%
1 to 1,000	903	28.3	465,832	0.14
1,001 to 10,000	1,635	51.3	5,914,594	1.83
10,001 to 100,000	399	12.5	12,821,019	3.96
100,001 to 500,000	146	4.6	35,678,532	11.02
500,001 and over	105	3.3	268,793,246	83.05
	3,188	100.0	323,673,223	100.00

Types of shareholders:	% of shareholders	% of total shares
Directors' interests	0.1	1.4
Major institutional and corporate holdings	8.2	91.0
Other shareholdings	91.7	7.6
	100.0	100.0

As at 26 February 2008 the following interests of 3% or more in the issued share capital of the Company appeared in the register maintained under the provisions of Section 211 of the Companies Act 1985:

	Number of shares	%
Standard Life plc	38,902,420	12.0
Sprucegrove Investment Management Limited	22,857,612	7.1
Legal & General Investment Management Limited	12,999,910	4.0
Franklin Resources Inc.	12,830,800	4.0
Atlantic Investment Management Inc.	9,700,000	3.0

Notes

www.bodycote.com

Testing

Thermal Processing

outsourcing for industry

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Ref: ID4157
Designed and produced by ID
www.interactivedimension.com

Printed by CMYK Group - Blackpool Printers