interim report 2010

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

COVER IMAGE

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

FINANCIAL HIGHLIGHTS

Bodycote

	Half year to 30 June 2010	Half year to 30 June 2009
Revenue	**£246.3m**	£227.9m
Headline Operating Profit/(Loss)[1]	**£22.5m**	£(1.7)m
Operating Profit/(Loss)	**£22.0m**	£(50.8)m
Headline Profit/(Loss) Before Taxation[1]	**£19.6m**	£(4.0)m
Profit/(Loss) Before Taxation	**£19.1m**	£(53.1)m
Headline Operating Cash Flow[2]	**£29.7m**	£24.7m
Operating Cash Flow[3]	**£22.5m**	£14.5m
Net Debt	**£87.5m**	£88.7m
Basic Headline Earnings/(Loss) Per Share[4]	**7.8p**	(0.2)p
Basic Earnings/(Loss) Per Share[4]	**7.6p**	(23.9)p
Interim Dividend Per Share[5]	**2.95p**	2.95p
Annualised Return on Capital Employed[6]	**8.6%**	(0.6)%

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[1] 'Headline' excludes exceptional items. Exceptional items are major facility closure costs of nil (2009: £19.8m), impairment charge of nil (2009: £28.6m) and amortisation of acquired intangible fixed assets of £0.5m (2009: £0.7m).
[2] Headline operating cash flow is defined as operating cash flow before cash flow relating to exceptional items of £7.2m (2009: £10.2m).
[3] Operating cash flow is defined as cash generated by operations of £38.2m (2009: £34.2m) less net capital expenditure of £15.7m (2009: £19.7m).
[4] A detailed reconciliation is provided in note 5 of the Notes to the Condensed Consolidated Financial Information.
[5] See note 6 of the Notes to the Condensed Consolidated Financial Information.
[6] Return on capital employed is defined as headline operating profit divided by average capital employed. Capital employed is defined as net assets plus net debt.

INTERIM MANAGEMENT REPORT

OVERVIEW

Bodycote demonstrated a meaningful step forward in performance in the first half of 2010. On revenues ahead of the first six months of 2009 by £18.4m to £246.3m, headline operating profit improved by £24.2m to £22.5m.

There has been a broad based improvement in demand from the very low levels that existed twelve months ago, with the second quarter being stronger than the first. These macro driven improvements, on their own, only account for a portion of the momentum evident in the business. Overall, macro demand remains well below historic levels and many segments are yet to show material demand improvements. In the segments that have improved, the end of the large destocking movements in manufacturing supply chains and market share gains have been substantial drivers of the reversal of the sales trends. As yet, supply chain restocking does not appear to be in evidence in any meaningful way. Sales to the North American automotive sector exemplify these various factors, where revenues are over 100% ahead of H1 2009.

Across the Group, the temptation to fill available capacity with commodity or subcontracted overflow work is being successfully avoided and this is resulting in a notable improvement in mix in terms of the value of work undertaken. This, combined with the focus on operational efficiency, has resulted in the good operational gearing that is evident in the financial results.

The restructuring programme started at the end of 2008 is nearly complete, except for ongoing environmental remediation. £27.5m of cash has been spent with the remaining £21.0m to be expended over the next several years. Cost savings are slightly ahead of plan with £22.0m achieved in H1 2010 compared to £9.3m for the first half of 2009. Annualised cost savings are now running at £44m.

Capital expenditure has been more restrained than in prior years, although a number of carefully selected investments are underway. As a result, the ratio of capital expenditure to depreciation in H1 2010 was 0.7 (2009: 0.8). The restraint on capital expenditure and improved cash management in general has led to a satisfactory cash performance in the first half. This performance has been achieved notwithstanding the need to finance a £5.3m increase in receivables driven by the growth in sales. Net debt at the end of June stood at £87.5m.

Bodycote's recently implemented new strategy is designed to generate returns that are superior to those available from macro economic growth alone. Deployment of the strategy included the formation of the AGI (Automotive & General Industrial) and ADE (Aerospace, Defence & Energy) business groups, each focused on their particular market areas; the creation of three special focus proprietary technology business units; an emphasis on building business in the emerging markets; and a drive for operational excellence.

Both the AGI and ADE parts of the business have moved forward, with targeted customer engagement processes and tailored service offerings showing wins. While it is still early days for the special focus technology business units of CPP (Corrosion Prevention Processes), S3P (Speciality Stainless Steel Processes) and HIP PF (HIP Product Fabrication), progress is already being made, with HIP PF and S3P in particular, gaining considerable traction compared to their embryonic starting points. The modernisation and expansion of capacity in the emerging markets is on track.

The Group's key financial KPIs are return on capital employed (ROCE) and headline operating margin. In the first half of 2010, the annualised ROCE was 8.6% (2009: minus 0.6%) and headline operating margin was 9.1% (2009: minus 0.7%).

In summary, these results demonstrate that the work undertaken so far in reshaping the business and improving management effectiveness is delivering the benefits expected. The overall environment is less harsh than twelve months ago, but the general economic recovery still appears to be at an early stage. In the near term, and in the second half in particular, tight operational control remains key.

BUSINESS REVIEW

Aerospace, Defence & Energy

Results

Revenues for ADE were £98.4m for the first six months of 2010 compared to £104.2m in the same period of 2009 (a reduction of 5.6%). Revenues in constant currencies were lower by 3.6%, with improving aerospace original equipment manufacturer (OEM) demand being more than offset by weakness in aircraft maintenance requirements and in power generation. Actual revenues were reduced by 2.0% as a result of the strengthening of sterling against the euro and the US dollar.

Headline operating profit for ADE improved by 28.2% to £15.0m (2009: £11.7m), with headline operating margin improving from 11.2% to 15.2%. The restructuring programme delivered savings of £7.7m compared to £2.4m in the same period of 2009.

On average, capital employed in ADE for the six months to 30 June 2010 was £239.3m compared to £244.2m for the year ended 31 December 2009, reflecting the impact of the restructuring programme and continued restraint in capital expenditure. Net capital expenditure in the first half of 2010 was £5.6m (2009: £10.6m) which represents 0.6 times depreciation (2009: 1.1 times depreciation). Return on capital employed in the first half of 2010, on an annualised basis, rose to 12.6% (2009: 8.9%).

Markets

The first half of 2010 has seen a steady improvement in sales to most aerospace OEMs. In contrast, requirements for maintenance repair and overhaul have continued to be weak, as flying hours remain low. Defence demand has remained solid. Overall aerospace & defence revenues decreased by 6.3% compared to the first half of 2009. Power generation demand, which fell away sharply in the final quarter of 2009, has continued to decline modestly. Sales to the power generation sector fell by 36.8% year on year, reflecting both lower end user requirements and significant destocking in the supply chain and this principally affects the Group's HIP densification business. The oil & gas sector has continued the improvement seen at the end of 2009, with revenues ahead 1.8% compared to the first half of 2009. A certain amount of general industrial work is also processed in the Group's ADE facilities and strengthening demand in this area also helped performance.

Automotive & General Industrial

Results

AGI revenues were £147.9m in the first half of 2010 which compares to £123.7m in the same period of 2009, an increase of 19.6%, reflecting sustained improvement from the final quarter of 2009. In constant currencies revenues were up 19.4% as the strengthening of sterling against the euro and the US dollar was largely offset by weakening against the Swedish kroner and Brazilian real.

The AGI business moved back sharply into profit with headline operating profit at £13.2m, which compares to a loss of £10.7m in the first half of 2009. Headline operating margin improved to 8.9% from minus 8.6% in the first half of 2009. The restructuring programme is providing substantial benefits to this business and savings in the first half amounted to £14.3m compared to £6.9m in the same period of 2009.

Net capital expenditure for the first half of 2010 was £8.6m (2009: £8.6m), which represents 0.6 times depreciation (2009: 0.5 times depreciation). Return on capital employed in the first half of 2010, on an annualised basis, was 8.6% (2009: minus 6.5%). On average, capital employed for the six months ended 30 June 2010 was £306.1m compared to £315.1m for the year ended 31 December 2009, reflecting the continuation of the restructuring programme and low levels of capital expenditure.

Markets and Geographies

The first half of 2010 has seen a widespread and strong recovery in automotive requirements, partly due to increased car sales but particularly reflecting the end of destocking. Gains in market share have also benefited many areas. Car and light truck revenues are higher than for the same period of 2009 by 47.9%. Sales to the heavy truck sector have similarly improved strongly and were ahead of the first half of 2009 by 63.1%. General industrial demand began the year at a lower level than that seen at the end of 2009 but is now improving and sales are ahead year on year by 7.1%.

In North America, sales to the automotive sector began the year more strongly than expected and have accelerated as the year has progressed, with revenues 100.2% higher in the first half of 2010 compared to the same period of 2009. In contrast, general industrial requirements were lower in the first quarter of 2010 than at the end of 2009, but began to improve in the second quarter. Year on year sales for general industrial in the first half have increased by 2.8%.

In Western Europe automotive sales have also been strong in the first half and, compared to the first half of 2009, revenues are ahead 34.7%. Bodycote's heavy truck business is concentrated in Sweden and Germany and demand has improved significantly, with year on year revenue growth of 91.3%. General industrial revenues have grown more slowly than automotive, and year on year sales growth has been 5.9%.

The impact of the global economic recession was both less marked and shorter in duration in the Group's emerging market territories. In common with the developed economies, automotive has been the major engine of growth, with general industrial also improving, but less quickly. In Eastern Europe, revenues increased by 27.7%, compared to the same period in 2009. The Group's Brazilian business is part way through a significant reorganisation aimed at exiting low value-added work but nevertheless year on year sales improved by 42.6%. The recovery in Asia, which started in the second half of 2009, has continued strongly in the first six months of 2010 and revenue has increased by 79.2% compared to the first half of 2009.

RESTRUCTURING

No net additional restructuring charges have been incurred in the first half of 2010 and none are anticipated for the second half. Restructuring actions are now complete in most parts of the Group; the only notable exceptions being France, Brazil and Italy, which are all expected to be finished by the end of the first quarter of 2011. The restructuring plan in France commenced in the middle of 2009 and the timing of execution has been subject to various regulatory requirements. In Brazil and Italy, actions commenced towards the end of 2009 and work is going according to plan, although the lengthy process to obtain various regulatory approvals mean that progress, while to plan, is slower than desirable. A summary of expenditure is provided below.

	2008 £m	2009 £m	2010 £m	2011 £m	2012 & later £m
Cash expenditure by year	2.1	19.2	15.9	3.4	7.9

In 2008 and 2009, as a result of the Group's restructuring programme, asset write downs totalling £55.3m and cash costs of £47.7m were charged to the income statement. Although there is no impact in the income statement, the sterling equivalent sum of cash costs is now expected to be £48.5m, with the difference due to movements in exchange rates.

To date, £27.5m of cash costs have been expended, of which £6.2m was during the first half of 2010. Restructuring provisions outstanding at 30 June 2010 amounted to £21.3m, of which £0.3m relates to earlier restructuring initiatives. In the second half, cash expenditure is expected to be £9.7m and in 2011 is forecast to be £3.4m, with £7.9m in later years. Beyond the first quarter of 2011, expenditure relates solely to environmental remediation, hence the extended period.

At the end of 2009, the expected cumulative level of annualised savings in 2010 was £43.0m compared to £30.4m achieved in 2009. Savings in the first half of 2010 were £22.0m (2009: £9.3m). Cumulative full year 2010 savings are expected to be £44.5m, split as follows:

	Total £m	Western Europe £m	North America £m	Emerging Markets £m
2009 Actual	**30.4**	16.1	11.1	3.2
2010 Expected	**44.5**	29.6	11.4	3.5

FINANCIAL OVERVIEW

Revenue and Headline Operating Profit/(Loss)

	Half year to 30 June					
	Revenue		**Headline Operating Profit/(Loss)**		**Headline Operating Margin**	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 %**	2009 %
ADE	**98.4**	104.2	**15.0**	11.7	**15.2**	11.2
AGI	**147.9**	123.7	**13.2**	(10.7)	**8.9**	(8.6)
Total	**246.3**	227.9	**28.2**	1.0	**11.4**	0.4
Head Office Costs	**–**	–	**(5.7)**	(2.7)	**–**	–
Group Total	**246.3**	227.9	**22.5**	(1.7)	**9.1**	(0.7)

Revenue for the half year was £246.3m (2009: £227.9m), an increase of 8.1% compared to the same period last year. In constant currencies the increase was 8.8% (£20.1m), all generated organically, despite £4.8m (2.1%) of revenues being lost due to site closures. Headline operating profit was £22.5m (2009: loss £1.7m) and headline operating margin was 9.1% (2009: minus 0.7%). Operating profit, after charging £0.5m (2009: £0.7m) in respect of the amortisation of acquired intangibles, nil (2009: £28.6m) for impairment and nil (2009: £19.8m) for major facility closure costs, was £22.0m (2009: loss £50.8m).

The increase in head office costs primarily relates to increased share based payments and other performance related remuneration charges, reflecting the improvement in the Group's profitability.

Headline operating margins for the first six months improved significantly in both divisions compared to the same period in 2009. ADE reported a headline operating margin of 15.2% (2009: 11.2%) and AGI reported a headline operating margin of 8.9% (2009: minus 8.6%).

Profit/(loss) before taxation

	Half year to 30 June	
	2010 £m	2009 £m
Headline operating profit/(loss)	**22.5**	(1.7)
Amortisation of acquired intangible fixed assets	**(0.5)**	(0.7)
Impairment charge	**–**	(28.6)
Major facility closure costs	**–**	(19.8)
Operating profit/(loss)	**22.0**	(50.8)
Net finance charge	**(2.9)**	(2.3)
Profit/(loss) before taxation	**19.1**	(53.1)

Headline profit/(loss) before taxation

	2010 £m	2009 £m
Headline operating profit/(loss)	**22.5**	(1.7)
Net finance charge	**(2.9)**	(2.3)
Headline profit/(loss) before taxation	**19.6**	(4.0)

Finance Charge

The net finance charge for the Group was £2.9m compared to £2.3m in 2009 (see details below). The increase is a result of higher average net debt (£0.1m), increased undrawn committed facility fees (£0.6m) and the costs of refinancing earlier this year (£0.4m), offset by lower interest rates (£0.4m) and a lower pension finance charge (£0.1m).

	Half Year to 30 June	
	2010 £m	2009 £m
Net interest payable	**(0.9)**	(1.2)
Financing costs	**(1.2)**	(0.2)
Other bank charges	**(0.3)**	(0.3)
Pension finance charge	**(0.5)**	(0.6)
Finance charge	**(2.9)**	(2.3)

Exceptional Costs

Exceptional costs for the first six months amounted to £0.5m (2009: £49.1m). With improved market conditions and the benefit of the wide ranging restructuring programme charged in 2008 and 2009, the Board has concluded that no impairment charge was required in the first half of 2010 (2009: £28.6m).

There were no major facility closure costs in the first half of 2010 (2009: £19.8m). The £19.8m charge in 2009 was made up of £8.4m for asset write-downs and £11.4m for cash costs. Net cash expenditure as a result of this programme was £6.2m in the first half of 2010 (2009: £11.4m), including £1.0m proceeds from the disposal of three sites.

Cash flow

	Half Year to 30 June	
	2010	2009
	£m	£m
EBITDA[1]	**48.2**	13.1
Working capital movement	**(4.1)**	19.2
Provision movement	**(5.9)**	1.9
Net capital expenditure	**(15.7)**	(19.7)
Operating cash flow	**22.5**	14.5
Interest	**(2.9)**	(2.9)
Taxation	**(2.6)**	(27.0)
Free cash flow	**17.0**	(15.4)

Free cash flow for the period was an inflow of £17.0m compared to an outflow of £15.4m in the first six months of 2009. The major component of the increase is the significant improvement in EBITDA, although the elevated trading levels have also resulted in an increase in working capital.

Net working capital outflows for the six month period amounted to £4.1m (2009: inflow £19.2m). Inventories increased by £4.2m (2009: £0.4m decrease) due to work in progress on a number of electron beam welding machines, which are due for shipment in the second half of the year. Receivables increased by £5.3m (2009: £27.8m decrease) as a result of improved trading, but the impact was mitigated by a continuing focus on cash collection. Debtor days outstanding at 30 June 2010 were 57 days (2009: 58 days). Payables increased by £5.4m (2009: £9.0m decrease).

Provision balances decreased by £5.9m over the period (2009: £1.9m increase) reflecting cash expenditure on restructuring.

The Group has continued to manage carefully its capital expenditure programme whilst ensuring no loss of capability. Net capital expenditure for the first half was £15.7m (2009: £19.7m). Net capital expenditure to depreciation was 0.7 times (2009: 0.8 times). Major capital projects that were in progress during the first half of 2010 included the purchase and installation of new equipment in Brazil, an upgrade project in the USA and additional equipment in China.

Income taxes paid during the first six months were £24.4m lower than in 2009, when payments related to the disposal of the Testing business fell due.

Taxation

The tax charge was £5.1m in the period, compared to a tax credit of £7.9m for the same period of 2009. The effective tax rate for the period of 26.7% results from the impact of differing tax rates in each of the numerous worldwide locations in which the Group operates. The tax rate represents the weighted average corporation tax rate expected for the full financial year.

Earnings/(Loss) Per Share

Basic and diluted earnings per share from operations for the half year were 7.6p (2009: loss 23.9p).

Dividend

The Board has declared an unchanged interim dividend of 2.95p (2009: 2.95p). The interim dividend will be paid on 5 November 2010 to all shareholders on the register at the close of business on 8 October 2010.

Net Debt

Group net debt at 30 June 2010 was £87.5m (2009: £88.7m). Loans and letters of credit drawn under the committed facilities at 30 June 2010 totalled £108.6m, compared to £102.7m at 31 December 2009. 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 2010 was 21% (2009: 21%).

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 2010, 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	5.0	–	105.0
€125m Revolving Credit	31 July 2013	101.1	97.7	–	3.4
$20m Revolving Credit	31 March 2013	13.3	–	5.9	7.4
		224.4	102.7	5.9	115.8

[1] Earnings before interest, tax, depreciation, amortisation, impairment and share based payment (see note 7)

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 Schemes

The Group's defined benefit pension obligations have been reviewed as at 30 June 2010. The IAS 19 deficit in the UK scheme increased to £7.2m (31 December 2009: £3.7m). The increase is primarily as a result of reduced corporate bond yields and hence discount rates. In France, for its primarily unfunded cash lump sum obligation, the deficit is £5.2m (31 December 2009: £5.7m) and the sum of all other Group schemes is £5.2m (31 December 2009: £5.6m).

PRINCIPAL RISKS AND UNCERTAINTIES

Operational

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2009. A detailed explanation of the risks summarised below can be found on pages 30 to 33 of the 2009 Annual Report which is available at www.bodycote.com.

Markets

The key risk faced by the Group is a reduction in end market demand. Forecasting this demand, given short visibility and the uncertainty faced by much of Bodycote's customer base, is difficult and means the Group must remain constantly ready to adapt to the changing environment.

Commercial Relationships

The Group benefits from many long-term and partnership agreements with key customers. Damage to, or loss of, any of these relationships may be detrimental to Group results, although management believe this is highly unlikely.

Competitors

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

Human Resources

People are Bodycote's greatest asset and also form its largest cost. The Group works hard at maintaining a respectful and trusting relationship with all employees, while being rigorous with regard to cost control.

Defined Benefit Pension Arrangements

The Group provides retirement benefits for its former and current employees through a number of pension schemes in the UK and overseas. Future actuarial valuations and annual funding checks for these arrangements may require increased employer contributions, the level of which will depend on investment performance, mortality rates, annuity rates and changes in other actuarial assumptions.

Safety & Health

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

Brand and Reputation

As the world leader in the provision of thermal processing services, Bodycote is a valuable and well-known business-to-business brand. Any damage to the brand because of the breakdown of commercial relationships, non-compliance with laws and regulations, misuse of human or other resources in breach of the Group's corporate ethos could have an adverse impact on the business as a whole.

Energy

An increase in energy cost is a risk which the Group is largely able to mitigate, although with some time lag, through price adjustments or surcharges.

Operations

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

Environment

Some of the Group's heat treatment plants use solvents and other hazardous chemicals in small quantities. Where such substances are used, there is the potential for ground contamination. Past exposures are provided for and remediated as and when required.

Financial

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

There has been no significant change to the scope or management of financial risks faced by the Group during the first half of 2010.

Liquidity Risk

Liquidity risk arises as a result of mismatches between cash inflows and outflows from the business. This risk is monitored on a centralised basis through regular cash flow forecasting, a three-year rolling strategic plan, an annual budget agreed by the Board each December and a quarterly re-forecast undertaken during the financial year. Further detail on the Group's liquidity position is on page 5.

Interest Rate Risk

Interest rate risk arises on borrowings and cash balances (and derivative liabilities and assets) which are at floating interest rates.

As at 30 June 2010, 4% of net financial liabilities were at fixed rates (2009: 6%). The weighted average tenor of the fixed rate loans and leases is 4.2 years compared to 3.9 years at 31 December 2009.

Currency Risk

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

Nearly 90% of the Group's sales in the six months to June 2010 are in currencies other than sterling (principally, EUR 39%, USD 28%, SEK 6% and BRL 5%).

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

It is Group policy to hedge exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of foreign exchange forward contracts. Even though approximately 90% of the Group's sales are generated outside the UK, the nature of the business is such that cross border sales and purchases are limited and such exposures are therefore considered immaterial for the Group.

Counterparty Risk

Group policy is to enter into financial contracts only with counterparties with a long-term credit rating of A-/A3 or better. The counterparties to the financial instruments transacted by the Group are major international financial institutions and, whilst these counterparties may expose the Group to credit losses in the event of non-performance, it considers the risk of material loss to be acceptable.

Credit Risk

The majority of the Group's trade receivables are due for payment within 60 days.

Concentrations of credit risk with respect to trade receivables are limited. The Group has a diverse customer base of tens of thousands of customers and is not reliant on any one business sector, end market or client. The largest customer represents less than 3% of the Group's revenue.

GOING CONCERN

As stated in note 1 to the condensed consolidated 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 financial statements.

CURRENT TRADING AND OUTLOOK

In the recent Trading Update, issued on 9 July 2010, the Board stated that the Group has continued to see a steady and broad based improvement in demand since the time of the Interim Management Statement on 28 April 2010, as evidenced in these interim results, and noted that future demand levels remain uncertain and possibly uneven. Sales in the second half are expected to be impacted by the usual seasonal pattern of customer requirements and are therefore likely to be lower than in the first half.

The Board's expectations for the full year have not changed since the Trading Update, assuming that current levels of demand are sustained and allowing for normal seasonal differences.

Against this background, the Board is confident that execution of the Group's strategy will deliver superior shareholder returns over the medium term.

Stephen C Harris
Chief Executive
28 July 2010

David F Landless
Group Finance Director
28 July 2010

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';

(b) The interim statement includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) The interim statement includes a fair review of the information required by DTR 4.2R (disclosure of related parties' transactions and changes therein).

Bv order of the Board.

Stephen C Harris
Chief Executive
28 July 2010

David F Landless
Group Finance Director
28 July 2010

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 2009 £m		**Half year to 30 June 2010 £m**	Half year to 30 June 2009 £m	Note
435.4	**Revenue**	**246.3**	227.9	2
(50.2)	**Operating profit/(loss)**	**22.0**	(50.8)	2
8.0	Operating profit/(loss) prior to exceptional items	**22.5**	(1.7)	
(1.3)	Amortisation of acquired intangible fixed assets	**(0.5)**	(0.7)	
(31.5)	Impairment charge	**–**	(28.6)	
(25.4)	Major facility closure costs	**–**	(19.8)	
(50.2)	**Operating profit/(loss)**	**22.0**	(50.8)	2
1.5	Investment revenue	**0.2**	1.2	
(5.8)	Finance costs	**(3.1)**	(3.5)	
(54.5)	**Profit/(loss) before taxation**	**19.1**	(53.1)	
3.4	Taxation	**(5.1)**	7.9	4
(51.1)	**Profit/(loss) for the period**	**14.0**	(45.2)	
	Attributable to:			
(50.1)	Equity holders of the parent	**14.0**	(44.5)	
(1.0)	Minority interest	**–**	(0.7)	
(51.1)		**14.0**	(45.2)	
	Earnings/(loss) per share			5
Pence		**Pence**	Pence	
(27.0)	Basic	**7.6**	(23.9)	
(27.0)	Diluted	**7.6**	(23.9)	

All activities have arisen from continuing operations.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 Dec 2009 £m		**Half year to 30 June 2010 £m**	Half year to 30 June 2009 £m
(51.1)	**Profit/(loss) for the period**	**14.0**	(45.2)
(4.8)	Exchange differences on translation of foreign operations	**(9.8)**	(10.6)
(3.3)	Actuarial losses on defined benefit pension schemes	**(3.2)**	(2.7)
0.9	Tax on items taken directly to equity	**0.9**	0.7
(7.2)	**Other comprehensive expense for the period**	**(12.1)**	(12.6)
(58.3)	**Total comprehensive income/(expense) for the period**	**1.9**	(57.8)
	Attributable to:		
(57.3)	Equity holders of the parent	**1.8**	(57.1)
(1.0)	Minority interests	**0.1**	(0.7)
(58.3)		**1.9**	(57.8)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 Dec 2009 £m		As at 30 June 2010 £m	As at 30 June 2009 £m	Note
	Non-current assets			
107.9	Goodwill	**106.9**	113.7	
10.9	Other intangible assets	**10.6**	10.9	
461.8	Property, plant and equipment	**442.6**	461.3	
0.5	Interests in associates and other investments	**0.5**	3.7	
0.5	Finance lease receivables	**0.2**	0.7	
56.9	Deferred tax asset	**57.8**	53.6	
0.1	Derivative financial instruments	**–**	0.3	
3.0	Trade and other receivables	**2.1**	2.9	
641.6		**620.7**	647.1	
	Current assets			
11.6	Inventories	**15.0**	12.2	
0.4	Finance lease receivables	**0.5**	0.4	
0.6	Derivative financial instruments	**–**	2.4	
91.1	Trade and other receivables	**95.3**	88.4	
19.6	Cash and bank balances	**26.2**	63.6	
6.2	Assets held for sale	**6.7**	3.5	
129.5		**143.7**	170.5	
771.1	**Total assets**	**764.4**	817.6	
	Current liabilities			
93.2	Trade and other payables	**96.6**	90.8	
5.5	Dividends payable	**–**	–	
11.4	Current tax liabilities	**14.6**	3.2	
0.7	Obligations under finance leases	**0.4**	0.6	
6.0	Borrowings	**8.6**	5.2	
4.0	Derivative financial instruments	**0.2**	6.0	
21.3	Provisions	**14.5**	25.8	3
–	Liabilities directly associated with assets classified as held for sale	**0.5**	–	
142.1		**135.4**	131.6	
(12.6)	**Net current assets/(liabilities)**	**8.3**	38.9	
	Non-current liabilities			
96.8	Borrowings	**103.2**	144.2	
15.0	Retirement benefit obligations	**17.6**	15.2	
73.4	Deferred tax liabilities	**71.7**	71.1	
1.6	Obligations under finance leases	**1.5**	2.3	
0.4	Derivative financial instruments	**–**	0.3	
11.7	Provisions	**13.1**	13.1	3
7.5	Other payables	**6.3**	8.7	
206.4		**213.4**	254.9	
348.5	**Total liabilities**	**348.8**	386.5	
422.6	**Net assets**	**415.6**	431.1	
	Equity			
32.5	Share capital	**32.8**	32.4	
176.0	Share premium account	**176.0**	175.9	
(7.3)	Own shares	**(8.1)**	(6.8)	
134.1	Other reserves	**135.8**	134.8	
26.3	Hedging and translation reserves	**16.4**	20.5	
58.7	Retained earnings	**60.4**	70.3	
420.3	**Equity attributable to equity holders of the parent**	**413.3**	427.1	
2.3	**Minority interest**	**2.3**	4.0	
422.6	**Total equity**	**415.6**	431.1	

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 Dec 2009 £m		**Half year to 30 June 2010 £m**	Half year to 30 June 2009 £m	Note
11.0	**Net cash from operating activities**	**32.6**	(2.6)	7
	Investing activities			
(35.3)	Purchases of property, plant and equipment	**(15.4)**	(21.5)	
4.3	Proceeds on disposal of property, plant and equipment and intangible assets	**0.6**	2.2	
(1.2)	Purchases of intangible fixed assets	**(0.9)**	(0.4)	
(0.5)	Acquisition of subsidiaries/purchase of minority interests	**–**	–	
6.9	Disposal of subsidiaries/associates	**–**	–	
(1.5)	Lump sum contribution to pension scheme	**–**	–	
(27.3)	**Net cash used in investing activities**	**(15.7)**	(19.7)	
	Financing activities			
2.1	Interest received	**0.1**	3.4	
(6.5)	Interest paid	**(3.0)**	(6.3)	
(20.0)	Dividends paid	**(15.5)**	(20.0)	
(0.1)	Dividends paid to a minority shareholder	**(0.1)**	–	
(231.9)	Repayments of bank loans	**(12.0)**	(160.1)	
(1.5)	Payments of obligations under finance leases	**(0.4)**	(0.7)	
41.1	New bank loans raised	**19.2**	18.6	
0.2	New obligations under finance leases	**–**	–	
0.4	Proceeds on issue of ordinary share capital	**0.3**	0.2	
0.9	Own shares purchased/settlement of share options	**(0.8)**	1.2	
(215.3)	**Net cash used in financing activities**	**(12.2)**	(163.7)	
(231.6)	**Net increase/(decrease) in cash and cash equivalents**	**4.7**	(186.0)	
249.5	**Cash and cash equivalents at beginning of period**	**16.3**	249.5	
(1.6)	Effect of foreign exchange rate changes	**(1.6)**	(3.2)	
16.3	**Cash and cash equivalents at end of period**	**19.4**	60.3	

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	Minority interest £m	Total equity £m
Half year to 30 June 2010									
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)**
Total comprehensive income/(expense) for the period	**–**	**–**	**–**	**–**	**(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)**
30 June 2010	**32.8**	**176.0**	**(8.1)**	**135.8**	**16.4**	**60.4**	**413.3**	**2.3**	**415.6**
Half year to 30 June 2009									
1 January 2009	32.4	175.7	(10.9)	137.3	31.1	126.4	492.0	4.9	496.9
Net loss for the period	–	–	–	–	–	(44.5)	(44.5)	(0.4)	(44.9)
Exchange differences on translation of overseas operations	–	–	–	–	(89.9)	–	(89.9)	(0.5)	(90.4)
Movement on hedges of net investments	–	–	–	–	79.3	–	79.3	–	79.3
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(2.0)	(2.0)	–	(2.0)
Total comprehensive expense for the period	–	–	–	–	(10.6)	(46.5)	(57.1)	(0.9)	(58.0)
Issue of share capital	–	0.2	–	–	–	–	0.2	–	0.2
Return of capital to shareholders and redemption of B shares	–	–	–	0.7	–	(0.7)	–	–	–
Acquired in the period/settlement of share options	–	–	1.2	–	–	–	1.2	–	1.2
Share-based payments	–	–	2.9	(3.2)	–	1.0	0.7	–	0.7
Dividends paid	–	–	–	–	–	(9.9)	(9.9)	–	(9.9)
30 June 2009	32.4	175.9	(6.8)	134.8	20.5	70.3	427.1	4.0	431.1
Year ended 31 December 2009									
1 January 2009	32.4	175.7	(10.9)	137.3	31.1	126.4	492.0	4.9	496.9
Net loss for the year	–	–	–	–	–	(50.1)	(50.1)	(1.0)	(51.1)
Exchange differences on translation of overseas operations	–	–	–	–	(63.1)	–	(63.1)	(0.2)	(63.3)
Movement on hedges of net investments	–	–	–	–	58.3	–	58.3	–	58.3
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(2.4)	(2.4)	–	(2.4)
Total comprehensive expense for the year	–	–	–	–	(4.8)	(52.5)	(57.3)	(1.2)	(58.5)
Issue of share capital	0.1	0.3	–	–	–	–	0.4	–	0.4
Return of capital to shareholders and redemption of B shares	–	–	–	0.7	–	(0.7)	–	–	–
Acquired in the year/settlement of share options	–	–	0.9	–	–	–	0.9	–	0.9
Share-based payments	–	–	2.7	(3.9)	–	0.9	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	(15.4)	(15.4)	(0.1)	(15.5)
Purchase of minority interest	–	–	–	–	–	–	–	(1.3)	(1.3)
31 December 2009	32.5	176.0	(7.3)	134.1	26.3	58.7	420.3	2.3	422.6

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 2010 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 2009, which was filed with the Registrar of Companies on 7 May 2010.

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.

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

The Group is subject to a number of significant risks and uncertainties, which are set out in the Financial Overview. The Directors believe that the Group is adequately placed to manage its business risks. In addition, the Directors consider that, the Group's forecasts and projections, taking account of reasonable potential changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

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

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.

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. 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).

2. Business and geographical segments

The Group adopted IFRS 8 'Operating Segments' with effect from 1 January 2009. However, following the completion of the reorganisation of the Group's structure in the second half of 2009, the comparatives for the interim period have been restated to reflect the revised structure.

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.

2. **Business and geographical segments** continued

Group	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
	Half year to 30 June 2010			
Revenue				
Total revenue	98.4	147.9	–	246.3
Result				
Segment result prior to exceptional items	15.0	13.2	–	28.2
Unallocated corporate expenses	–	–	(5.7)	(5.7)
Headline operating profit/(loss)	15.0	13.2	(5.7)	22.5
Amortisation of acquired intangible fixed assets	(0.3)	(0.2)	–	(0.5)
Segment result	14.7	13.0	(5.7)	22.0
Investment revenue				0.2
Finance costs				(3.1)
Profit before taxation				19.1
Taxation				(5.1)
Profit for the period				14.0

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
Revenue				
Total revenue	45.3	52.7	0.4	98.4
Result				
Headline operating profit/(loss)	6.6	8.6	(0.2)	15.0
Amortisation of acquired intangible fixed assets	(0.1)	(0.2)	–	(0.3)
Segment result	6.5	8.4	(0.2)	14.7

Automotive & General Industrial	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Revenue				
Total revenue	102.0	21.0	24.9	147.9
Result				
Headline operating profit	9.5	3.2	0.5	13.2
Amortisation of acquired intangible fixed assets	–	–	(0.2)	(0.2)
Segment result	9.5	3.2	0.3	13.0

2. Business and geographical segments continued

Group	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
	Half year to 30 June 2009 (restated)			
Revenue				
Total revenue	104.2	123.7	–	227.9
Result				
Segment result prior to exceptional items	11.7	(10.7)	–	1.0
Unallocated corporate expenses	–	–	(2.7)	(2.7)
Headline operating profit/(loss)	11.7	(10.7)	(2.7)	(1.7)
Amortisation of acquired intangible fixed assets	(0.3)	(0.4)	–	(0.7)
Impairment charge	(5.0)	(23.6)	–	(28.6)
Major facility closure costs	(1.2)	(18.6)	–	(19.8)
Segment result	5.2	(53.3)	(2.7)	(50.8)
Investment revenue				1.2
Finance costs				(3.5)
Loss before taxation				(53.1)
Taxation				7.9
Loss for the period				(45.2)

Aerospace, Defence & Energy	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Revenue				
Total revenue	49.5	54.4	0.3	104.2
Result				
Headline operating profit/(loss)	5.4	6.5	(0.2)	11.7
Amortisation of acquired intangible fixed assets	(0.2)	(0.1)	–	(0.3)
Impairment charge	–	(5.0)	–	(5.0)
Major facility closure costs	(0.9)	(0.3)	–	(1.2)
Segment result	4.3	1.1	(0.2)	5.2

Automotive & General Industrial	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Revenue				
Total revenue	89.9	15.8	18.0	123.7
Result				
Headline operating loss	(8.4)	(0.3)	(2.0)	(10.7)
Amortisation of acquired intangible fixed assets	–	–	(0.4)	(0.4)
Impairment charge	–	(20.0)	(3.6)	(23.6)
Major facility closure costs	(15.8)	(0.3)	(2.5)	(18.6)
Segment result	(24.2)	(20.6)	(8.5)	(53.3)

2. Business and geographical segments continued

Year ended 31 December 2009

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

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

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

2. Business and geographical segments continued

Other information

Group	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
	Half year to 30 June 2010			
Capital additions	5.6	9.3	1.4	16.3
Depreciation and amortisation	9.1	14.9	0.5	24.5
Balance sheet				
Assets:				
Segment assets	319.1	448.3	(3.5)	763.9
Interests in associates and other investments	–	0.5	–	0.5
Total segment assets	319.1	448.8	(3.5)	764.4
Liabilities:				
Segment liabilities	56.8	120.9	171.1	348.8
Segment net assets/(liabilities)	262.3	327.9	(174.6)	415.6

Aerospace, Defence & Energy	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
Balance sheet				
Assets:				
Segment assets	162.6	154.7	1.8	319.1
Interests in associates and other investments	–	–	–	–
Total segment assets	162.6	154.7	1.8	319.1
Liabilities:				
Segment liabilities	26.6	29.9	0.3	56.8
Segment net assets	136.0	124.8	1.5	262.3

Automotive & General Industrial	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
Balance sheet				
Assets:				
Segment assets	309.6	62.4	76.3	448.3
Interests in associates and other investments	0.5	–	–	0.5
Total segment assets	310.1	62.4	76.3	448.8
Liabilities:				
Segment liabilities	89.2	15.2	16.5	120.9
Segment net assets	220.9	47.2	59.8	327.9

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2. Business and geographical segments continued

Other information

Group	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
	Half year to 30 June 2009 (restated)			
Capital additions	11.9	9.5	0.5	21.9
Depreciation and amortisation	9.4	16.5	0.3	26.2
Impairment losses recognised in income	5.3	31.7	–	37.0
Balance sheet				
Assets:				
Segment assets	338.4	447.1	28.4	813.9
Interests in associates and other investments	–	3.7	–	3.7
Total segment assets	338.4	450.8	28.4	817.6
Liabilities:				
Segment liabilities	76.1	134.7	175.7	386.5
Segment net assets/(liabilities)	262.3	316.1	(147.3)	431.1

Aerospace, Defence & Energy	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Capital additions	5.8	6.1	–	11.9
Depreciation and amortisation	5.1	4.2	0.1	9.4
Impairment losses recognised in income	0.3	5.0	–	5.3
Balance sheet				
Assets:				
Segment assets	163.5	171.7	3.2	338.4
Interests in associates and other investments	–	–	–	–
Total segment assets	163.5	171.7	3.2	338.4
Liabilities:				
Segment liabilities	31.9	44.0	0.2	76.1
Segment net assets	131.6	127.7	3.0	262.3

Automotive & General Industrial	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Capital additions	5.4	1.6	2.5	9.5
Depreciation and amortisation	12.7	1.4	2.4	16.5
Impairment losses recognised in income	6.8	20.0	4.9	31.7
Balance sheet				
Assets:				
Segment assets	338.5	40.2	68.4	447.1
Interests in associates and other investments	0.5	–	3.2	3.7
Total segment assets	339.0	40.2	71.6	450.8
Liabilities:				
Segment liabilities	110.2	10.3	14.2	134.7
Segment net assets	228.8	29.9	57.4	316.1

2. Business and geographical segments continued

Other information

Group	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
	Year ended 31 December 2009			
Capital additions	21.3	14.3	0.9	36.5
Depreciation and amortisation	17.9	32.3	0.7	50.9
Impairment losses recognised in income	5.9	38.7	0.8	45.4
Balance sheet				
Assets:				
Segment assets	331.2	464.2	(24.8)	770.6
Interests in associates and other investments	–	0.5	–	0.5
Total segment assets	331.2	464.7	(24.8)	771.1
Liabilities:				
Segment liabilities	75.2	134.1	139.2	348.5
Segment net assets/(liabilities)	256.0	330.6	(164.0)	422.6

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

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

3. Provisions

	Restructuring £m	Restructuring Environmental £m	Environmental £m	Total £m
1 January 2010	**17.6**	**9.5**	**5.9**	**33.0**
Increase in provision	**0.2**	**0.8**	**0.3**	**1.3**
Utilisation of provision	**(6.4)**	**(0.8)**	**–**	**(7.2)**
Exchange difference	**(0.2)**	**0.6**	**0.1**	**0.5**
30 June 2010	**11.2**	**10.1**	**6.3**	**27.6**
Included in current liabilities				14.5
Included in non-current liabilities				13.1
				27.6

The restructuring provision relates to the remaining costs associated with the closure of various Thermal Processing sites. Further details are contained in the Interim Management Report.

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

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

During the period the Group realised gains on disposal of assets of £1.0m as a result of restructuring.

4. Taxation

Year ended 31 Dec 2009 £m		Half year to 30 June 2010 £m	Half year to 30 June 2009 £m
	Current tax:		
2.0	Current tax - charge for the period	**5.6**	(3.3)
1.8	Current tax - adjustments in respect of prior periods	**0.3**	(0.3)
3.8	**Total Current tax**	**5.9**	(3.6)
(7.2)	**Deferred tax**	**(0.8)**	(4.3)
(3.4)	**Total**	**5.1**	(7.9)

The rate of tax for the interim period is 26.7% (2009 interim: 14.9%) 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.

It is not expected that the proposed 1% reduction in the UK's corporate tax rate from 2011 will have a significant impact on the Group's deferred tax balances.

5. Earnings/(loss) per share

From continuing operations

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

Year ended 31 Dec 2009 £m		**Half year to 30 June 2010 £m**	Half year to 30 June 2009 £m
	Earnings/(loss)		
(50.1)	Earnings/(loss) for the purpose of basic earnings/(loss) per share being net profit attributable to equity holders of the parent	**14.0**	(44.5)
	Number of shares		
Number		**Number**	Number
185,557,762	Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**185,117,564**	185,902,392
	Effect of dilutive potential ordinary shares:		
16,466	Share options	**133,331**	6,724
185,574,228	Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	**185,250,895**	185,909,116
	Earnings/(loss) per share		
Pence		**Pence**	Pence
(27.0)	Basic	**7.6**	(23.9)
(27.0)	Diluted	**7.6**	(23.9)
	Headline earnings/(loss)		
£m		**£m**	£m
(50.1)	Net profit/(loss) attributable to equity holders of the parent	**14.0**	(44.5)
	Add back:		
31.5	Impairment charge	**–**	28.6
1.2	Amortisation of acquired intangible fixed assets	**0.4**	0.7
18.1	Major facility closure costs	**–**	14.8
0.7	Headline earnings/(loss)	**14.4**	(0.4)
	Headline earnings/(loss) per share		
Pence		**Pence**	Pence
0.4	Basic	**7.8**	(0.2)
0.4	Diluted	**7.8**	(0.2)

6. Dividends

Amounts recognised as distributions to equity holders in the period:

Year ended 31 Dec 2009 £m		**Half year to 30 June 2010 £m**	Half year to 30 June 2009 £m
9.9	Final dividend for the year ended 31 December 2008 of 5.35p per share	**–**	9.9
5.5	Interim dividend for the year ended 31 December 2009 of 2.95p per share	**–**	–
0.7	B share special dividend or redemption for the year ended 31 December 2008 of 40.00p per share	**–**	–
–	Final dividend for the year ended 31 December 2009 of 5.35p per share	**10.0**	–
16.1		**10.0**	9.9
	Proposed interim dividend for the year ended 31 December 2010 of 2.95p (2009: 2.95p) per share	**5.5**	5.5

The proposed interim dividend was approved by the Board on 28 July 2010 and has not been included as a liability in these financial statements.

7. Notes to the cash flow statement

Year ended 31 Dec 2009 £m		**Half year to 30 June 2010 £m**	Half year to 30 June 2009 £m
(51.1)	Profit/(loss) for the period	**14.0**	(45.2)
	Adjustments for:		
(1.5)	Investment revenues	**(0.2)**	(1.2)
5.8	Finance costs	**3.1**	3.5
(3.4)	Taxation	**5.1**	(7.9)
48.5	Depreciation of property, plant and equipment	**23.4**	25.0
2.4	Amortisation of intangible assets	**1.1**	1.2
(0.1)	Loss/(gain) on disposal of property, plant and equipment	**–**	–
(0.1)	Share-based payments	**1.7**	0.7
31.5	Impairment charge	**–**	28.6
12.6	Major facility closure costs	**–**	8.4
44.6	EBITDA*	**48.2**	13.1
1.4	(Increase)/decrease in inventories	**(4.2)**	0.4
29.2	(Increase)/decrease in receivables	**(5.3)**	27.8
(21.6)	Increase/(decrease) in payables	**5.4**	(9.0)
(5.9)	(Decrease)/increase in provisions	**(5.9)**	1.9
47.7	Cash generated by operations	**38.2**	34.2
(12.3)	Cash outflow from settlement of derivative financial instruments	**(3.0)**	(9.8)
(24.4)	Income taxes paid	**(2.6)**	(27.0)
11.0	Net cash from operating activities	**32.6**	(2.6)

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

Cash and cash equivalents comprise:

19.6	Cash and bank balances	**26.2**	63.6
(3.3)	Bank overdrafts (included in Borrowings)	**(6.8)**	(3.3)
16.3		**19.4**	60.3

8. 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.

Trading transactions

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

Year ended 31 Dec 2009 £m		**Half year to 30 June 2010 £m**	Half year to 30 June 2009 £m
3.3	Sale of goods and services	**1.7**	1.8
0.2	Purchase of goods and services	**0.1**	0.1
–	Amounts owed to related parties	**–**	–
18.0	Amounts owed by related parties	**19.4**	16.6

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

The amounts outstanding will be settled in cash, none of which are secured (2009 Interim: £0.4m). No guarantees have been given or received. £18.6m (2009 Interim: £14.7m) of provisions have been made for doubtful debts of which £1.3m (2009 Interim: £1.0m) was expensed during the period in respect of amounts owed by related parties.

9. General information

The information for the year ended 31 December 2009 contained within these condensed interim financial statements does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' 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 2010 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 them 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 2010 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

Deloitte LLP
Chartered Accountants and Statutory Auditors
Manchester, United Kingdom
28 July 2010

FINANCIAL CALENDAR

Interim dividend for 2010	5 November 2010
Results for 2010	February 2011
Annual General Meeting	April 2011
Final dividend for 2010	May 2011
Interim results for 2011	July 2011
Interim dividend for 2011	November 2011

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.

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