



interim report 2011

**Bodycote**



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**COVER IMAGE**

This photograph shows a microstructure of brazed titanium alloy and pure titanium. Brazing is a versatile metal joining method which is suitable for a range of alloys and can be carried out by various methods in order to create simple or complex components. Owing to titanium's high strength-to-weight ratio and corrosion-resistance, it is used to make strong, lightweight alloys, usually by alloying with aluminium and vanadium, for use in aerospace and other critical applications.

## FINANCIAL HIGHLIGHTS

<b>Continuing operations</b>	<b>Half year to 30 June 2011</b>	Half year to 30 June 2010
Revenue	<b>£288.2m</b>	£246.3m
Headline operating profit <sup>1</sup>	<b>£43.2m</b>	£22.5m
Operating profit	<b>£42.7m</b>	£22.0m
Headline profit before taxation <sup>1</sup>	<b>£40.8m</b>	£19.6m
Profit before taxation	<b>£40.3m</b>	£19.1m
Headline operating cash flow <sup>2</sup>	<b>£39.8m</b>	£29.7m
Operating cash flow <sup>3</sup>	<b>£36.5m</b>	£22.5m
Net debt	<b>£33.7m</b>	£87.5m
Basic headline earnings per share <sup>4</sup>	<b>16.2p</b>	7.8p
Basic earnings per share	<b>16.0p</b>	7.6p
Interim dividend per share <sup>5</sup>	<b>3.60p</b>	2.95p
Annualised return on capital employed <sup>6</sup>	<b>17.0%</b>	8.6%

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<sup>1</sup> Headline operating profit and headline profit before taxation exclude the amortisation of acquired intangibles of £0.5m (2010: £0.5m).

<sup>2</sup> Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £3.3m (2010: £7.2m).

<sup>3</sup> Operating cash flow is defined as cash generated by operations of £57.1m (2010: £38.2m) less net capital expenditure of £20.6m (2010: £15.7m).

<sup>4</sup> A detailed reconciliation is provided in note 5 on page 20.

<sup>5</sup> See note 6 on page 21.

<sup>6</sup> Annualised return on capital employed is defined as twice headline operating profit of £43.2m (2010: £22.5m) divided by the monthly average capital employed of £508.7m (2010: £525.2m). Capital employed is defined as net assets plus net debt.

# INTERIM MANAGEMENT REPORT

## OVERVIEW

Bodycote's revenues in the first six months of 2011 increased by 17% over the first half of 2010 to £288.2m, while headline operating profit grew by 92% to £43.2m.

These results continue the trend of improving performance which has seen profits move forward strongly in each of the last four reported half years. Much of this improvement in the business has, up to now, been driven by growth deriving principally from sales recovery in the early cycle markets and profit enhancement boosted by the benefits of the 2009/2010 restructuring.

The drivers behind the growth in sales and profits are now starting to change. In the first half of 2011, the mid-cycle general industrial markets led the improvement, aided by a degree of restocking. While this is difficult to assess accurately, it is estimated that sales in the general industrial sector benefited by approximately £6m from the impact of this restocking. Looking forward, the general industrial markets will continue to grow but the restocking effect is likely to be much less significant. The recovery of the late cycle markets of aerospace and power generation are now expected to start to play a stronger part.

Operating profits are being aided by incremental efficiency improvements. In addition the mix, in terms of the value of work undertaken, is improving and tight cost control has been maintained. The impact of these factors, when combined with the low fixed cost base of the Group, has been to generate a high level of operational gearing and consequently headline operating profit growth of 92%. Cash generation has been strong again in the half with headline operating cash conversion of 92%<sup>1</sup>. Capital expenditure has remained modest at 0.8 times depreciation. With continuing sales growth and progress on the strategic growth initiatives, Bodycote's future capital spend will increase. Expenditure in any given period will depend upon the timing of individual investments but it is expected that it will equate, in broad terms, to the depreciation charge.

The Group continues to make good progress on the execution of its strategy. The main elements of Bodycote's strategy are: increasing our footprint in emerging markets; growth in selected proprietary technologies (HIP PF - Hot Isostatic Pressing Product Fabrication, S3P - Speciality Stainless Steel Processes and CPP - Corrosion Prevention Processes); sector targeted customer engagement; and the drive for operational excellence.

The emerging markets aspect of the Group's strategy is moving ahead with sales rising strongly at recent greenfield sites. Further sites will be added in the near term. In Brazil, £3.4m of sales were eliminated in conjunction with plant closure and retirement of obsolete technology as part of the restructuring programme but in the other emerging markets sales grew by 33%.

Revenues for the selected proprietary technologies grew by 55% when compared to the first half of 2010 and now account for 6% of the Group's sales. This represents an accelerating rate of growth as, sequentially, H2 2010 was 20% higher than H1 2010, while H1 2011 was 30% higher than H2 2010. Looking forward, the revenue growth of these proprietary technologies will be somewhat constrained until additional capacity comes on stream in 2012.

The success of the targeted customer engagement programme is very apparent with both the AGI (Automotive and General Industrial) business and the ADE (Aerospace, Defence and Energy) business gaining market share in each of their respective target markets. In keeping with this targeted approach, the number of strategic partnerships and outsourcing programmes is rising. An example of this is the ten year contract with Rolls-Royce that was announced at the 2011 Paris air show. The new arrangement represents both an extension of the original ten year contract for providing support to Rolls-Royce in the UK and also provides the framework to extend the partnership in other parts of the world, including North America and Asia.

The drive for operational excellence is evident in these financial results. The Group's key financial KPIs are return on capital employed (ROCE) and headline operating margin (return on sales). In the first half of 2011, the annualised ROCE was 17% (2010: 9%) and headline operating margin was 15% (2010: 9%). This level of ROCE and operating margin matches the peak that has been achieved in the last decade.

On 27 July two of the Group's three revolving credit facilities were refinanced replacing £122m of facilities with a single new £125m five year committed facility, on favourable terms. This, together with the existing €125m facility, provides Bodycote with ample liquidity to deal with the capital requirements for organic expansion and acquisitions.

## BUSINESS REVIEW

### Markets

The civil aerospace market saw modest increases in aircraft build rates and larger increases in requirements for spares. Defence markets were stable, with increases in the helicopter segment. Bodycote's sales into the aerospace & defence market rose 13.2% compared to the first half of 2010.

The industrial gas turbine market has shown some signs of recovery after the large fall in 2010. The major OEMs are now reporting increasing orders, but this has not yet fed through to the Group, with sales in this market being flat during the period. The oil and gas market benefited from high oil prices driving exploration activity and the US rig count has risen by about a fifth compared to the prior period. Bodycote's sales to the sector were 31.2% higher than in the same period of 2010, a significantly faster growth rate than the market.

The automotive market grew in all territories, with the European market being the most significant for Bodycote followed by North America. Bodycote's sales to the automotive sector grew by 5.8% for car and light truck and by 44.2% for heavy truck.

The general industrial sector continued to recover well in all geographies. European capital goods production increased 12%, as did output of the machinery sector in the US. Bodycote's sales to the general industrial market rose year on year by 18.1% in North America and 25.9% in Western Europe, reflecting new accounts and some restocking. Demand from restocking is expected to be at a lower level in the second half.

<sup>1</sup> Headline operating cash conversion is defined as headline operating cash flow divided by headline operating profit.

### Aerospace, Defence & Energy

Revenues for the Aerospace, Defence and Energy business (ADE) were £115.9m (2010: £98.4m), an increase of 20.6% at constant currencies. Expressed at actual currency the increase was 17.8%, reflecting the weaker US dollar.

Adjusted headline operating profit was £26.2m (2010: £15.0m), an increase of 74.7%. This is stated before share-based payments and associated social security costs of £1.0m (2010: £0.5m). The headline operating profit margin<sup>1</sup> improved from 15.2% to 22.6%. Net capital expenditure was £7.2m (2010: £5.6m), representing a spend rate of 0.8 times depreciation (2010: 0.6 times depreciation). Average capital employed for the period was £220.9m (2010: £230.8m) and annualised return on capital employed<sup>1</sup> rose to 23.7% (2010: 13.0%).

Investment in HIP plants over the last several years has enabled output to be expanded significantly, with sales growing by 26.9%. Good progress was also made in extending the division's HIP product fabrication capability. The important long term agreement with Rolls-Royce was renewed for a further 10 years and a similar agreement has been put in place with Trac Precision (a major supplier to Rolls-Royce and Siemens), which includes the establishment of a new facility in Empalme, Mexico.

### Automotive & General Industrial

Revenues for the Automotive and General Industrial business (AGI) were £172.3m (2010: £147.9m), an increase of 15.1% at constant currencies. Expressed at actual currency the increase was 16.5%, with the strength of the Euro outweighing the effect of the weaker US dollar.

The division continued to develop in emerging markets. In Eastern Europe revenues rose by 34.8%, and revenues in Asia rose 20.6%. Further capacity is being added in China. The restructuring in Brazil continues and revenues in this region have fallen as we continue to manage the mix of work to higher margin business. Operating losses are reducing and breakeven is expected during the second half of 2011.

Adjusted headline operating profit was £25.0m (2010: £13.2m), an increase of 89.4%. This is stated before share-based payments and associated social security costs of £2.1m (2010: £0.7m). The headline operating profit margin<sup>1</sup> improved from 8.9% to 14.5%. Net capital expenditure was £12.3m (2010: £8.6m), representing a spend rate of 0.8 times depreciation (2010: 0.6 times depreciation), in particular investment in developing the new proprietary processes for S3P and CPP continued. Average capital employed for the period was £288.5m (2010: £294.9m) and annualised return on capital employed<sup>1</sup> rose to 17.3% (2010: 9.0%).

## FINANCIAL OVERVIEW

### Revenue and headline operating profit

#### Half year to 30 June

	Revenue		Adjusted headline operating profit <sup>2</sup>		Headline operating profit		Adjusted headline operating margin <sup>2</sup>	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 %	2010 %
ADE	115.9	98.4	26.2	15.0	25.2	14.5	22.6	15.2
AGI	172.3	147.9	25.0	13.2	22.9	12.5	14.5	8.9
Head office costs	-	-	(3.7)	(4.0)	(4.9)	(4.5)	-	-
Total before share-based payments	288.2	246.3	47.5	24.2	43.2	22.5	16.5	9.8
Share-based payments	-	-	(4.3)	(1.7)	-	-	-	-
Total	288.2	246.3	43.2	22.5	43.2	22.5	15.0	9.1

Revenue for the half year was £288.2m (2010: £246.3m), an increase of 17.0% compared to the same period last year. In constant currencies the increase was 17.3% (£42.5m), all generated organically.

Headline operating profit increased to £43.2m (2010: £22.5m) and headline operating margin again improved to 15.0% (2010: 9.1%). Adjusted headline operating margins for the first six months improved in both divisions compared to the same period in 2010.

ADE reported an adjusted headline operating margin of 22.6% (2010: 15.2%) and AGI reported an adjusted headline operating margin of 14.5% (2010: 8.9%).

After deduction of share-based payments ADE reported a headline operating margin of 21.7% (2010: 14.7%) and AGI reported a headline operating margin of 13.3% (2010: 8.5%).

<sup>1</sup> Calculated using adjusted headline operating profit.

<sup>2</sup> Adjusted headline operating profit and adjusted headline operating margin are calculated using headline operating profit prior to share-based payments and associated social security costs.

## INTERIM MANAGEMENT REPORT (CONTINUED)

### Profit before taxation

	Half year to 30 June	
	2011 £m	2010 £m
Headline operating profit	43.2	22.5
Net finance charge	(2.4)	(2.9)
Headline profit before tax	40.8	19.6
Amortisation of acquired intangible fixed assets	(0.5)	(0.5)
Profit before tax - continuing operations	40.3	19.1

### Finance charge

The net finance charge for the Group was £2.4m compared to £2.9m in 2010 (see details below). £0.4m of the reduction relates to lower average net debt, which was partly offset by higher interest rates (£0.2m). Lower financing costs (£0.1m) and pension finance charges (£0.2m) account for the remainder of the movement.

### Amortisation of acquired intangible assets

The charge for the first six months amounted to £0.5m (2010: £0.5m).

### Cash flow

	Half year to 30 June	
	2011 £m	2010 £m
<b>Headline operating profit</b>	43.2	22.5
Add back non-cash items:		
Depreciation and amortisation	24.7	24.0
Share-based payments	2.5	1.7
Loss on disposal of property, plant and equipment	0.2	-
<b>Headline EBITDA<sup>1</sup></b>	70.6	48.2
Net capital expenditure	(20.6)	(15.7)
Net working capital movement	(10.2)	(2.8)
<b>Headline operating cash flow</b>	39.8	29.7
Cash cost of restructuring	(3.3)	(7.2)
<b>Operating cash flow</b>	36.5	22.5
Interest	(1.7)	(2.9)
Taxation	(6.4)	(2.6)
<b>Free cash flow</b>	28.4	17.0

Free cash flow for the period was £28.4m compared to £17.0m in the first six months of 2010. The major component of the increase is the significant improvement in EBITDA, although the higher trading levels have also resulted in an increase in working capital.

Net working capital outflows for the six month period amounted to £10.2m (2010: £2.8m). Inventories increased by £2.6m (2010: £4.2m increase) due to higher activity levels. Receivables increased by £13.6m (2010: £5.3m increase) as a result of improved trading, but the impact was mitigated by a continuing focus on cash collection. Debtor days outstanding at 30 June 2011 were 57 days (31 December 2010: 59 days). Payables increased by £6.0m (2010: £5.4m increase).

Provision balances decreased by £3.3m over the period (2010: £5.9m decrease), largely reflecting cash expenditure on restructuring.

The Group has continued to manage carefully its capital expenditure programme. Net capital expenditure for the first half was £20.6m (2010: £15.7m) and the ratio to depreciation was 0.8 times (2010: 0.7 times). Major capital projects that were in progress during the first half of 2011 included additional investment in our HIP, CPP and S3P businesses, establishment of our new aerospace facility in Mexico and purchase and installation of new equipment in Poland.

Income taxes paid during the first six months at £6.4m, were £3.8m higher than in 2010, reflecting the increase in profits generated.

### Taxation

The tax charge was £10.5m in the period, compared to a charge of £5.1m for the same period of 2010. The effective tax rate for the period of 26.0% results from the impact of differing tax rates in each of the numerous jurisdictions in which the Group operates. The rate represents the weighted average of corporation taxes expected for the full financial year.

### Earnings per share

Basic earnings per share from operations for the half year were 16.0p (2010: 7.6p). Diluted earnings per share were 15.9p (2010: 7.6p).

### Dividend

The Board has declared an interim dividend of 3.60p (2010: 2.95p) which represents an increase of 22% over the prior year. The interim dividend will be paid on 4 November 2011 to all shareholders on the register at the close of business on 7 October 2011.

### Net debt

Group net debt at 30 June 2011 was £33.7m (2010: £87.5m). Loans and letters of credit drawn under the committed facilities at 30 June 2011 totalled £44.5m, compared to £70.0m at 31 December 2010 and £108.6m at 30 June 2010. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding. Gearing at 30 June 2011 was 7% (2010: 21%).

<sup>1</sup> Earnings before interest, tax, depreciation, amortisation, impairment, loss on disposal of property, plant and equipment and share-based payments.



### Liquidity and Investments

The Group is financed by a mix of cash flows from operations, short-term borrowings, longer-term loans and finance leases. The Group's funding policy aims to ensure continuity of finance at reasonable cost, based on committed facilities from several sources over a spread of maturities.

At 30 June 2011, the Group had the following committed facilities:

Facility	Expiry date	Facility £m	Loan utilisation £m	Letter of Credit utilisation £m	Facility headroom £m
£110m Revolving Credit	31 March 2013	110.0	–	–	<b>110.0</b>
€125m Revolving Credit	31 July 2013	112.9	38.1	–	<b>74.8</b>
\$20m Revolving Credit	31 March 2013	12.4	1.3	5.1	<b>6.0</b>
		<b>235.3</b>	<b>39.4</b>	<b>5.1</b>	<b>190.8</b>

On 27 July 2011, the £110m and US\$20m revolving credit facilities noted above were refinanced with a committed facility for £125m with a maturity date of 31 August 2016. The new facility has lower costs and improved terms compared to those it replaced.

The Group also has access to uncommitted and short-term facilities, used principally to manage day-to-day liquidity and working capital requirements. In addition, pooling, netting and concentration techniques are used to minimise borrowings.

### Defined benefit pension schemes

The Group's defined benefit pension obligations have been reviewed as at 30 June 2011. The IAS 19 deficit in the UK scheme decreased to £0.3m (31 December 2010: £0.6m). The decrease is as a result of contributions being higher than the service cost in the first half of 2011. In France, for its primarily unfunded cash lump sum obligation, the deficit is £5.6m (31 December 2010: £5.2m) and the sum of all other Group schemes is £6.0m (31 December 2010: £5.8m).

### PRINCIPAL RISKS AND UNCERTAINTIES

The Directors do not consider that the principal risks and uncertainties of the Group have changed since the publication of the annual report for the year ended 31 December 2010. The risks and associated risk management processes can be found in the 2010 Annual Report, on pages 26, 27 and 76, which is available at [www.bodycote.com](http://www.bodycote.com).

The risks referred to and which could have a material impact on the Group's performance for the remainder of the current financial year relate to:

- Markets;
- Loss of key customers;
- Human resources;
- Safety and health;
- Environment;
- Service quality;
- Energy;
- Regulatory and legislative compliance;
- Liquidity;
- Interest rate; and
- Currency fluctuation.

### GOING CONCERN

As stated in note 1 to the condensed financial statements, the Directors have formed a judgement, at the time of approving the condensed financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the condensed financial statements.

### CURRENT TRADING AND OUTLOOK

The first half of 2011 has seen a continued and broad-based recovery in Group revenues. The near term macro-economic indicators are mixed and year on year comparables for the Group are more challenging in the second half than the first.

Nevertheless the Board's expectations for the full year headline operating profit are somewhat above the top of the range of analysts' current forecasts<sup>1</sup>.

The Board remains confident that the ongoing execution of the Group's strategy will continue to deliver superior through-cycle shareholder returns.



**Stephen C Harris**

Chief Executive  
28 July 2011



**David F Landless**

Group Finance Director  
28 July 2011

<sup>1</sup> Consensus of current analysts' forecasts for full year headline operating profit (Bloomberg): £73.0m, with a range from £63.2m to £77.9m.

# INTERIM MANAGEMENT REPORT (CONTINUED)

## RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that:

- (a) the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R:
  - i. an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and
  - ii. a description of principal risks and uncertainties for the remaining six months of the year; and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R:
  - i. related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Group in that period; and
  - ii. any changes in the related party transactions described in the 2010 Annual Report that could have a material effect on the financial position or performance of the Group in the current period.

By order of the Board,



**Stephen C Harris**

Chief Executive

28 July 2011



**David F Landless**

Group Finance Director

28 July 2011

## CAUTIONARY STATEMENT

This interim management report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The interim management report should not be relied on by any other party or for any other purpose.

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



## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

Year ended 31 Dec 2010 £m		Half year to 30 June 2011 £m	Half year to 30 June 2010 £m	Note
499.8	<b>Revenue – continuing operations</b>	<b>288.2</b>	246.3	2
51.2	<b>Operating profit – continuing operations</b>	<b>42.7</b>	22.0	2
52.1	Operating profit prior to separately identified items	<b>43.2</b>	22.5	
(0.9)	Amortisation of acquired intangible fixed assets	<b>(0.5)</b>	(0.5)	
51.2	<b>Operating profit – continuing operations</b>	<b>42.7</b>	22.0	2
0.3	Investment revenue	<b>0.1</b>	0.2	
(6.3)	Finance costs	<b>(2.5)</b>	(3.1)	
45.2	<b>Profit before taxation – continuing operations</b>	<b>40.3</b>	19.1	
(11.7)	Taxation	<b>(10.5)</b>	(5.1)	4
33.5	<b>Profit for the period – continuing operations</b>	<b>29.8</b>	14.0	
	<b>Discontinued operations</b>			
(5.8)	Loss for the period – discontinued operations	–	–	4
27.7	Profit for the period	<b>29.8</b>	14.0	
	Attributable to:			
27.6	Equity holders of the parent	<b>29.6</b>	14.0	
0.1	Non-controlling interests	<b>0.2</b>	–	
27.7		<b>29.8</b>	14.0	
	<b>Earnings per share</b>			5
Pence		<b>Pence</b>	Pence	
	From continuing operations:			
18.0	Basic	<b>16.0</b>	7.6	
18.0	Diluted	<b>15.9</b>	7.6	
	From continuing and discontinued operations:			
14.9	Basic	<b>16.0</b>	7.6	
14.9	Diluted	<b>15.9</b>	7.6	

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 Dec 2010 £m		Half year to 30 June 2011 £m	Half year to 30 June 2010 £m
27.7	<b>Profit for the period</b>	<b>29.8</b>	14.0
(0.1)	Reduction of revaluation surplus	–	–
9.7	Exchange differences on translation of foreign operations	<b>7.6</b>	(9.8)
3.7	Actuarial gains/(losses) on defined benefit pension schemes	<b>0.3</b>	(3.2)
(0.9)	Tax on items taken directly to equity	<b>(0.1)</b>	0.9
12.4	<b>Other comprehensive income/(expense) for the period</b>	<b>7.8</b>	(12.1)
40.1	<b>Total comprehensive income for the period</b>	<b>37.6</b>	1.9
	Attributable to:		
40.0	Equity holders of the parent	<b>37.6</b>	1.8
0.1	Non-controlling interests	–	0.1
40.1		<b>37.6</b>	1.9

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 Dec 2010 £m		As at 30 June 2011 £m	As at 30 June 2010 £m	Note
<b>Non-current assets</b>				
107.7	Goodwill	<b>108.2</b>	106.9	
10.4	Other intangible assets	<b>10.4</b>	10.6	
458.0	Property, plant and equipment	<b>460.6</b>	442.6	
0.5	Other investments	<b>0.5</b>	0.5	
–	Finance lease receivables	<b>–</b>	0.2	
48.3	Deferred tax assets	<b>45.2</b>	57.8	
2.6	Trade and other receivables	<b>1.9</b>	2.1	
627.5		<b>626.8</b>	620.7	
<b>Current assets</b>				
14.4	Inventories	<b>17.4</b>	15.0	
0.4	Finance lease receivables	<b>0.2</b>	0.5	
99.2	Trade and other receivables	<b>115.0</b>	95.3	
23.5	Cash and bank balances	<b>19.4</b>	26.2	
6.2	Assets held for sale	<b>6.3</b>	6.7	
143.7		<b>158.3</b>	143.7	
771.2	<b>Total assets</b>	<b>785.1</b>	764.4	
<b>Current liabilities</b>				
120.4	Trade and other payables	<b>128.6</b>	96.6	
9.6	Current tax liabilities	<b>10.9</b>	14.6	
0.4	Obligations under finance leases	<b>0.3</b>	0.4	
8.9	Borrowings	<b>12.0</b>	8.6	
–	Derivative financial instruments	<b>–</b>	0.2	
14.0	Provisions	<b>11.1</b>	14.5	3
–	Liabilities directly associated with assets classified as held for sale	<b>–</b>	0.5	
153.3		<b>162.9</b>	135.4	
(9.6)	<b>Net current (liabilities)/assets</b>	<b>(4.6)</b>	8.3	
<b>Non-current liabilities</b>				
64.8	Borrowings	<b>40.2</b>	103.2	
11.6	Retirement benefit obligations	<b>11.9</b>	17.6	
73.1	Deferred tax liabilities	<b>73.2</b>	71.7	
0.7	Obligations under finance leases	<b>0.6</b>	1.5	
12.8	Provisions	<b>12.2</b>	13.1	3
4.1	Other payables	<b>4.3</b>	6.3	
167.1		<b>142.4</b>	213.4	
320.4	<b>Total liabilities</b>	<b>305.3</b>	348.8	
450.8	<b>Net assets</b>	<b>479.8</b>	415.6	
<b>Equity</b>				
32.8	Share capital	<b>33.0</b>	32.8	
176.3	Share premium account	<b>176.8</b>	176.0	
(8.0)	Own shares	<b>(6.8)</b>	(8.1)	
138.1	Other reserves	<b>140.6</b>	135.8	
36.0	Hedging and translation reserves	<b>43.8</b>	16.4	
73.9	Retained earnings	<b>90.8</b>	60.4	
449.1	<b>Equity attributable to equity holders of the parent</b>	<b>478.2</b>	413.3	
1.7	<b>Non-controlling interests</b>	<b>1.6</b>	2.3	
450.8	<b>Total equity</b>	<b>479.8</b>	415.6	

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 Dec 2010 £m		Half year to 30 June 2011 £m	Half year to 30 June 2010 £m	Note
95.6	<b>Net cash from operating activities</b>	<b>50.7</b>	32.6	7
	<b>Investing activities</b>			
(35.2)	Purchases of property, plant and equipment	(19.9)	(15.4)	
1.4	Proceeds on disposal of property, plant and equipment and intangible assets	0.5	0.6	
(2.0)	Purchases of intangible fixed assets	(1.2)	(0.9)	
(0.8)	Purchase of non-controlling interest	-	-	
(36.6)	<b>Net cash used in investing activities</b>	<b>(20.6)</b>	(15.7)	
	<b>Financing activities</b>			
0.3	Interest received	0.8	0.1	
(5.8)	Interest paid	(2.5)	(3.0)	
(20.9)	Dividends paid	(10.7)	(15.5)	
(0.1)	Dividends paid to a non-controlling shareholder	(0.1)	(0.1)	
(34.0)	Repayments of bank loans	(29.3)	(12.0)	
(1.3)	Payments of obligations under finance leases	(0.2)	(0.4)	
3.2	New bank loans raised	3.7	19.2	
0.2	New obligations under finance leases	-	-	
0.6	Proceeds on issue of ordinary share capital	0.7	0.3	
(0.7)	Own shares purchased/settlement of share options	(1.1)	(0.8)	
(58.5)	<b>Net cash used in financing activities</b>	<b>(38.7)</b>	(12.2)	
0.5	<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(8.6)</b>	4.7	
16.3	<b>Cash and cash equivalents at beginning of period</b>	<b>17.6</b>	16.3	
0.8	Effect of foreign exchange rate changes	0.5	(1.6)	
17.6	<b>Cash and cash equivalents at end of period</b>	<b>9.5</b>	19.4	



## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non- controlling interest £m	Total equity £m
<b>Half year to 30 June 2011</b>									
1 January 2011	32.8	176.3	(8.0)	138.1	36.0	73.9	449.1	1.7	450.8
Net profit for the period	-	-	-	-	-	29.6	29.6	0.2	29.8
Exchange differences on translation of overseas operations	-	-	-	-	7.6	-	7.6	(0.2)	7.4
Movement on hedges of net investments	-	-	-	-	0.2	-	0.2	-	0.2
Actuarial gains on defined benefit pension schemes net of deferred tax	-	-	-	-	-	0.2	0.2	-	0.2
<b>Total comprehensive income for the period</b>	-	-	-	-	7.8	29.8	37.6	-	37.6
Issue of share capital	0.2	0.5	-	-	-	-	0.7	-	0.7
Acquired in the period/settlement of share options	-	-	1.2	-	-	(2.2)	(1.0)	-	(1.0)
Share-based payments	-	-	-	2.5	-	-	2.5	-	2.5
Dividends paid	-	-	-	-	-	(10.7)	(10.7)	(0.1)	(10.8)
<b>30 June 2011</b>	<b>33.0</b>	<b>176.8</b>	<b>(6.8)</b>	<b>140.6</b>	<b>43.8</b>	<b>90.8</b>	<b>478.2</b>	<b>1.6</b>	<b>479.8</b>
<b>Half year to 30 June 2010</b>									
1 January 2010	32.5	176.0	(7.3)	134.1	26.3	58.7	420.3	2.3	422.6
Net profit for the period	-	-	-	-	-	14.0	14.0	-	14.0
Exchange differences on translation of overseas operations	-	-	-	-	(21.4)	-	(21.4)	0.1	(21.3)
Movement on hedges of net investments	-	-	-	-	11.5	-	11.5	-	11.5
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	(2.3)	(2.3)	-	(2.3)
<b>Total comprehensive income/(expense) for the period</b>	-	-	-	-	(9.9)	11.7	1.8	0.1	1.9
Issue of share capital	0.3	-	-	-	-	-	0.3	-	0.3
Acquired in the period/settlement of share options	-	-	(0.8)	-	-	-	(0.8)	-	(0.8)
Share-based payments	-	-	-	1.7	-	-	1.7	-	1.7
Dividends paid	-	-	-	-	-	(10.0)	(10.0)	(0.1)	(10.1)
<b>30 June 2010</b>	<b>32.8</b>	<b>176.0</b>	<b>(8.1)</b>	<b>135.8</b>	<b>16.4</b>	<b>60.4</b>	<b>413.3</b>	<b>2.3</b>	<b>415.6</b>
<b>Year ended 31 December 2010</b>									
1 January 2010	32.5	176.0	(7.3)	134.1	26.3	58.7	420.3	2.3	422.6
Net profit for the year	-	-	-	-	-	27.6	27.6	0.1	27.7
Exchange differences on translation of overseas operations	-	-	-	-	10.7	-	10.7	-	10.7
Movement on hedges of net investments	-	-	-	-	(1.0)	-	(1.0)	-	(1.0)
Reduction of revaluation surplus	-	-	-	(0.1)	-	-	(0.1)	-	(0.1)
Actuarial gains on defined benefit pension schemes net of deferred tax	-	-	-	-	-	2.8	2.8	-	2.8
<b>Total comprehensive income/(expense) for the year</b>	-	-	-	(0.1)	9.7	30.4	40.0	0.1	40.1
Issue of share capital	0.3	0.3	-	-	-	-	0.6	-	0.6
Acquired in the year/settlement of share options	-	-	(0.7)	-	-	-	(0.7)	-	(0.7)
Share-based payments	-	-	-	4.1	-	0.2	4.3	-	4.3
Dividends paid	-	-	-	-	-	(15.4)	(15.4)	(0.1)	(15.5)
Purchase of non-controlling interest	-	-	-	-	-	-	-	(0.6)	(0.6)
<b>31 December 2010</b>	<b>32.8</b>	<b>176.3</b>	<b>(8.0)</b>	<b>138.1</b>	<b>36.0</b>	<b>73.9</b>	<b>449.1</b>	<b>1.7</b>	<b>450.8</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1. Accounting policies

### Basis of preparation

This condensed set of financial statements for the half year ended 30 June 2011 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The Interim Management Report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with those disclosed in the annual report for the year ended 31 December 2010, which was filed with the Registrar of Companies on 5 May 2011.

### Going concern

In determining the basis of preparation for the Interim Management Report, the Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position which are set out in the Financial Overview. This includes an overview of the Group's financial position, its cash flows, liquidity position and borrowing facilities.

The Group meets its working capital requirements through a combination of committed and uncommitted facilities and overdrafts. The overdrafts and uncommitted facilities are repayable on demand but the committed facilities are due for renewal as set out below. There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future. The committed facilities as at 30 June 2011 were as follows:

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

On 27 July 2011 the £110m and US\$20m revolving credit facilities noted above were refinanced with a committed facility for £125m with a maturity date of 31 August 2016.

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

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

### Changes in accounting policy

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

The adoption of the following standards and interpretations, at 1 January 2011, has had no material impact on the Group's financial statements:

- Improvements to IFRSs 2010 (May 2010) was issued in May 2010 and endorsed by the EU on 18 February 2011. It includes amendments to a number of Standards and Interpretations. Except for the amendments in connection with IFRS 3 and IAS 27, the effective date of all the amendments is for annual periods beginning on or after 1 January 2011. The amendments in connection with IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010.
- IAS 24 'Related Party Disclosures – amendment' was issued in November 2009, is effective for periods commencing on or after 1 January 2011 and was endorsed by the EU on 19 July 2010.
- IAS 32 'Classification of Rights Issues – amendment' was issued in October 2009, is effective for periods commencing on or after 1 February 2010 and was endorsed by the EU on 23 December 2009.

Copies of this report and the last Annual Report and Accounts are available from the Secretary, Bodycote plc, Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield, Cheshire SK10 2XF, and can each be downloaded or viewed via the Group's website at [www.bodycote.com](http://www.bodycote.com). Copies of this report have also been submitted to the UK Listing Authority, and will shortly be available at the UK Listing Authority's Document Viewing Facility at 25 The North Colonnade, Canary Wharf, London E14 5HS (Telephone +44 (0)207 676 1000).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 2. Business and geographical segments

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

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

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

This initial split is determined following consideration of factors including the different customer sets, differing service requirements and different characteristics of business activity.

A further split is then made for the revised geographical divisional split of the Group, being:

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

Following a change in the way that the segment results are reviewed internally by management, the analysis of segment assets and liabilities have been changed, allocating the assets and liabilities previously shown within Head Office & Eliminations to the businesses, with prior year comparatives updated accordingly.



## 2. Business and geographical segments continued

Half year to 30 June 2011

Group	ADE £m	AGI £m	Head Office and eliminations £m	Consolidated £m
<b>Revenue</b>				
Total revenue	<b>115.9</b>	<b>172.3</b>	<b>-</b>	<b>288.2</b>
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated corporate expenses	<b>26.2</b>	<b>25.0</b>	<b>-</b>	<b>51.2</b>
Share-based payments	<b>(1.0)</b>	<b>(2.1)</b>	<b>(1.2)</b>	<b>(4.3)</b>
Unallocated corporate expenses	<b>-</b>	<b>-</b>	<b>(3.7)</b>	<b>(3.7)</b>
Headline operating profit/(loss)	<b>25.2</b>	<b>22.9</b>	<b>(4.9)</b>	<b>43.2</b>
Amortisation of acquired intangible fixed assets	<b>(0.1)</b>	<b>(0.4)</b>	<b>-</b>	<b>(0.5)</b>
Segment result	<b>25.1</b>	<b>22.5</b>	<b>(4.9)</b>	<b>42.7</b>
Investment revenue				<b>0.1</b>
Finance costs				<b>(2.5)</b>
Profit before taxation				<b>40.3</b>
Taxation				<b>(10.5)</b>
Profit for the period				<b>29.8</b>

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

### Aerospace, Defence & Energy

	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Revenue</b>				
Total revenue	<b>55.9</b>	<b>59.3</b>	<b>0.7</b>	<b>115.9</b>
<b>Result</b>				
Headline operating profit prior to share-based payments	<b>11.8</b>	<b>14.3</b>	<b>0.1</b>	<b>26.2</b>
Share-based payments	<b>(0.5)</b>	<b>(0.5)</b>	<b>-</b>	<b>(1.0)</b>
Headline operating profit	<b>11.3</b>	<b>13.8</b>	<b>0.1</b>	<b>25.2</b>
Amortisation of acquired intangible fixed assets	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>
Segment result	<b>11.2</b>	<b>13.8</b>	<b>0.1</b>	<b>25.1</b>

### Automotive & General Industrial

	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Revenue</b>				
Total revenue	<b>123.2</b>	<b>23.2</b>	<b>25.9</b>	<b>172.3</b>
<b>Result</b>				
Headline operating profit prior to share-based payments	<b>19.0</b>	<b>3.8</b>	<b>2.2</b>	<b>25.0</b>
Share-based payments	<b>(1.7)</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>(2.1)</b>
Headline operating profit	<b>17.3</b>	<b>3.5</b>	<b>2.1</b>	<b>22.9</b>
Amortisation of acquired intangible fixed assets	<b>-</b>	<b>-</b>	<b>(0.4)</b>	<b>(0.4)</b>
Segment result	<b>17.3</b>	<b>3.5</b>	<b>1.7</b>	<b>22.5</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 2. Business and geographical segments continued

Half year to 30 June 2010

Group	ADE £m	AGI £m	Head Office and eliminations £m	Consolidated £m
<b>Revenue</b>				
Total revenue	98.4	147.9	–	246.3
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated corporate expenses	15.0	13.2	–	28.2
Share-based payments	(0.5)	(0.7)	(0.5)	(1.7)
Unallocated corporate expenses	–	–	(4.0)	(4.0)
Headline operating profit/(loss)	14.5	12.5	(4.5)	22.5
Amortisation of acquired intangible fixed assets	(0.3)	(0.2)	–	(0.5)
Segment result	14.2	12.3	(4.5)	22.0
Investment revenue				0.2
Finance costs				(3.1)
Profit before taxation				19.1
Taxation				(5.1)
Profit for the period				14.0
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Revenue</b>				
Total revenue	45.3	52.7	0.4	98.4
<b>Result</b>				
Headline operating profit/(loss) prior to share-based payments	6.6	8.6	(0.2)	15.0
Share-based payments	(0.2)	(0.3)	–	(0.5)
Headline operating profit/(loss)	6.4	8.3	(0.2)	14.5
Amortisation of acquired intangible fixed assets	(0.1)	(0.2)	–	(0.3)
Segment result	6.3	8.1	(0.2)	14.2
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Revenue</b>				
Total revenue	102.0	21.0	24.9	147.9
<b>Result</b>				
Headline operating profit prior to share-based payments	9.5	3.2	0.5	13.2
Share-based payments	(0.5)	(0.1)	(0.1)	(0.7)
Headline operating profit	9.0	3.1	0.4	12.5
Amortisation of acquired intangible fixed assets	–	–	(0.2)	(0.2)
Segment result	9.0	3.1	0.2	12.3

## 2. Business and geographical segments continued

Year ended 31 December 2010

Group	ADE £m	AGI £m	Head Office and eliminations £m	Consolidated £m
<b>Revenue</b>				
Total revenue	202.1	297.7	–	499.8
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated corporate expenses	35.1	27.2	–	62.3
Share-based payments	(1.2)	(1.6)	(1.4)	(4.2)
Unallocated corporate expenses	–	–	(6.0)	(6.0)
Headline operating profit/(loss)	33.9	25.6	(7.4)	52.1
Amortisation of acquired intangible fixed assets	(0.4)	(0.5)	–	(0.9)
Segment result	33.5	25.1	(7.4)	51.2
Investment revenue				0.3
Finance costs				(6.3)
Profit before taxation				45.2
Taxation				(11.7)
Profit for the year - continuing operations				33.5
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Aerospace, Defence &amp; Energy</b>				
<b>Revenue</b>				
Total revenue	92.2	108.9	1.0	202.1
<b>Result</b>				
Headline operating profit/(loss) prior to share-based payments	15.7	19.5	(0.1)	35.1
Share-based payments	(0.5)	(0.7)	–	(1.2)
Headline operating profit/(loss)	15.2	18.8	(0.1)	33.9
Amortisation of acquired intangible fixed assets	(0.2)	(0.2)	–	(0.4)
Segment result	15.0	18.6	(0.1)	33.5
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Automotive &amp; General Industrial</b>				
<b>Revenue</b>				
Total revenue	204.6	43.0	50.1	297.7
<b>Result</b>				
Headline operating profit prior to share-based payments	21.3	5.4	0.5	27.2
Share-based payments	(1.2)	(0.3)	(0.1)	(1.6)
Headline operating profit	20.1	5.1	0.4	25.6
Amortisation of acquired intangible fixed assets	(0.1)	–	(0.4)	(0.5)
Segment result	20.0	5.1	–	25.1



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 2. Business and geographical segments continued

#### Other information

Group	Half year to 30 June 2011			
	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
Capital additions	7.4	12.7	1.0	21.1
Depreciation and amortisation	9.3	15.3	0.6	25.2
<b>Balance sheet</b>				
Assets:				
Segment assets	312.8	443.5	28.3	784.6
Other investments	–	0.5	–	0.5
Total segment assets	312.8	444.0	28.3	785.1
Liabilities:				
Segment liabilities	(68.7)	(115.5)	(121.1)	(305.3)
Allocation of head office net liabilities	244.1 (39.6)	328.5 (53.2)	(92.8) 92.8	479.8 –
Adjusted segment net assets	204.5	275.3	–	479.8
<b>Aerospace, Defence &amp; Energy</b>	<b>Western Europe £m</b>	<b>North America £m</b>	<b>Emerging markets £m</b>	<b>Total ADE £m</b>
Capital additions	2.2	5.2	–	7.4
Depreciation and amortisation	5.4	3.8	0.1	9.3
<b>Balance sheet</b>				
Assets:				
Segment assets	173.4	135.1	4.3	312.8
Other investments	–	–	–	–
Total segment assets	173.4	135.1	4.3	312.8
Liabilities:				
Segment liabilities	(34.0)	(34.4)	(0.3)	(68.7)
Segment net assets	139.4	100.7	4.0	244.1
<b>Automotive &amp; General Industrial</b>	<b>Western Europe £m</b>	<b>North America £m</b>	<b>Emerging markets £m</b>	<b>Total AGI £m</b>
Capital additions	9.0	1.0	2.7	12.7
Depreciation and amortisation	11.2	1.5	2.6	15.3
<b>Balance sheet</b>				
Assets:				
Segment assets	312.6	53.7	77.2	443.5
Other investments	0.5	–	–	0.5
Total segment assets	313.1	53.7	77.2	444.0
Liabilities:				
Segment liabilities	(83.2)	(13.4)	(18.9)	(115.5)
Segment net assets	229.9	40.3	58.3	328.5

## 2. Business and geographical segments continued

### Other information

Half year to 30 June 2010

Group	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
Capital additions	5.6	9.3	1.4	16.3
Depreciation and amortisation	9.1	14.9	0.5	24.5
<b>Balance sheet</b>				
Assets:				
Segment assets	305.0	433.8	25.1	763.9
Other investments	–	0.5	–	0.5
Total segment assets	305.0	434.3	25.1	764.4
Liabilities:				
Segment liabilities	(56.8)	(120.9)	(171.1)	(348.8)
Allocation of head office net liabilities	248.2 (64.5)	313.4 (81.5)	(146.0) 146.0	415.6 –
Adjusted segment net assets	183.7	231.9	–	415.6
<b>Aerospace, Defence &amp; Energy</b>				
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Capital additions	3.2	2.4	–	5.6
Depreciation and amortisation	4.9	4.1	0.1	9.1
<b>Balance sheet</b>				
Assets:				
Segment assets	165.1	138.1	1.8	305.0
Other investments	–	–	–	–
Total segment assets	165.1	138.1	1.8	305.0
Liabilities:				
Segment liabilities	(26.6)	(29.9)	(0.3)	(56.8)
Segment net assets	138.5	108.2	1.5	248.2
<b>Automotive &amp; General Industrial</b>				
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Capital additions	3.8	0.5	5.0	9.3
Depreciation and amortisation	11.2	1.6	2.1	14.9
<b>Balance sheet</b>				
Assets:				
Segment assets	301.7	56.0	76.1	433.8
Other investments	0.5	–	–	0.5
Total segment assets	302.2	56.0	76.1	434.3
Liabilities:				
Segment liabilities	(89.2)	(15.2)	(16.5)	(120.9)
Segment net assets	213.0	40.8	59.6	313.4

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 2. Business and geographical segments continued

#### Other information

Year ended 31 December 2010

Group	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
Capital additions	10.1	25.3	1.8	37.2
Depreciation and amortisation	17.8	29.5	1.0	48.3
<b>Balance sheet</b>				
Assets:				
Segment assets	307.0	435.7	28.0	770.7
Other investments	–	0.5	–	0.5
Total segment assets	307.0	436.2	28.0	771.2
Liabilities:				
Segment liabilities	(64.7)	(123.9)	(131.8)	(320.4)
Allocation of head office net liabilities	242.3 (45.3)	312.3 (58.5)	(103.8) 103.8	450.8 –
Adjusted segment net assets	197.0	253.8	–	450.8
<b>Aerospace, Defence &amp; Energy</b>				
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Capital additions	6.0	4.1	–	10.1
Depreciation and amortisation	9.5	8.1	0.2	17.8
<b>Balance sheet</b>				
Assets:				
Segment assets	168.8	136.1	2.1	307.0
Other investments	–	–	–	–
Total segment assets	168.8	136.1	2.1	307.0
Liabilities:				
Segment liabilities	(29.1)	(35.3)	(0.3)	(64.7)
Segment net assets	139.7	100.8	1.8	242.3
<b>Automotive &amp; General Industrial</b>				
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Capital additions	13.1	2.3	9.9	25.3
Depreciation and amortisation	22.0	3.1	4.4	29.5
<b>Balance sheet</b>				
Assets:				
Segment assets	304.1	54.4	77.2	435.7
Other investments	0.5	–	–	0.5
Total segment assets	304.6	54.4	77.2	436.2
Liabilities:				
Segment liabilities	(94.6)	(15.3)	(14.0)	(123.9)
Segment net assets	210.0	39.1	63.2	312.3

### 3. Provisions

	Restructuring	Restructuring Environ- mental	Environ- mental	Total
	£m	£m	£m	£m
<b>1 January 2011</b>	<b>10.0</b>	<b>10.2</b>	<b>6.6</b>	<b>26.8</b>
Increase in provision	–	–	<b>0.3</b>	<b>0.3</b>
Utilisation of provision	<b>(2.8)</b>	<b>(0.5)</b>	<b>(0.3)</b>	<b>(3.6)</b>
Exchange difference	<b>0.2</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>(0.2)</b>
	<u><b>7.4</b></u>	<u><b>9.4</b></u>	<u><b>6.5</b></u>	<u><b>23.3</b></u>
<b>30 June 2011</b>				
Included in current liabilities				<b>11.1</b>
Included in non-current liabilities				<u><b>12.2</b></u>
				<u><b>23.3</b></u>

The restructuring provision relates to the remaining costs associated with the closure of various Thermal Processing 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 semi-annually. The environmental provision has been separated into Restructuring Environmental and Environmental, to separately identify environmental provisions relating to the restructuring programme from those arising in the ordinary course of business.

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

### 4. Taxation

Year ended 31 Dec 2010 £m		Half year to 30 June 2011 £m	Half year to 30 June 2010 £m
	<b>Current tax:</b>		
8.8	Current tax - charge for the period	<b>8.5</b>	5.6
(3.8)	Current tax - adjustments in respect of prior periods	<b>0.4</b>	0.3
<u>5.0</u>	<b>Total current tax - continuing operations</b>	<b>8.9</b>	5.9
5.8	Current tax - discontinued operations	–	–
<u>10.8</u>	<b>Total current tax - continuing and discontinued operations</b>	<b>8.9</b>	5.9
<u>6.7</u>	<b>Deferred tax - continuing operations</b>	<b>1.6</b>	(0.8)
<u>17.5</u>	<b>Total</b>	<b>10.5</b>	5.1
11.7	Total tax - continuing operations	<b>10.5</b>	5.1
<u>5.8</u>	Total tax - discontinued operations	–	–
<u>17.5</u>		<b>10.5</b>	5.1

The rate of tax for the interim period is 26.0% (2010 interim: 26.7%) of the profit before tax. The rate of tax is reflective of the impact of blending profits and losses from different countries and the different tax rates associated with those countries. The tax rate includes the impact of the reduction in the UK's corporation tax rate from 28% to 26% with effect from 1 April 2011.

In 2010 the provisions relating to taxation expected to arise from the 2008 disposal of the Testing division were reassessed. The impact on the 2010 Group accounts of these additional provisions was a charge of £5.8m.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 5. Earnings per share

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

Year ended 31 Dec 2010 £m		Half year to 30 June 2011 £m	Half year to 30 June 2010 £m
	<b>Earnings</b>		
27.6	Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	29.6	14.0
	<b>Number of shares</b>		
Number		Number	Number
185,543,260	Weighted average number of ordinary shares for the purposes of basic earnings per share	185,499,794	185,117,564
180,586	Effect of dilutive potential ordinary shares: Share options	188,155	133,331
185,723,846	Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	185,687,949	185,250,895
	<b>From continuing operations</b>		
£m		£m	£m
	<b>Earnings</b>		
27.6	Net profit attributable to equity holders of the parent	29.6	14.0
5.8	Adjustments to exclude loss for the period from discontinued operations	-	-
33.4	Earnings from continuing operations for the purpose of basic earnings per share excluding discontinued operations	29.6	14.0

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

Pence		Pence	Pence
	<b>Earnings per share from continuing and discontinued operations:</b>		
14.9	Basic	16.0	7.6
14.9	Diluted	15.9	7.6
	<b>Loss per share from discontinued operations:</b>		
(3.1)	Basic	-	-
(3.1)	Diluted	-	-
	<b>Earnings per share from continuing operations</b>		
18.0	Basic	16.0	7.6
18.0	Diluted	15.9	7.6
	<b>Headline earnings</b>		
£m		£m	£m
27.6	Net profit attributable to equity holders of the parent	29.6	14.0
	Add back:		
0.8	Amortisation of acquired intangible fixed assets (net of tax)	0.5	0.4
(0.2)	Major facility closure costs (net of tax)	-	-
5.8	Loss for the period - discontinued operations	-	-
34.0	<b>Headline earnings</b>	30.1	14.4
	<b>Headline earnings per share</b>		
Pence		Pence	Pence
18.3	Basic	16.2	7.8
18.3	Diluted	16.2	7.8

## 6. Dividends

Amounts recognised as distributions to equity holders in the period:

Year ended 31 Dec 2010 £m		Half year to 30 June 2011 £m	Half year to 30 June 2010 £m
9.9	Final dividend for the year ended 31 December 2009 of 5.35p per share	-	9.9
5.5	Interim dividend for the year ended 31 December 2010 of 2.95p per share	-	-
-	Final dividend for the year ended 31 December 2010 of 5.75p per share	<b>10.7</b>	-
<u>15.4</u>		<b>10.7</b>	<u>9.9</u>
	Proposed interim dividend for the year ended 31 December 2011 of 3.60p (2010: 2.95p) per share	<b>6.7</b>	<u>5.5</u>

The proposed interim dividend was approved by the Board on 26 July 2011 and has not been included as a liability in these financial statements.

## 7. Notes to the cash flow statement

Year ended 31 Dec 2010 £m		Half year to 30 June 2011 £m	Half year to 30 June 2010 £m
27.7	Profit for the period	<b>29.8</b>	14.0
	Adjustments for:		
(0.3)	Investment revenue	<b>(0.1)</b>	(0.2)
6.3	Finance costs	<b>2.5</b>	3.1
17.5	Taxation - continuing and discontinued	<b>10.5</b>	5.1
46.1	Depreciation of property, plant and equipment	<b>24.0</b>	23.4
2.2	Amortisation of intangible assets	<b>1.2</b>	1.1
0.7	Loss on disposal of property, plant and equipment	<b>0.2</b>	-
4.2	Share-based payments	<b>2.5</b>	1.7
(1.6)	Major facility closure costs	-	-
102.8	EBITDA*	<b>70.6</b>	48.2
(2.7)	Increase in inventories	<b>(2.6)</b>	(4.2)
(4.7)	Increase in receivables	<b>(13.6)</b>	(5.3)
15.5	Increase in payables	<b>6.0</b>	5.4
(7.0)	Decrease in provisions	<b>(3.3)</b>	(5.9)
103.9	Cash generated by operations	<b>57.1</b>	38.2
(2.9)	Cash outflow from settlement of derivative financial instruments	-	(3.0)
(5.4)	Income taxes paid	<b>(6.4)</b>	(2.6)
<u>95.6</u>	Net cash from operating activities	<b>50.7</b>	<u>32.6</u>

\* Earnings before interest, tax, depreciation, amortisation, impairment, loss on disposal of property, plant and equipment and share-based payments.

Cash and cash equivalents comprise:

23.5	Cash and bank balances	<b>19.4</b>	26.2
(5.9)	Bank overdrafts (included in borrowings)	<b>(9.9)</b>	(6.8)
<u>17.6</u>		<b>9.5</b>	<u>19.4</u>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### **8. Related party transactions**

There have been no material changes to, or material transactions with, related parties as described in note 29 of the Annual Report for the year ended 31 December 2010.

### **9. General information**

The comparative information for the year ended 31 December 2010 contained within these condensed financial statements does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

## INDEPENDENT REVIEW REPORT TO BODYCOTE PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and related notes 1 to 9. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.



### Deloitte LLP

Chartered Accountants and Statutory Auditor  
Manchester, United Kingdom  
28 July 2011

## FINANCIAL CALENDAR

<b>Interim dividend for 2011</b>	4 November 2011
<b>Results for 2011</b>	February 2012
<b>Annual General Meeting</b>	April 2012
<b>Final dividend for 2011</b>	May 2012
<b>Interim results for 2012</b>	July 2012
<b>Interim dividend for 2012</b>	November 2012

## SHAREHOLDER ENQUIRIES

Enquiries on the following administrative matters can be addressed to the Company's registrars, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone: 0871 664 0300 (calls to 0871 numbers cost 10p per minute plus network extras - lines are open 8.30am until 5.30pm, Monday to Friday) or +44 (0)208 639 3399; Fax: +44 (0)1484 600911; and email: [shareholder.services@capitaregistrars.com](mailto: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](http://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](http://www.capitadeal.com).

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