

interim report 2012

[www.bodycote.com/audiocast](http://www.bodycote.com/audiocast)

Bodycote continually improves the website offerings for both customers and investors. The most recent is the addition of an audio webcast of Bodycote's 2012 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](http://www.bodycote.com/audiocast)

#### **COVER IMAGE**

This photo-microstructure shows a typical untreated carbon chromium bearing steel with the presence of alloy carbides (carbon compounds). In this case, the presence of alloy carbides can be undesirable as they are difficult to machine (due to their high hardness) but this can be rectified by a normalising or annealing heat treatment. This will break down the alloy carbides into a form which has less effect on machineability and a better response to subsequent heat treatment.

## FINANCIAL HIGHLIGHTS

<b>Continuing operations</b>	<b>Half year to 30 June 2012</b>	Half year to 30 June 2011
Revenue	<b>£301.3m</b>	£288.2m
Headline operating profit <sup>1</sup>	<b>£47.5m</b>	£43.2m
Operating profit	<b>£45.6m</b>	£42.7m
Headline profit before taxation <sup>1</sup>	<b>£45.7m</b>	£40.8m
Profit before taxation	<b>£43.8m</b>	£40.3m
Headline operating cash flow <sup>2</sup>	<b>£52.3m</b>	£39.8m
Operating cash flow <sup>3</sup>	<b>£49.1m</b>	£36.5m
Net debt	<b>£16.7m</b>	£33.7m
Basic headline earnings per share <sup>4</sup>	<b>18.3p</b>	16.2p
Basic earnings per share	<b>17.2p</b>	16.0p
Interim dividend per share <sup>5</sup>	<b>4.0p</b>	3.6p

## CONTENTS

<b>1</b> Financial Highlights	<b>10</b> Unaudited Condensed Consolidated Statement of Changes in Equity
<b>2</b> Interim Management Report	<b>11</b> Notes to the Condensed Consolidated Financial Information
<b>7</b> Unaudited Condensed Consolidated Income Statement	<b>23</b> Independent Review Report
<b>7</b> Unaudited Condensed Consolidated Statement of Comprehensive Income	<b>24</b> Shareholder Information
<b>8</b> Unaudited Condensed Consolidated Balance Sheet	
<b>9</b> Unaudited Condensed Consolidated Cash Flow Statement	

<sup>1</sup> Headline operating profit and headline profit before taxation exclude the amortisation of acquired intangibles of £0.7m (2011: £0.5m) and acquisition costs of £1.2m (2011: £nil).

<sup>2</sup> Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £2.0m (2011: £3.3m) and acquisition costs of £1.2m (2011: £nil).

<sup>3</sup> Operating cash flow is defined as cash generated by operations of £75.7m (2011: £57.1m) less net capital expenditure of £26.6m (2011: £20.6m).

<sup>4</sup> A detailed reconciliation is provided in note 5 on page 19.

<sup>5</sup> See note 7 on page 21.

# INTERIM MANAGEMENT REPORT

## OVERVIEW

Bodycote delivered a strong first half performance. Revenues increased by 5% in the first six months of 2012 (7% at constant currencies). Headline operating profit grew by 10% to £47.5m, operating profit grew by 7% to £45.6m, and Group headline margins<sup>1</sup> increased to 15.8% from 15.0%.

These results continue the Group's track record of improving performance, despite currency headwind and clearly weakened demand in the Eurozone economies. The Group's performance has been driven primarily by continued growth in the North American automotive and general industrial businesses and aerospace and energy in all geographies. This performance has been moderated to some extent by softer demand in the European automotive and general industrial segments.

Bodycote completed the acquisition of the heat treatment business of Curtiss-Wright Corporation at the end of the first quarter for a consideration of £32.6m. This brought nine additional facilities into the Group, one of which was closed as planned and the assets redistributed to other Bodycote sites. The remaining sites offer high margin services across the spectrum of market sectors in the USA, but with a notable presence in aerospace and energy. The fit into the existing Bodycote network is excellent, bringing us into the key aerospace manufacturing hub in Wichita, Kansas. The acquired sites also help to fill in gaps in our capability to service automotive and general industrial customers from Indiana to New Jersey. The business has performed somewhat ahead of our expectations in its first three months of ownership.

All parts of the Group continue to focus on operational efficiency and cost control. Excluding employees who joined the Group with the acquisition, average headcount was unchanged from 2011, notwithstanding the continued increase in sales. Headline operating cash flow conversion was 110%<sup>2</sup>, yielding an operating cash flow of £49.1m. Net capital expenditure remains closely controlled, but did increase to £26.6m (from £20.6m in the first half of 2011), a capital expenditure to depreciation ratio of 1.1 (2011: 0.8), in line with our stated intent to invest in capacity to service specific areas of long term demand growth. The investment is primarily in our selected focus technologies, notably in Hot Isostatic Pressing (HIP) and Speciality Stainless Steel Processes (S<sup>3</sup>P), together with expanded capacity to service the aerospace market. We expect to achieve accelerating growth from these activities as capacity constraints are eased.

Our facilities in Empalme (Mexico) and London (Ohio) are being expanded and a new site is being built in Toulouse (France) as part of the increase in aerospace-orientated capacity. In emerging markets we continue to prioritise China and a new facility is under construction in Jinan. All of these significant investments are backed by long term contracts, including those announced earlier this year with Precision Castparts Corp, Rolls-Royce and ZF Lenksysteme.

The key elements of the Group's strategy are: a focus on services that are highly valued by our customers; targeted customer engagement; increasing our emerging market footprint; growth in selected proprietary technologies; and the drive for operational excellence. The successful execution of our strategy is being reflected in the Group's performance and promises further improvements in returns in the medium and longer term.

## BUSINESS REVIEW

### Markets

In the first half of 2012, the civil aerospace market was buoyant, as expected, and saw a continuation of the increase in aircraft build rates. Demand for aircraft spares was stable. The Boeing supply chain has seen particularly strong demand, both in North America and France, driven by 737 and to a lesser degree by 787 output. The defence market for Bodycote's processes, which is not dependent on major new programmes, has been flat. Bodycote's sales in the aerospace and defence market rose 19.2%<sup>3</sup> compared to the first half of 2011.

Oil and gas demand has been strong in both North America and Europe, with first half 2012 sales 32.0%<sup>3</sup> ahead of the prior year. While requirements for gas fracking were subdued in Q2, total rig count remained at a high level, so there was little impact on Bodycote. The industrial gas turbine market has continued to grow at a reasonable pace, with Group sales up 4.7%<sup>3</sup> compared to H1 2011. The growth rate was similar in both North America and Europe.

Market performance in car and light truck has been markedly different between North America, which has continued to see increases in output, and Europe where production has fallen. Bodycote sales in this sector are weighted to Europe and Group sales were down 1.8%<sup>3</sup> compared to the same period last year. The geographic pattern is similar for heavy trucks but Group sales overall were higher than the first half of 2011 by 1.2%<sup>3</sup>, as growth in North American demand was particularly strong.

Sales to the general industrial sector grew by 21.4%<sup>3</sup> in North America compared to H1 2011, with much of this coming from mining and agricultural equipment. European demand from the early-cycle segments has weakened and this has been exacerbated by lower growth from exports to Asia. European general industrial sales were 1.9%<sup>3</sup> lower than the first half of 2011.

Demand in emerging markets in the first half has been somewhat weaker than we had expected at the beginning of the year.

<sup>1</sup> Headline operating profit as a percentage of sales.

<sup>2</sup> Headline operating cash flow divided by headline operating profit.

<sup>3</sup> Stated at constant exchange rates.

### Aerospace, Defence & Energy

Revenues for the Aerospace, Defence and Energy business (ADE) were £130.3m (2011: £115.9m), an increase of 12.4%, of which 9.5% was organic. Expressed at constant currency rates the increase was 12.6% with organic growth at 9.7%.

Headline operating profit was £31.3m (2011: £25.2m), an increase of 24.2%, and operating profit was £30.1m (2011: £25.1m), an increase of 19.9%. The headline operating profit margin improved from 21.7% to 24.0%. Net capital expenditure was £15.6m (2011: £7.2m), representing a spend rate of 1.7 times depreciation (2011: 0.8 times depreciation). Average capital employed for the period was £228.6m (2011: £220.9m).

Capital investment has continued in both the USA and Europe to increase capacity in HIP, including for HIP Product Fabrication capability, to support sales development in aerospace, industrial gas turbine and oil and gas markets.

### Automotive & General Industrial

Revenues for the Automotive and General Industrial business (AGI) were £171.0m (2011: £172.3m), a decrease of 0.8% which was in part due to the weakening of the Euro. Revenues are lower by 2.6% on an organic basis. Expressed at constant currency, revenues were £178.5m, an increase of 3.6% and organic growth was 1.9%.

Headline operating profit was £22.8m (2011: £22.9m), a decrease of 0.4%, and operating profit was £22.1m (2011: £22.5m), a decrease of 1.8%. The headline operating profit margin was maintained at 13.3% (2011: 13.3%). Net capital expenditure was £9.5m (2011: £12.3m), representing a spend rate of 0.6 times depreciation (2011: 0.8 times depreciation). Average capital employed for the period was £262.1m (2011: £288.5m).

## FINANCIAL OVERVIEW

### Revenue and headline operating profit

	Half year to 30 June					
	Revenue		Headline operating profit		Headline operating margin	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 %	2011 %
ADE	<b>130.3</b>	115.9	<b>31.3</b>	25.2	<b>24.0</b>	21.7
AGI	<b>171.0</b>	172.3	<b>22.8</b>	22.9	<b>13.3</b>	13.3
	<b>301.3</b>	288.2	<b>54.1</b>	48.1	<b>18.0</b>	16.7
Head office costs	-	-	<b>(6.6)</b>	(4.9)	-	-
Total	<b>301.3</b>	288.2	<b>47.5</b>	43.2	<b>15.8</b>	15.0

Revenue for the half year was £301.3m (2011: £288.2m), an increase of 4.5% compared to the same period last year. In constant currencies the increase was 7.2% (£20.8m), of which £6.5m (2.3%) was the contribution of the Heat Treatment business of Curtiss-Wright Corporation, acquired on 31 March 2012.

Headline operating profit increased to £47.5m (2011: £43.2m) and headline operating margin again improved to 15.8% (2011: 15.0%). The contribution to headline operating profit from the acquisition was £1.6m. Operating profit increased to £45.6m (2011: £42.7m) and operating margin was 15.1% (2011: 14.8%).

Headline operating margins for the first six months improved in ADE and were maintained at prior year levels in AGI. ADE reported a headline operating margin of 24.0% (2011: 21.7%) and AGI reported a headline operating margin of 13.3% (2011: 13.3%).

## INTERIM MANAGEMENT REPORT (CONTINUED)

### Profit before taxation

	Half year to 30 June	
	2012 £m	2011 £m
Headline operating profit	47.5	43.2
Net finance charge	(1.8)	(2.4)
Headline profit before tax	45.7	40.8
Amortisation of acquired intangible fixed assets	(0.7)	(0.5)
Acquisition costs	(1.2)	–
Profit before tax – continuing operations	43.8	40.3

### Finance charge

The net finance charge for the Group was £1.8m compared to £2.4m in 2011 (see details below). Of the reduction, £0.5m relates to lower average net debt, however the interest receivable and payable rates were broadly the same as last year. Lower financing costs (£0.5m) offset by higher pension finance and other charges (£0.4m) account for the remainder of the movement.

	Half year to 30 June	
	2012 £m	2011 £m
Net interest payable	0.2	0.7
Financing costs	0.6	1.1
Other charges	0.4	0.3
Pension finance charge	0.6	0.3
Net finance charge	1.8	2.4

### Exceptional costs

Exceptional costs for the first six months amounted to £1.9m (2011: £0.5m). The charge comprises acquisition costs of £1.2m (2011: £nil) and amortisation of acquired intangible assets of £0.7m (2011: £0.5m).

### Cash flow

	Half year to 30 June	
	2012 £m	2011 £m
<b>Headline operating profit</b>	<b>47.5</b>	<b>43.2</b>
Add back non-cash items:		
Depreciation and amortisation	25.1	24.7
Share-based payments	3.0	2.5
Loss on disposal of property, plant and equipment	–	0.2
<b>Headline EBITDA<sup>1</sup></b>	<b>75.6</b>	<b>70.6</b>
Net capital expenditure	(26.6)	(20.6)
Net working capital movement	3.3	(10.2)
<b>Headline operating cash flow</b>	<b>52.3</b>	<b>39.8</b>
Cash cost of restructuring	(2.0)	(3.3)
Acquisition costs	(1.2)	–
<b>Operating cash flow</b>	<b>49.1</b>	<b>36.5</b>
Interest	(1.2)	(1.7)
Taxation	(9.0)	(6.4)
<b>Free cash flow</b>	<b>38.9</b>	<b>28.4</b>

Free cash flow for the period was £38.9m compared to £28.4m in the first six months of 2011. The major component of the increase is the significant improvement in EBITDA and working capital. Despite the higher trading levels, working capital has decreased as a result of strong cash management.

The net working capital inflow for the six month period amounted to £3.3m (2011: outflow of £10.2m). Inventories increased by £0.4m (2011: £2.6m increase) due to higher activity levels. Receivables increased by £7.9m (2011: £13.6m increase) as a result of the seasonally higher sales in May and June in comparison to November and December. Debtor days outstanding at 30 June 2012 remained at 59 days (31 December 2011: 59 days). Payables increased by £11.7m (2011: £6.0m increase).

Provision balances decreased by £2.5m over the period (2011: £3.3m decrease), largely reflecting cash expenditure on restructuring.

The Group spent £32.0m during the period on the acquisition of the heat treatment business of Curtiss-Wright Corporation. A further £0.6m cash consideration remains unpaid until the purchase price adjustment, based on a review of working capital, is finalised.

The Group has continued to manage carefully its capital expenditure programme. Net capital expenditure for the first half was £26.6m (2011: £20.6m) and the ratio to depreciation was 1.1 times (2011: 0.8 times). Major capital projects that were in progress during the first half of 2012 included additional investment in our HIP and S<sup>3</sup>P businesses, investment to support our aerospace business in France, the USA and Mexico and the development of a new facility in Jinan, China.

Income taxes paid during the first six months at £9.0m were £2.6m higher than in 2011, reflecting the increase in profits generated in 2011 and the first half of 2012.

### Taxation

The tax charge in the first half of 2012 was £11.2m, compared to a charge of £10.5m for the same period of 2011. The effective tax rate for the period of 25.3% 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 headline earnings per share from operations for the half year were 18.3p (2011: 16.2p). Basic earnings per share from operations for the half year were 17.2p (2011: 16.0p). Diluted earnings per share were 17.2p (2011: 15.9p).

### Dividend

The Board has declared an interim dividend of 4.0p (2011: 3.6p) which represents an increase of 11.1% over the prior year. The interim dividend will be paid on 7 November 2012 to all shareholders on the register at the close of business on 5 October 2012.

### Net debt

Group net debt at 30 June 2012 was £16.7m (2011: £33.7m). Loans and letters of credit drawn under the committed facilities at 30 June 2012 totalled £22.2m, compared to £11.1m at 31 December 2011 and £44.5m at 30 June 2011. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding. The debt to equity ratio at 30 June 2012 was 3% (2011: 7%).

<sup>1</sup> Earnings before interest, tax, depreciation, amortisation, loss on disposal of property, plant and equipment, cash flow relating to restructuring, acquisition costs 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 2012, the Group had the following committed facilities:

Facility	Expiry date	Facility £m	Loan and letter of Credit utilisation £m	Facility headroom £m
€125m Revolving Credit	31 July 2013	101.1	17.2	<b>83.9</b>
£125m Revolving Credit	31 August 2016	125.0	–	<b>125.0</b>
		<u>226.1</u>	<u>17.2</u>	<u><b>208.9</b></u>
\$10m Letter of Credit	31 August 2016	6.4	5.0	<b>1.4</b>
		<u>232.5</u>	<u>22.2</u>	<u><b>210.3</b></u>

With regard to the €125m facility which expires on 31 July 2013, the Directors consider that the going concern position of the Group is not affected by this facility ending. Any potential refinancing will be reviewed in the first quarter of 2013.

### Defined benefit pension schemes

The Group's principal defined benefit pension obligations have been reviewed as at 30 June 2012. The IAS 19 deficit in the UK scheme increased to £2.4m (31 December 2011: £1.8m). The increase is as a result of a fall in corporate bond yields, offset to some degree by a fall in long-term inflation expectations. In France, for its primarily unfunded cash lump sum obligation, the deficit is £7.0m (31 December 2011: £5.8m), with the increase arising due to a reduction in the assumed discount rate. The sum of all other Group schemes is £5.9m (31 December 2011: £5.9m).

### 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 2011. The risks and associated risk management processes can be found in the 2011 Annual Report, on pages 26, 27 and 78, 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;
- 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.

### SUMMARY AND OUTLOOK

The Group delivered a strong first half performance despite currency headwind and weakened demand in the Eurozone economies.

Looking forward into the second half, growth in aerospace and energy together with new technologies, is expected to counteract the effect of slowing economies.

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  
26 July 2012

### David F Landless

Finance Director  
26 July 2012

## 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 2011 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  
26 July 2012

#### **David F Landless**

Finance Director  
26 July 2012

### **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 2011 £m		Half year to 30 June 2012 £m	Half year to 30 June 2011 £m	Note
570.7	<b>Revenue</b>	<b>301.3</b>	288.2	2
(485.2)	Cost of sales and overheads	<b>(253.8)</b>	(245.0)	
85.5	<b>Operating profit prior to exceptional items</b>	<b>47.5</b>	43.2	
(0.9)	Amortisation of acquired intangible fixed assets	<b>(0.7)</b>	(0.5)	
(4.2)	Impairment charge	–	–	
–	Acquisition costs	<b>(1.2)</b>	–	
80.4	<b>Operating profit</b>	<b>45.6</b>	42.7	2
0.2	Investment revenue	<b>0.1</b>	0.1	
(4.8)	Finance costs	<b>(1.9)</b>	(2.5)	
75.8	<b>Profit before taxation</b>	<b>43.8</b>	40.3	
(19.8)	Taxation	<b>(11.2)</b>	(10.5)	4
56.0	<b>Profit for the period</b>	<b>32.6</b>	29.8	
	Attributable to:			
55.8	Equity holders of the parent	<b>32.5</b>	29.6	
0.2	Non-controlling interests	<b>0.1</b>	0.2	
56.0		<b>32.6</b>	29.8	
	<b>Earnings per share</b>			5
Pence		<b>Pence</b>	Pence	
30.0	Basic	<b>172</b>	16.0	
29.4	Diluted	<b>172</b>	15.9	

All activities have arisen from continuing operations.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 Dec 2011 £m		Half year to 30 June 2012 £m	Half year to 30 June 2011 £m
56.0	<b>Profit for the period</b>	<b>32.6</b>	29.8
(12.3)	Exchange (losses)/gains on translation of foreign operations	<b>(10.4)</b>	7.4
0.4	Movements on hedges of net investments	<b>0.1</b>	0.2
(2.0)	Actuarial (losses)/gains on defined benefit pension schemes	<b>(1.9)</b>	0.3
0.5	Tax on items taken directly to equity	<b>0.5</b>	(0.1)
(13.4)	<b>Other comprehensive (expense)/income for the period</b>	<b>(11.7)</b>	7.8
42.6	<b>Total comprehensive income for the period</b>	<b>20.9</b>	37.6
	Attributable to:		
42.8	Equity holders of the parent	<b>20.7</b>	37.6
(0.2)	Non-controlling interests	<b>0.2</b>	–
42.6		<b>20.9</b>	37.6

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 Dec 2011 £m		As at 30 June 2012 £m	As at 30 June 2011 £m	Note
	<b>Non-current assets</b>			
102.6	Goodwill	111.8	108.2	
8.9	Other intangible assets	20.6	10.4	
443.9	Property, plant and equipment	444.6	460.6	
0.8	Other investments	1.6	0.5	
52.3	Deferred tax assets	35.6	45.2	
1.9	Trade and other receivables	2.1	1.9	
610.4		616.3	626.8	
	<b>Current assets</b>			
16.7	Inventories	16.7	17.4	
–	Finance lease receivables	–	0.2	
2.4	Current tax assets	–	–	
105.8	Trade and other receivables	114.3	115.0	
18.1	Cash and bank balances	10.2	19.4	
5.3	Assets held for sale	2.5	6.3	
148.3		143.7	158.3	
758.7	<b>Total assets</b>	760.0	785.1	
	<b>Current liabilities</b>			
126.9	Trade and other payables	137.5	128.6	
11.4	Current tax liabilities	13.2	10.9	
0.2	Obligations under finance leases	0.1	0.3	
10.8	Borrowings	8.8	12.0	
0.1	Derivative financial instruments	0.3	–	
10.6	Provisions	8.0	11.1	3
160.0		167.9	162.9	
(11.7)	<b>Net current liabilities</b>	(24.2)	(4.6)	
	<b>Non-current liabilities</b>			
6.5	Borrowings	17.5	40.2	
13.5	Retirement benefit obligations	15.3	11.9	
79.5	Deferred tax liabilities	59.3	73.2	
0.5	Obligations under finance leases	0.5	0.6	
0.2	Derivative financial instruments	–	–	
11.4	Provisions	10.9	12.2	3
4.5	Other payables	4.1	4.3	
116.1		107.6	142.4	
276.1	<b>Total liabilities</b>	275.5	305.3	
482.6	<b>Net assets</b>	484.5	479.8	
	<b>Equity</b>			
33.0	Share capital	33.1	33.0	
176.9	Share premium account	177.0	176.8	
(6.7)	Own shares	(9.7)	(6.8)	
143.1	Other reserves	141.0	140.6	
24.7	Hedging and translation reserves	14.3	43.8	
110.3	Retained earnings	127.3	90.8	
481.3	<b>Equity attributable to equity holders of the parent</b>	483.0	478.2	
1.3	<b>Non-controlling interests</b>	1.5	1.6	
482.6	<b>Total equity</b>	484.5	479.8	

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 Dec 2011 £m		Half year to 30 June 2012 £m	Half year to 30 June 2011 £m	Note
119.8	<b>Net cash from operating activities</b>	<b>66.5</b>	50.7	8
	<b>Investing activities</b>			
(43.6)	Purchases of property, plant and equipment	<b>(28.2)</b>	(19.9)	
1.5	Proceeds on disposal of property, plant and equipment and intangible assets	<b>3.2</b>	0.5	
(2.4)	Purchases of intangible fixed assets	<b>(1.6)</b>	(1.2)	
(0.8)	Purchases of other investments	<b>(0.8)</b>	–	
(0.6)	Acquisition of business/purchase of non-controlling interest	<b>(32.0)</b>	–	
(45.9)	<b>Net cash used in investing activities</b>	<b>(59.4)</b>	(20.6)	
	<b>Financing activities</b>			
0.6	Interest received	<b>0.2</b>	0.8	
(5.1)	Interest paid	<b>(1.4)</b>	(2.5)	
(17.4)	Dividends paid	<b>(13.8)</b>	(10.7)	
(0.1)	Dividends paid to a non-controlling shareholder	–	(0.1)	
(59.3)	Repayments of bank loans	<b>(2.4)</b>	(29.3)	
(0.4)	Payments of obligations under finance leases	<b>(0.1)</b>	(0.2)	
0.4	New bank loans drawn down	<b>12.5</b>	3.7	
0.8	Proceeds on issue of ordinary share capital	<b>0.2</b>	0.7	
(1.1)	Own shares purchased/settlement of share options	<b>(8.5)</b>	(1.1)	
(81.6)	<b>Net cash used in financing activities</b>	<b>(13.3)</b>	(38.7)	
(7.7)	<b>Net decrease in cash and cash equivalents</b>	<b>(6.2)</b>	(8.6)	
17.6	<b>Cash and cash equivalents at beginning of period</b>	<b>9.5</b>	17.6	
(0.4)	Effect of foreign exchange rate changes	<b>(0.6)</b>	0.5	
9.5	<b>Cash and cash equivalents at end of period</b>	<b>2.7</b>	9.5	

## 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 interests £m	Total equity £m
<b>Half year to 30 June 2012</b>									
1 January 2012	33.0	176.9	(6.7)	143.1	24.7	110.3	481.3	1.3	482.6
Net profit for the period	–	–	–	–	–	32.5	32.5	0.1	32.6
Exchange differences on translation of overseas operations	–	–	–	–	(10.5)	–	(10.5)	0.1	(10.4)
Movement on hedges of net investments	–	–	–	–	0.1	–	0.1	–	0.1
Realisation of revaluation surplus	–	–	–	(0.4)	–	0.4	–	–	–
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(1.4)	(1.4)	–	(1.4)
<b>Total comprehensive income for the period</b>	–	–	–	(0.4)	(10.4)	31.5	20.7	0.2	20.9
Issue of share capital	0.1	0.1	–	–	–	–	0.2	–	0.2
Acquired in the period/settlement of share options	–	–	(3.0)	(4.7)	–	(0.7)	(8.4)	–	(8.4)
Share-based payments	–	–	–	3.0	–	–	3.0	–	3.0
Dividends paid	–	–	–	–	–	(13.8)	(13.8)	–	(13.8)
<b>30 June 2012</b>	<b>33.1</b>	<b>177.0</b>	<b>(9.7)</b>	<b>141.0</b>	<b>14.3</b>	<b>127.3</b>	<b>483.0</b>	<b>1.5</b>	<b>484.5</b>
<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>Year ended 31 December 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 year	–	–	–	–	–	55.8	55.8	0.2	56.0
Exchange differences on translation of overseas operations	–	–	–	(0.2)	(11.7)	–	(11.9)	(0.4)	(12.3)
Movement on hedges of net investments	–	–	–	–	0.4	–	0.4	–	0.4
Realisation of revaluation surplus	–	–	–	(0.2)	–	0.2	–	–	–
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(1.5)	(1.5)	–	(1.5)
<b>Total comprehensive income for the year</b>	–	–	–	(0.4)	(11.3)	54.5	42.8	(0.2)	42.6
Issue of share capital	0.2	0.6	–	–	–	–	0.8	–	0.8
Acquired in the year/settlement of share options	–	–	1.3	–	–	(2.4)	(1.1)	–	(1.1)
Share-based payments	–	–	–	5.4	–	–	5.4	–	5.4
Deferred tax on share-based payment transactions	–	–	–	–	–	1.7	1.7	–	1.7
Dividends paid	–	–	–	–	–	(17.4)	(17.4)	(0.1)	(17.5)
Purchase of non-controlling interest	–	–	–	–	–	–	–	(0.1)	(0.1)
<b>31 December 2011</b>	<b>33.0</b>	<b>176.9</b>	<b>(6.7)</b>	<b>143.1</b>	<b>24.7</b>	<b>110.3</b>	<b>481.3</b>	<b>1.3</b>	<b>482.6</b>

Included in other reserves is the capital redemption reserve arising on redemption of the Group's B shares of £129.4m (2011: £129.4m) and the share-based payment reserve of £10.2m (2011: £9.2m).

# 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 2012 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 2011, which was filed with the Registrar of Companies on 27 April 2012.

### 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 2012 were as follows:

- €125m Revolving Credit Facility maturing 31 July 2013
- £125m Revolving Credit Facility maturing 31 August 2016
- \$10m Letter of Credit Facility maturing 31 August 2016

The Group's forecasts and projections, which cover a period of at least 12 months from the date of approval of this interim management report, 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 standard, at 1 January 2012, has had no material impact on the Group's financial statements.

- IFRS 7 'Financial Instruments Disclosures – amendment' was issued in October 2010, is effective for periods commencing on or after 1 July 2011 and was endorsed by the EU in November 2011.

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 geographical divisional split of the Group, being:

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

Group	Half year to 30 June 2012			
	ADE £m	AGI £m	Head Office and eliminations £m	Consol- idated £m
<b>Revenue</b>				
Total revenue	130.3	171.0	–	301.3
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated corporate expenses	32.5	24.3	–	56.8
Share-based payments	(1.2)	(1.5)	(1.3)	(4.0)
Unallocated corporate expenses	–	–	(5.3)	(5.3)
Headline operating profit/(loss)	31.3	22.8	(6.6)	47.5
Amortisation of acquired intangible fixed assets	(0.4)	(0.3)	–	(0.7)
Acquisition costs	(0.8)	(0.4)	–	(1.2)
Segment result	30.1	22.1	(6.6)	45.6
Investment revenue				0.1
Finance costs				(1.9)
Profit before taxation				43.8
Taxation				(11.2)
Profit for the period				32.6

Inter-segment sales are not material.

The Group does not rely on any major customers.

Aerospace, Defence & Energy	Half year to 30 June 2012			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Revenue</b>				
Total revenue	58.8	70.8	0.7	130.3
<b>Result</b>				
Headline operating profit prior to share-based payments	12.9	19.6	–	32.5
Share-based payments	(0.4)	(0.8)	–	(1.2)
Headline operating profit	12.5	18.8	–	31.3
Amortisation of acquired intangible fixed assets	(0.1)	(0.3)	–	(0.4)
Acquisition costs	–	(0.8)	–	(0.8)
Segment result	12.4	17.7	–	30.1

## 2. Business and geographical segments continued

	Half year to 30 June 2012			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Automotive &amp; General Industrial</b>				
<b>Revenue</b>				
Total revenue	117.2	31.4	22.4	171.0
<b>Result</b>				
Headline operating profit prior to share-based payments	16.6	7.0	0.7	24.3
Share-based payments	(1.1)	(0.3)	(0.1)	(1.5)
Headline operating profit	15.5	6.7	0.6	22.8
Amortisation of acquired intangible fixed assets	(0.1)	(0.1)	(0.1)	(0.3)
Acquisition costs	–	(0.4)	–	(0.4)
Segment result	15.4	6.2	0.5	22.1

Group	Half year to 30 June 2011			
	ADE £m	AGI £m	Head Office and eliminations £m	Consolidated £m
<b>Revenue</b>				
Total revenue	115.9	172.3	–	288.2
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated corporate expenses	26.2	25.0	–	51.2
Share-based payments	(1.0)	(2.1)	(1.2)	(4.3)
Unallocated corporate expenses	–	–	(3.7)	(3.7)
Headline operating profit/(loss)	25.2	22.9	(4.9)	43.2
Amortisation of acquired intangible fixed assets	(0.1)	(0.4)	–	(0.5)
Segment result	25.1	22.5	(4.9)	42.7
Investment revenue				0.1
Finance costs				(2.5)
Profit before taxation				40.3
Taxation				(10.5)
Profit for the period				29.8

	Half year to 30 June 2011			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Aerospace, Defence &amp; Energy</b>				
<b>Revenue</b>				
Total revenue	55.9	59.3	0.7	115.9
<b>Result</b>				
Headline operating profit prior to share-based payments	11.8	14.3	0.1	26.2
Share-based payments	(0.5)	(0.5)	–	(1.0)
Headline operating profit	11.3	13.8	0.1	25.2
Amortisation of acquired intangible fixed assets	(0.1)	–	–	(0.1)
Segment result	11.2	13.8	0.1	25.1

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 2. Business and geographical segments continued

	Half year to 30 June 2011			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Automotive &amp; General Industrial</b>				
<b>Revenue</b>				
Total revenue	123.2	23.2	25.9	172.3
<b>Result</b>				
Headline operating profit prior to share-based payments	19.0	3.8	2.2	25.0
Share-based payments	(1.7)	(0.3)	(0.1)	(2.1)
Headline operating profit	17.3	3.5	2.1	22.9
Amortisation of acquired intangible fixed assets	–	–	(0.4)	(0.4)
Segment result	17.3	3.5	1.7	22.5

Group	Year ended 31 December 2011			
	ADE £m	AGI £m	Head Office and eliminations £m	Consolidated £m
<b>Revenue</b>				
Total revenue	233.5	337.2	–	570.7
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated corporate expenses	53.2	47.8	–	101.0
Share-based payments	(2.1)	(3.1)	(2.0)	(7.2)
Unallocated corporate expenses	–	–	(8.3)	(8.3)
Headline operating profit/(loss)	51.1	44.7	(10.3)	85.5
Amortisation of acquired intangible fixed assets	(0.2)	(0.7)	–	(0.9)
Impairment charge	–	(4.2)	–	(4.2)
Segment result	50.9	39.8	(10.3)	80.4
Investment revenue				0.2
Finance costs				(4.8)
Profit before taxation				75.8
Taxation				(19.8)
Profit for the year				56.0

	Year ended 31 December 2011			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Aerospace, Defence &amp; Energy</b>				
<b>Revenue</b>				
Total revenue	111.9	120.1	1.5	233.5
<b>Result</b>				
Headline operating profit prior to share-based payments	23.6	29.4	0.2	53.2
Share-based payments	(1.0)	(1.1)	–	(2.1)
Headline operating profit	22.6	28.3	0.2	51.1
Amortisation of acquired intangible fixed assets	(0.2)	–	–	(0.2)
Segment result	22.4	28.3	0.2	50.9



## 2. Business and geographical segments continued

	Year ended 31 December 2011			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Automotive &amp; General Industrial</b>				
<b>Revenue</b>				
Total revenue	239.6	47.4	50.2	337.2
<b>Result</b>				
Headline operating profit prior to share-based payments	36.0	8.3	3.5	47.8
Share-based payments	(2.5)	(0.5)	(0.1)	(3.1)
Headline operating profit	33.5	7.8	3.4	44.7
Amortisation of acquired intangible fixed assets	(0.1)	–	(0.6)	(0.7)
Impairment charge	–	–	(4.2)	(4.2)
Segment result	33.4	7.8	(1.4)	39.8

### Other information

Group	Half year to 30 June 2012			
	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
Capital additions	17.1	11.1	1.6	29.8
Depreciation and amortisation	9.6	15.8	0.8	26.2
<b>Balance sheet</b>				
Assets:				
Segment assets	327.5	409.9	21.0	758.4
Other investments	–	–	1.6	1.6
Consolidated total assets	327.5	409.9	22.6	760.0
Liabilities:				
Segment liabilities	(64.0)	(120.0)	(91.5)	(275.5)
	263.5	289.9	(68.9)	484.5
Allocation of head office net liabilities	(32.8)	(36.1)	68.9	–
Adjusted segment net assets	230.7	253.8	–	484.5

	Half year to 30 June 2012			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Aerospace, Defence &amp; Energy</b>				
Capital additions	4.9	12.2	–	17.1
Depreciation and amortisation	5.1	4.4	0.1	9.6
<b>Balance sheet</b>				
Assets:				
Segment assets	154.6	168.9	4.0	327.5
Liabilities:				
Segment liabilities	(30.5)	(33.2)	(0.3)	(64.0)
Segment net assets	124.1	135.7	3.7	263.5

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 2. Business and geographical segments continued

#### Other information continued

	Half year to 30 June 2012			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Automotive &amp; General Industrial</b>				
Capital additions	8.0	1.8	1.3	11.1
Depreciation and amortisation	11.5	2.0	2.3	15.8
<b>Balance sheet</b>				
Assets:				
Segment assets	282.0	68.5	59.4	409.9
Liabilities:				
Segment liabilities	(89.4)	(14.9)	(15.7)	(120.0)
Segment net assets	192.6	53.6	43.7	289.9

	Half year to 30 June 2011			
	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
<b>Group</b>				
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
Consolidated total assets	312.8	444.0	28.3	785.1
Liabilities:				
Segment liabilities	(68.7)	(115.5)	(121.1)	(305.3)
	244.1	328.5	(92.8)	479.8
Allocation of head office net liabilities	(39.6)	(53.2)	92.8	–
Adjusted segment net assets	204.5	275.3	–	479.8

	Half year to 30 June 2011			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Aerospace, Defence &amp; Energy</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
Liabilities:				
Segment liabilities	(34.0)	(34.4)	(0.3)	(68.7)
Segment net assets	139.4	100.7	4.0	244.1

## 2. Business and geographical segments continued

### Other information continued

	Half year to 30 June 2011			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Automotive &amp; General Industrial</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
Consolidated total 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

Group	Year ended 31 December 2011			
	ADE £m	AGI £m	Head Office and eliminations £m	Total Group £m
Capital additions	16.1	27.7	2.2	46.0
Depreciation and amortisation	18.5	30.8	1.8	51.1
Impairment losses recognised in income	–	4.2	–	4.2
<b>Balance sheet</b>				
Assets:				
Segment assets	314.0	411.7	32.2	757.9
Other investments	–	–	0.8	0.8
Consolidated total assets	314.0	411.7	33.0	758.7
Liabilities:				
Segment liabilities	(67.3)	(128.0)	(80.8)	(276.1)
	246.7	283.7	(47.8)	482.6
Allocation of head office net liabilities	(22.2)	(25.6)	47.8	–
Adjusted segment net assets	224.5	258.1	–	482.6

	Year ended 31 December 2011			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
<b>Aerospace, Defence &amp; Energy</b>				
Capital additions	5.0	11.1	–	16.1
Depreciation and amortisation	10.5	7.8	0.2	18.5
<b>Balance sheet</b>				
Assets:				
Segment assets	171.8	140.1	2.1	314.0
Liabilities:				
Segment liabilities	(33.6)	(33.4)	(0.3)	(67.3)
Segment net assets	138.2	106.7	1.8	246.7

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 2. Business and geographical segments continued

#### Other information continued

	Year ended 31 December 2011			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
<b>Automotive &amp; General Industrial</b>				
Capital additions	17.7	3.9	6.1	27.7
Depreciation and amortisation	22.4	3.3	5.1	30.8
Impairment losses recognised in income	–	–	4.2	4.2
<b>Balance sheet</b>				
Assets:				
Segment assets	292.9	56.0	62.8	411.7
Liabilities:				
Segment liabilities	(96.3)	(15.3)	(16.4)	(128.0)
Segment net assets	196.6	40.7	46.4	283.7

### 3. Provisions

	Restructuring £m	Restructuring Environmental £m	Environmental £m	Total £m
<b>1 January 2012</b>	<b>6.2</b>	<b>9.3</b>	<b>6.5</b>	<b>22.0</b>
Increase in provision	–	–	0.2	0.2
Release of provision	(0.3)	(0.1)	–	(0.4)
Utilisation of provision	(1.4)	(0.6)	(0.3)	(2.3)
Exchange difference	(0.2)	(0.2)	(0.2)	(0.6)
<b>30 June 2012</b>	<b>4.3</b>	<b>8.4</b>	<b>6.2</b>	<b>18.9</b>
Included in current liabilities				8.0
Included in non-current liabilities				10.9
				18.9

The restructuring provision relates to the remaining costs associated with the closure of various Heat Treatment 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 2011 £m		Half year to 30 June 2012 £m	Half year to 30 June 2011 £m
	<b>Current tax:</b>		
18.0	Current tax – charge for the period	13.3	8.5
(4.7)	Current tax – adjustments in respect of prior periods	–	0.4
13.3	<b>Total current tax</b>	<b>13.3</b>	8.9
6.5	<b>Deferred tax</b>	<b>(2.1)</b>	1.6
19.8	<b>Total</b>	<b>11.2</b>	10.5

The rate of tax for the interim period is 25.3% (2011: 26.0%) 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 26% to 24% with effect from 1 April 2012.

## 5. Earnings per share

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

Year ended 31 Dec 2011 £m		Half year to 30 June 2012 £m	Half year to 30 June 2011 £m
<b>Earnings</b>			
55.8	Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	<b>32.5</b>	29.6
<b>Number of shares</b>			
Number		<b>Number</b>	Number
185,838,882	Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>188,429,110</b>	185,499,794
Effect of dilutive potential ordinary shares:			
3,780,964	Share options	<b>55,696</b>	188,155
189,619,846	Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>188,484,806</b>	185,687,949
<b>Earnings per share</b>			
Pence		<b>Pence</b>	Pence
30.0	Basic	<b>17.2</b>	16.0
29.4	Diluted	<b>17.2</b>	15.9
<b>Headline earnings</b>			
£m		<b>£m</b>	£m
55.8	Net profit attributable to equity holders of the parent	<b>32.5</b>	29.6
Add back:			
4.2	Impairment charge	–	–
0.8	Amortisation of acquired intangible fixed assets (net of tax)	<b>0.7</b>	0.5
–	Acquisition costs	<b>1.2</b>	–
60.8	<b>Headline earnings</b>	<b>34.4</b>	30.1
<b>Headline earnings per share</b>			
Pence		<b>Pence</b>	Pence
32.7	Basic	<b>18.3</b>	16.2
32.1	Diluted	<b>18.3</b>	16.2

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 6. Acquisition of business

On 31 March 2012 the Group acquired the trade and assets of the heat treatment business of Curtiss-Wright Corporation for a cash consideration of £32.6m. The primary reason of the acquisition is to provide additional capacity and a broader customer base in key regions of North America.

The transaction has been accounted for by the purchase method of accounting and is summarised below.

	<b>31 March 2012</b>
	<b>£m</b>
<b>Fair value of net assets acquired:</b>	
Intangible assets	11.9
Property, plant and equipment	8.5
Inventories	0.1
Trade and other receivables	3.6
Trade and other payables	(0.6)
	<u>23.5</u>
Goodwill	9.1
<b>Total consideration</b>	<b><u>32.6</u></b>
Satisfied by:	
Net cash outflow arising on acquisition:	
Cash consideration	32.0
Accrued consideration	0.6
	<u><b>32.6</b></u>

The accrued consideration remains unpaid until the purchase price adjustment, based on a review of working capital, is finalised.

The carrying value of inventories, trade and other receivables and trade and other payables approximates their fair value. The fair value of the acquired identifiable tangible and intangible assets is provisional, pending completion of the final valuation.

The gross contractual value of the trade and other receivables was £3.8m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected was £0.2m.

The goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the Group's services in new markets and the anticipated future operating synergies from the combination.

Acquisition-related costs (included in exceptional items) amount to £1.2m.

The acquired business contributed £6.5m revenue and £1.6m to the Group's operating profit for the period between the date of acquisition and the balance sheet date.

If the acquisition of the business had been completed on the first day of the financial period, Group revenues for continuing operations for the period would have been £307.8m and Group operating profit would have been £47.2m.

## 7. Dividends

Amounts recognised as distributions to equity holders in the period:

Year ended 31 Dec 2011 £m		Half year to 30 June 2012 £m	Half year to 30 June 2011 £m
10.7	Final dividend for the year ended 31 December 2010 of 5.75p per share	–	10.7
6.7	Interim dividend for the year ended 31 December 2011 of 3.6p per share	–	–
–	Final dividend for the year ended 31 December 2011 of 7.3p per share	<b>13.8</b>	–
17.4		<b>13.8</b>	10.7
	Proposed interim dividend for the year ended 31 December 2012 of 4.0p (2011: 3.6p) per share	<b>7.7</b>	6.7

The proposed interim dividend was approved by the Board on 24 July 2012 and has not been included as a liability in these financial statements.

## 8. Notes to the cash flow statement

Year ended 31 Dec 2011 £m		Half year to 30 June 2012 £m	Half year to 30 June 2011 £m
56.0	Profit for the period	<b>32.6</b>	29.8
	Adjustments for:		
(0.2)	Investment revenue	<b>(0.1)</b>	(0.1)
4.8	Finance costs	<b>1.9</b>	2.5
19.8	Taxation	<b>11.2</b>	10.5
48.2	Depreciation of property, plant and equipment	<b>24.6</b>	24.0
2.9	Amortisation of intangible assets	<b>1.6</b>	1.2
0.7	Loss on disposal of property, plant and equipment	–	0.2
5.4	Share-based payments	<b>3.0</b>	2.5
(0.1)	Impairment/reversal of impairment of fixed assets	–	–
4.2	Impairment charge	–	–
(0.6)	Negative goodwill released to income	–	–
141.1	EBITDA*	<b>74.8</b>	70.6
(2.8)	Increase in inventories	<b>(0.4)</b>	(2.6)
(7.9)	Increase in receivables	<b>(7.9)</b>	(13.6)
8.9	Increase in payables	<b>11.7</b>	6.0
(4.5)	Decrease in provisions	<b>(2.5)</b>	(3.3)
134.8	Cash generated by operations	<b>75.7</b>	57.1
0.3	Cash (outflow)/inflow from settlement of derivative financial instruments	<b>(0.2)</b>	–
(15.3)	Income taxes paid	<b>(9.0)</b>	(6.4)
119.8	Net cash from operating activities	<b>66.5</b>	50.7

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

Cash and cash equivalents comprise:

18.1	Cash and bank balances	<b>10.2</b>	19.4
(8.6)	Bank overdrafts (included in borrowings)	<b>(7.5)</b>	(9.9)
9.5		<b>2.7</b>	9.5

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### **9. Related party transactions**

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

### **10. General information**

The comparative information for the year ended 31 December 2011 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 auditor 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 2012, 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 10. 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 2012 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  
26 July 2012

## FINANCIAL CALENDAR

<b>Interim dividend for 2012</b>	7 November 2012
<b>Results for 2012</b>	February 2013
<b>Annual General Meeting</b>	April 2013
<b>Final dividend for 2012</b>	May 2013
<b>Interim results for 2013</b>	July 2013
<b>Interim dividend for 2013</b>	November 2013

## SHAREHOLDER ENQUIRIES

Enquiries on the following administrative matters can be addressed to the Company's registrars, at Capita Registrars, 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 registrars 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).

To view Bodycote Interim Report on-line visit  
<http://bodycote.interimreport2012.com>



[www.bodycote.com](http://www.bodycote.com)

Bodycote plc  
Springwood Court  
Springwood Close  
Tytherington Business Park  
Macclesfield  
Cheshire  
SK10 2XF  
Tel: +44 (0)1625 505300  
Fax: +44 (0)1625 505313  
Email: [info@bodycote.com](mailto:info@bodycote.com)

© Bodycote plc 2012  
Produced by Jones and Palmer  
[www.jonesandpalmer.co.uk](http://www.jonesandpalmer.co.uk)

