

### 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>	<b>208.9</b>
\$10m Letter of Credit	31 August 2016	6.4	5.0	<b>1.4</b>
		<u>232.5</u>	<u>22.2</u>	<b>210.3</b>

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