

interim report 2006

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| | Half year to 30 June 06 | Half year to 30 June 05 | Change % |
|--|----------------------------|----------------------------|-------------|
| Revenue - Continuing Operations | £279.3m | £229.3m | +21.8 |
| Headline Operating Profit ^{1,2} | £40.6m | £33.1m | +22.7 |
| Headline Profit Before Taxation ¹ | £35.1m | £29.2m | +20.2 |
| Profit Before Taxation - Continuing Operations | £34.8m | £27.3m | +27.5 |
| Operating Cash Flow | £50.9m | £40.2m | +26.6 |
| Headline Earnings Per Share ³ | 8.4p | 6.8p | +23.5 |
| Interim Dividend Per Share | 2.5p | 2.35p | +6.4 |

¹ Expressed before impairment of goodwill (£nil: 2005 £1.8m) and amortisation of acquired intangibles (£0.3m: 2005 £0.1m).

² Expressed before interest and tax on associates (£0.6m: 2005 £0.5m).

³ A detailed breakdown can be found on page 13.

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Interim Statement

INTRODUCTION

Bodycote's performance has continued to improve as a result of ongoing cost management, close attention to operational efficiency, carefully targeted investment and focused selling initiatives. Outsourcing wins and increasing demand in several key markets, most notably aerospace, power generation, oil & gas and health sciences have improved our organic growth rate. Our strategy to increase the size of Testing, both geographically and in terms of service offering, has continued to be successfully executed. Ten acquisitions, eight in Testing and two in Thermal Processing were completed in the first half. As part of our continuous review and assessment of operations, in July we sold our heat treatment business in St Louis USA.

RESULTS

Sales in the first half of 2006 were £279.3m compared to £229.3m in 2005, an increase of 21.8%. Of this improvement 6.8% was organic, 12.0% was from acquisitions and 3.0% was due to favourable exchange rates on translation of overseas sales into sterling. Energy costs have continued to rise during the first half, particularly in continental Europe, with the exception of France. Recovery of these costs is, however, proceeding according to expectations, with essentially all of last year's increases and approximately two thirds of the current year impact recovered so far. A £0.5m charge has been accrued for the recently approved new share based long term incentive plan for senior managers to reflect the expected payment based on the currently improving results. Headline operating profit^{1,2} was £40.6m versus £33.1m a year ago, up 22.7% of which 11.8% is organic. Headline profit before tax¹ was £35.1m compared to £29.2m last year, ahead 20.2%. Profit before tax from the continuing operations was £34.8m against £27.3m in the prior year, an improvement of 27.5%, whilst profit after tax was £37.5m as against £20.0m in 2005, ahead 87.5%. The underlying effective tax rate for the Group, stated prior to goodwill impairment was 22.5% (full year 2005: 20.2%).

However, the Group has been able to reassess the benefit of treasury management in 2003 and 2004, resulting in a £10.6m reduction in the tax liability provided in respect of these periods, which has been released in the first half. Headline earnings³ per share were 8.4p (2005: 6.8p). Basic earnings per share were 11.6p (2005: 6.2p).

The two most important currencies for translation of Group sales and profit are the US dollar which, on average, was 5% stronger than a year ago and the Euro, which was unchanged. The net effect of these and other currency movements was to increase sales by £6.9m and operating profit by £0.8m. However, if the recent strength of sterling continues for the remainder of 2006, sales and operating profit will be lower in the second half by approximately £6.3m and £0.9m respectively, compared to the same period last year.

Revenue from Strategic Partnerships and Long Term Agreements continues to account for c20% of Group sales and in absolute terms this represents an increase of more than 15% year on year.

OPERATIONAL REVIEW

Thermal Processing

Heat Treatment

Sales were £192.2m (2005: £175.5m) and operating profit^{1,2} was £27.6m (2005: £23.5m).

Sales increased in all geographies compared to the same period in 2005 being 7.7%⁴ ahead overall at constant exchange rates, of which 5.4% was organic. Margins in UK and France have shown the most improvement as a result of strengthening end markets, greater emphasis on niche processes and outsourcing wins. Volumes and margins also improved in Germany and Netherlands, while demand has been soft in Italy and Austria.

North American margins have continued to improve but this region remains our weakest performer due to the higher level of mass production automotive work compared to other parts of the Group and a softening in demand from the electronics sector in California.

Our controlled expansion into Asia continues as planned, with the new Wuxi facility ready to start production in the second half. This plant which, due to demand is set to be double the originally intended capacity is initially seeded by key automotive contracts from existing customers and will also offer capability for the aerospace and power generation markets. In 2007, we expect to have included a fully accredited laboratory providing services into the Chinese market. The start-up development and increased infrastructure costs are being carried as a current operating expense.

Gross Heat Treatment operational gearing was 62% which is in line with our expectations. However, the benefit has been reduced by wage settlements, which have averaged c2%, energy cost increases of c10% and rises in industrial gas and transport costs (again, largely energy related), resulting in net operational gearing for the first half of 28%.

Our IonBond investment (20% shareholding) generated £0.9m of operating profit (2005: £0.8m). IonBond continues to consolidate the Physical Vapour Deposition (PVD) industry and is performing in line with expectations. In July we agreed to make a convertible loan of CHF6.0m (£2.7m) to IonBond, which gives the Group the right to exercise an option over a further 6% of Ionbond's share capital.

Hot Isostatic Pressing

Sales were £19.7m (2005: £16.8m), which equates to organic growth of 17.3% and operating profit¹ was £6.0m (2005: £4.2m).

Power generation and aerospace continued to demonstrate strong demand, which in turn improves our capacity utilisation and margins such that our return on capital is now acceptable. The two previously stored HIP units are ready to contribute in the second half (located in Germany and the USA). Densal[®] continues to find more applications as manufacturers seek to improve performance of aluminium castings. Operational gearing was again excellent at over 80% gross and 60% net of salary and energy inflation.

Testing

Sales were £67.4m (2005: £37.0m) and operating profit¹ was £9.6m (2005: £6.5m).

Our strategy of significantly expanding this business continues to go according to plan, with all regions performing well. Organic sales growth was 10.2% with acquisition growth of 63.5%. Whilst the recent acquisitions in the environmental and metrology segments operate at lower margins than the strategic business unit (SBU) average, they will meet our target return on investment in the first year. Acquisitions made in the last twelve months have produced an annualised ROCE of 14%. Operations are now managed by business streams rather than strict geography to facilitate better market service and technology support. Our recent acquisition of globally recognised Warrington Fire has opened new opportunities including a centre of excellence for fire safety testing for the Dubai Civil Defence Authority.

The successful expansion of our Testing SBU has also resulted in a more geographically balanced business. The increase in European operations, notably in Sweden, where the summer holiday break affects second half sales and hence margins will reduce the uplift in margin historically experienced in the second half.

SAFETY, HEALTH, ENVIRONMENTAL

Bodycote is committed to being an industry leader in its Safety, Health and Environmental (SHE) performance. Each year, the Board sets ambitious targets for year on year improvement in these areas with the ultimate goal of zero work-related injuries and illnesses as well as minimum environmental impact.

This period of rapid growth provides a significant challenge to the Group since most of the companies we acquire are not as mature in this area as Bodycote, so that working practices and cultural changes are required. Nevertheless, we have found that our focus on continuous improvement in SHE is welcomed.

ACQUISITIONS

Of the ten acquisitions completed in the first half, nine were bolt-ons and have been integrated into our existing organisation. We continued the expansion of our Testing SBU through the addition of Tetra in the UK food sector along with West Coast Analytical in the USA, Canadian based Norwest Soil Research and in the UK Seal Land and Water in the health science and environmental sectors. We also completed the acquisition of ACT Laboratories in the US automotive market, Warrington Fire Research Group, a provider of specialist fire testing services to industry on an international basis and Coalescence, a long time provider of specialist IS support for our Testing division, which will also be utilised in Thermal Processing. All of these acquisitions offer significant growth potential and economies of scale through successful integration within our existing Testing business.

The acquisition of Metech from Saab Aerospace has completed our planned broadening of testing services by bringing Measurement Solutions into our Group. The synergies which exist between Measurement Solutions and the rest of the Group open up further exciting new opportunities for growth.

Our Thermal Processing division has been strengthened by the addition of the heat treatment division of SGB Solingen in Germany and of Ceramet Plasma Coatings Limited in the UK, which provides specialist coatings for the oil and gas industry.

Since the end of June, we have completed the bolt-on acquisition of Norpath Laboratories which enhances our UK food testing capability. The Group has also entered into an agreement to acquire a 60% share in ISTAS, the largest commercial heat treatment group in Turkey, which has six facilities spread throughout the key industrial areas.

We have now made 30 acquisitions since the beginning of 2004, with excellent overall success. We review each new company during due diligence and tailor an integration plan which is implemented upon closing.

In the six months to 30 June, 2006 we spent £51.0m on acquisitions. In a full year we expect these businesses to add incremental revenues of £50m and operating profits of £7.3m. Given our disciplined financial and operational approach to acquisitions, not all potential acquisitions have been completed and associated legal and professional costs of c£0.4m have been charged to profit in the first half. We continue to pursue further opportunities in Testing and also in emerging markets for our Thermal Processing division. Additional acquisitions are anticipated in the second half of 2006 and total investment for the year is expected to be in the order of £90m.

BALANCE SHEET AND CASH FLOW

At 30 June 2006, Group net assets were £464.8m (2005: £417.8m) and net borrowings stood at £143.2m (2005: £98.0m), which represents net gearing of 31% (2005: 23%). The Group remains focussed on cash management. Driven by profit improvement, cash generated by operations in the first half was £50.9m compared to £40.2m in the first half of 2005. Debtor balances have increased by £15.5m since the year end, although day's sales outstanding (DSO) has remained unchanged at 68, reflecting both the overall increase in Group turnover and that May/June sales are usually higher than in November/December. Free cash flow (net cash from operating activities, less net capital expenditure and net interest payments) was £17.5m (2005: £14.3m). Interest cash flow at £4.9m (2005: £4.8m) and tax payments of £3.2m (2005: £2.6m) are similar to the prior year.

Capital expenditure continues to be carefully controlled, with numerous organic growth opportunities in both Thermal Processing and Testing resulting in net expenditure of £25.3m compared to £18.5m in the first half of 2005. This represents 1.1 times depreciation (2005: 0.9x). We expect the full year to rise marginally to 1.2 times. We remain committed to improving our return on capital, which in the first half of 2006 was at an annualised rate of 11.1% compared to 9.8% in the same period last year. We are, nonetheless, mindful of the benefit of investing in current opportunities to enhance returns over the medium and long term.

Interim Statement (continued)

In July the Group completed a €125m syndicated banking facility, which is available for seven years. Part of these proceeds will be used to prepay \$80m of senior notes at 7.79% originally due in December 2009. This will give rise to a one-off increase in the interest charge of £3.0m in 2006, however the Group will benefit from lower interest charge in 2007, 2008 and 2009 of £1.5m per annum.

DIVIDEND

The Directors have declared an increase of 6.4% in the interim dividend to 2.50 pence per share (2005: 2.35p). This will be paid on 5th January 2007 to all shareholders on the register at the close of business on 1st December 2006.

SHARE BASED LONG TERM INCENTIVE PLAN

At the 2006 AGM, the company's shareholders approved a new share based long term incentive plan for senior managers, which will vest over rolling three year periods depending on achievement of challenging economic profit growth targets and will be self funding by the end of the vesting period. Given on plan performance, the charge to profit for this plan is expected to be approximately £1.0m in 2006 (half of which has been charged in the first half), £2.0m in 2007 and £3.1m in 2008.

CURRENT TRADING AND OUTLOOK

We remain optimistic that we will continue to improve our performance, through strong operational discipline, a commercial focus on value added sectors and expanding opportunities for outsourcing.

The investments we made in the Americas for Low Pressure Carburizing (LPC) and Kolsterizing[®] have now come on stream and will start contributing in the second half. The two HIP units on order (Densal[®] for Europe and Mega-HIP for Americas) will be in production in the first half of 2007 and first half of 2008 respectively.

Several significant investments in high value added testing services (Strain Controlled Fatigue, Heavy Duty Transient Emission Test Cells and Stress-Corrosion Cracking), along with a period of integration of other recent Testing acquisitions, will help improve Testing margins in the second half. However, the second half will see a slower rate of acquisitions as we integrate the new companies and improve the performance of the Testing business as it is now structured.

Our team of competent and dedicated professionals continue to provide each customer with consistent quality through our Bodycote Management System (BMS) and reliable delivery at good value for our customers thus allowing us to grow profitability. We are proud of our people and the positive reputation they create each day with each customer.

Based on macro economic data and current trading conditions we remain confident of meeting our expectations for the remainder of the year. The Group's outsourcing programme and acquisition pipeline remain strong and we are focused on operational flexibility. Consequently we are well placed to deal with any significant change in market conditions should they occur.

1 Expressed pre impairment of goodwill (£nil; 2005: £1.8m), and amortisation of acquired intangibles (£0.3m, 2005: £0.1m).

2 Expressed before interest and tax on associates (£0.6m: 2005: £0.5m).

3 A detailed breakdown can be found on page 13.

4 Stated at constant exchange rates.



John D. Hubbard

Chief Executive

22 August 2006

Unaudited Consolidated Income Statement



| Year ended 31 Dec 05 | | Half year to 30 June 06 | Half year to 30 June 2005 |
|-----------------------------|---|----------------------------|------------------------------|
| £m | | £m | £m |
| Revenue | | | |
| 470.9 | Existing operations | 263.7 | 229.3 |
| - | Acquisitions | 15.6 | - |
| 470.9 | Revenue - continuing operations | 279.3 | 229.3 |
| Operating profit | | | |
| 57.0 | Existing operations | 36.7 | 29.4 |
| 3.3 | Acquisitions | 2.7 | 1.0 |
| 0.7 | Share of results of associates | 0.3 | 0.3 |
| 61.0 | Operating profit - continuing operations | 39.7 | 30.7 |
| 67.0 | Operating profit prior to amortisation and impairment | 40.0 | 32.6 |
| (0.2) | Amortisation of acquired intangible fixed assets | (0.3) | (0.1) |
| (5.8) | Impairment of goodwill | - | (1.8) |
| 61.0 | Operating profit - continuing operations | 39.7 | 30.7 |
| 5.2 | Investment income | 1.3 | 3.0 |
| (13.5) | Finance costs | (6.2) | (6.4) |
| 52.7 | Profit before taxation | 34.8 | 27.3 |
| (11.8) | Taxation | 2.7 | (7.3) |
| 40.9 | Profit for the period | 37.5 | 20.0 |
| Attributable to: | | | |
| 40.7 | Equity holders of the parent | 37.2 | 19.9 |
| 0.2 | Minority interest | 0.3 | 0.1 |
| 40.9 | | 37.5 | 20.0 |
| Pence | | Pence | Pence |
| Earnings per share | | | |
| From continuing operations: | | | |
| 12.7 | Basic | 11.6 | 6.2 |
| 12.7 | Diluted | 11.6 | 6.2 |

Unaudited Consolidated Statement of Recognised Income and Expense

| Year ended 31 Dec 05 | | Half year to 30 June 06 | Half year to 30 June 05 |
|--|---|------------------------------------|----------------------------|
| £m | | £m | £m |
| (5.1) | Exchange differences on translation of foreign operations | 0.6 | (12.0) |
| (3.7) | Actuarial losses on defined benefit pension schemes | 5.2 | - |
| 0.2 | Tax on items taken directly to equity | (1.6) | - |
| <hr style="border-top: 1px solid black;"/> | Net income recognised directly in equity | 4.2 | (12.0) |
| 40.9 | Profit for the year | 37.5 | 20.0 |
| <hr style="border-top: 1px solid black;"/> | Recognised income and expense for the period | 41.7 | 8.0 |
| | Attributable to: | | |
| 32.1 | Equity holders of the parent | 41.4 | 7.9 |
| 0.2 | Minority interests | 0.3 | 0.1 |
| <hr style="border-top: 1px solid black;"/> | | 41.7 | 8.0 |

Unaudited Consolidated Balance Sheet



| Year ended 31 Dec 05 | | Half year to 30 June 06 | Half year to 30 June 2005 |
|--|--|----------------------------|------------------------------|
| £m | | £m | £m |
| Non-current assets | | | |
| 154.2 | Goodwill | 187.9 | 148.6 |
| 3.7 | Other intangible assets | 6.0 | 3.4 |
| 442.9 | Property, plant and equipment | 453.3 | 415.1 |
| 9.2 | Interests in associates | 9.6 | 8.7 |
| 1.9 | Finance lease receivables | 1.7 | 1.9 |
| 22.7 | Deferred tax asset | 21.8 | 18.9 |
| 6.1 | Trade and other receivables | 6.1 | 5.0 |
| 640.7 | | 686.4 | 601.6 |
| Current assets | | | |
| 11.9 | Inventories | 13.0 | 10.0 |
| 0.3 | Finance lease receivables | 0.4 | 0.3 |
| 114.5 | Trade and other receivables | 139.4 | 112.5 |
| 124.8 | Cash and cash equivalents | 38.0 | 124.0 |
| 251.5 | | 190.8 | 246.8 |
| 1.2 | Non-current assets classified as held for sale | 1.1 | 2.4 |
| 893.4 | | 878.3 | 850.8 |
| Total assets | | | |
| Current liabilities | | | |
| 97.2 | Trade and other payables | 107.6 | 86.6 |
| 7.5 | Dividends payable | 13.0 | 12.4 |
| 3.3 | Current tax liabilities | 7.0 | 6.2 |
| 1.4 | Obligations under finance leases | 1.2 | 1.2 |
| 6.4 | Bank overdrafts and loans | 5.8 | 4.5 |
| - | Derivative financial instruments | 0.2 | - |
| 2.3 | Short-term provisions | 2.2 | 2.4 |
| 118.1 | | 137.0 | 113.3 |
| 133.4 | | 53.8 | 133.5 |
| Net current assets | | | |
| Non-current liabilities | | | |
| 221.6 | Bank loans | 170.3 | 212.2 |
| - | Derivative financial instruments | 0.3 | - |
| 29.9 | Retirement benefit obligation | 24.7 | 24.5 |
| 79.9 | Deferred tax liabilities | 70.9 | 71.8 |
| 3.9 | Obligations under finance leases | 3.9 | 4.1 |
| 4.7 | Long-term provisions | 4.4 | 4.6 |
| 1.8 | Other payables | 2.0 | 2.5 |
| 341.8 | | 276.5 | 319.7 |
| 459.9 | | 413.5 | 433.0 |
| 433.5 | | 464.8 | 417.8 |
| Net assets | | | |
| Equity | | | |
| 32.1 | Share capital | 32.2 | 32.1 |
| 300.3 | Share premium account | 301.6 | 300.1 |
| (2.5) | Own shares | (2.4) | (0.8) |
| 1.7 | Other reserves | 2.7 | 1.6 |
| 11.1 | Hedging and translation reserves | 11.7 | 4.2 |
| 89.4 | Retained earnings | 117.2 | 79.5 |
| 432.1 | | 463.0 | 416.7 |
| 1.4 | | 1.8 | 1.1 |
| 433.5 | | 464.8 | 417.8 |
| Equity attributable to equity holders of the parent | | | |
| Minority interest | | | |
| Total equity | | | |

Unaudited Consolidated Cash Flow Statement

| Year ended 31 Dec 05 | | Half year to 30 June 06 | Half year to 30 June 2005 |
|-------------------------|---|----------------------------|------------------------------|
| £m | | £m | £m |
| 95.7 | Net cash from operating activities | 47.7 | 37.6 |
| | Investing activities | | |
| (51.8) | Purchases of property, plant and equipment | (26.0) | (22.4) |
| 8.6 | Proceeds on disposal of property, plant and equipment and intangible assets | 0.9 | 4.4 |
| (0.9) | Purchases of intangible fixed assets | (0.2) | (0.5) |
| (2.3) | Acquisition of investment in an associate | (0.1) | (2.7) |
| (31.8) | Acquisition of subsidiaries | (51.0) | (15.6) |
| 5.8 | Disposal of subsidiaries | - | 5.9 |
| (72.4) | Net cash used in investing activities | (76.4) | (30.9) |
| | Financing activities | | |
| 5.4 | Interest received | 1.4 | 2.8 |
| (14.9) | Interest paid | (6.3) | (7.6) |
| (19.5) | Dividends paid | (7.5) | (7.2) |
| (0.1) | Dividends paid to a minority shareholder | - | (0.1) |
| (10.1) | Repayments of bank loans | (201.9) | (8.8) |
| (1.6) | Payments of obligations under finance leases | (0.9) | (0.9) |
| 0.1 | New bank loans raised | 158.3 | - |
| 0.1 | New obligations under finance leases | 0.1 | - |
| 0.3 | Proceeds on issue of ordinary share capital | 1.4 | 0.1 |
| (1.7) | Own shares purchased | - | - |
| - | Exercise of share options | 0.1 | - |
| (42.0) | Net cash used in financing activities | (55.3) | (21.7) |
| | Net decrease in cash and cash equivalents | (84.0) | (15.0) |
| 138.7 | Cash and cash equivalents at beginning of period | 120.7 | 138.7 |
| 0.7 | Effect of foreign exchange rate changes | (0.7) | (2.3) |
| 120.7 | Cash and cash equivalents at end of period | 36.0 | 121.4 |

1 Business and Geographical Segments

| | Heat Treatment Half year to 30 June 06 | Hot Isostatic Pressing Half year to 30 June 06 | Discontinued Operations | | | | Head Office & Eliminations Half year to 30 June 06 | Continuing operations Half year to 30 June 06 |
|--|--|---|---------------------------------------|--|--|----------|---|--|
| | | | Testing Half year to 30 June 06 | Electroplating Half year to 30 June 06 | Discontinued operations Half year to 30 June 06 | | | |
| | | | £m | £m | £m | | | |
| Revenue | | | | | | | | |
| External sales | 192.2 | 19.7 | 67.4 | - | - | - | - | 279.3 |
| Inter-segment sales | - | - | 0.3 | - | - | - | (0.3) | - |
| Total revenue | 192.2 | 19.7 | 67.7 | - | - | - | (0.3) | 279.3 |
| Result | | | | | | | | |
| Segment result prior to amortisation of acquired intangible assets and impairment of goodwill | 26.7 | 6.0 | 9.6 | - | - | - | - | 42.3 |
| Share of associates' operating profit | 0.9 | - | - | - | - | - | - | 0.9 |
| Unallocated corporate expenses | - | - | - | - | - | - | (2.6) | (2.6) |
| | 27.6 | 6.0 | 9.6 | - | - | - | (2.6) | 40.6 |
| Amortisation of acquired intangible assets and impairment of goodwill | - | - | (0.3) | - | - | - | - | (0.3) |
| Segment result | 27.6 | 6.0 | 9.3 | - | - | - | (2.6) | 40.3 |
| Share of associates' interest and tax | (0.6) | - | - | - | - | - | - | (0.6) |
| Operating profit - continuing operations | | | | | | | | 39.7 |
| Investment revenues | | | | | | | | 1.3 |
| Finance costs | | | | | | | | (6.2) |
| Profit before tax | | | | | | | | 34.8 |
| Tax | | | | | | | | 2.7 |
| Profit for the period | | | | | | | | 37.5 |

Notes to the Financial Statements (continued)

1 Business and Geographical Segments continued

| | Heat Treatment | Hot Isostatic Pressing | Testing | Electroplating | Discontinued operations | Head Office and Eliminations | Continuing operations |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|------------------------------|-------------------------|
| | Half year to 30 June 05 | Half year to 30 June 05 |
| | £m | £m | £m | £m | £m | £m | £m |
| Revenue | | | | | | | |
| External sales | 175.5 | 16.8 | 37.0 | 1.4 | (1.4) | - | 229.3 |
| Inter-segment sales | - | - | 0.3 | - | - | (0.3) | - |
| Total revenue | <u>175.5</u> | <u>16.8</u> | <u>37.3</u> | <u>1.4</u> | <u>(1.4)</u> | <u>(0.3)</u> | <u>229.3</u> |
| Result | | | | | | | |
| Segment result prior to amortisation of acquired intangible assets and impairment of goodwill | 22.7 | 4.2 | 6.5 | - | - | - | 33.4 |
| Share of associates' operating profit | 0.8 | - | - | - | - | - | 0.8 |
| Unallocated corporate expenses | - | - | - | - | - | (1.1) | (1.1) |
| | <u>23.5</u> | <u>4.2</u> | <u>6.5</u> | <u>-</u> | <u>-</u> | <u>(1.1)</u> | <u>33.1</u> |
| Amortisation of acquired intangible assets and impairment of goodwill | (1.8) | - | (0.1) | - | - | - | (1.9) |
| Segment result | <u>21.7</u> | <u>4.2</u> | <u>6.4</u> | <u>-</u> | <u>-</u> | <u>(1.1)</u> | <u>31.2</u> |
| Share of associates' interest and tax | (0.5) | - | - | - | - | - | (0.5) |
| Operating profit - continuing operations | | | | | | | 30.7 |
| Investment revenues | | | | | | | 3.0 |
| Finance costs | | | | | | | (6.4) |
| Profit before tax | | | | | | | 27.3 |
| Tax | | | | | | | (7.3) |
| Profit for the period | | | | | | | <u>20.0</u> |

1 Business and Geographical Segments continued

| | Heat Treatment | Hot Isostatic Pressing | Testing | Electroplating | Discontinued operations | Head Office and Eliminations | Continuing operations |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|------------------------------|-------------------------|
| | Year ended 31 Dec 05 | Year ended 31 Dec 05 |
| | £m | £m | £m | £m | £m | £m | £m |
| Revenue | | | | | | | |
| External sales | 349.2 | 35.2 | 86.5 | 1.5 | (1.5) | - | 470.9 |
| Inter-segment sales | - | - | 0.6 | - | - | (0.6) | - |
| Total revenue | 349.2 | 35.2 | 87.1 | 1.5 | (1.5) | (0.6) | 470.9 |
| Result | | | | | | | |
| Segment result prior to amortisation of acquired intangible assets and impairment of goodwill | 43.3 | 9.5 | 16.3 | - | - | - | 69.1 |
| Share of associates' operating profit | 1.5 | - | - | - | - | - | 1.5 |
| Unallocated corporate expenses | - | - | - | - | - | (2.8) | (2.8) |
| | 44.8 | 9.5 | 16.3 | - | - | (2.8) | 67.8 |
| Amortisation of acquired intangible assets and impairment of goodwill | (5.8) | - | (0.2) | - | - | - | (6.0) |
| Segment result | 39.0 | 9.5 | 16.1 | - | - | (2.8) | 61.8 |
| Share of associates' interest and tax | (0.8) | - | - | - | - | - | (0.8) |
| Operating profit - continuing operations | | | | | | | 61.0 |
| Investment revenues | | | | | | | 5.2 |
| Finance costs | | | | | | | (13.5) |
| Profit before tax | | | | | | | 52.7 |
| Tax | | | | | | | (11.8) |
| Profit for the period | | | | | | | 40.9 |

Inter-segment sales are charged at prevailing market prices.

Notes to the Financial Statements (continued)

2 Taxation

| Year ended 31 Dec 05 | | Half year to 30 June 06 | Half year to 30 June 05 |
|-------------------------|---|----------------------------|----------------------------|
| £m | | £m | £m |
| Current tax: | | | |
| (0.2) | UK corporation tax | (1.6) | 0.4 |
| 9.6 | Foreign tax | 8.3 | 5.9 |
| <hr/> | | <hr/> | <hr/> |
| 9.4 | | 6.7 | 6.3 |
| Deferred tax: | | | |
| - | Re-assessment of treasury management benefit in 2003 and 2004 | (10.6) | - |
| 2.4 | Other deferred tax | 1.2 | 1.0 |
| <hr/> | | <hr/> | <hr/> |
| 2.4 | | (9.4) | 1.0 |
| <hr/> | | <hr/> | <hr/> |
| 11.8 | | (2.7) | 7.3 |
| <hr/> | | <hr/> | <hr/> |

Corporation tax for the interim period is charged at 28% (2005: 27%), representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year. However, the release of a tax liability following re-assessment of treasury management has resulted in an overall effective rate in the 2006 interim financial statements of -8%.

3 Earnings Per Share

From continuing operations

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

| Year ended 31 Dec 05 | | Half year to 30 June 06 | Half year to 30 June 05 |
|---|---|----------------------------|----------------------------|
| £m | | £m | £m |
| Earnings | | | |
| Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent | | | |
| 40.7 | | 37.2 | 19.9 |
| Number | | Number | Number |
| Number of shares | | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | | | |
| 319,719,955 | | 320,191,253 | 320,281,966 |
| 546,590 | Effect of dilutive potential ordinary shares: Share options | 1,200,457 | 381,650 |
| 320,266,545 | Weighted average number of ordinary shares for the purposes of diluted earnings per share | 321,391,710 | 320,663,616 |
| Pence | | Pence | Pence |
| Earnings per share from continuing operations: | | | |
| 12.7 | Basic | 11.6 | 6.2 |
| 12.7 | Diluted | 11.6 | 6.2 |
| £m | | £m | £m |
| Headline earnings | | | |
| 40.7 | Net profit attributable to equity holders of the parent | 37.2 | 19.9 |
| 5.8 | Add back: Impairment of goodwill | - | 1.8 |
| 0.2 | Amortisation of acquired intangible fixed assets | 0.3 | 0.1 |
| - | Re-assessment of treasury management benefit in 2003 and 2004 | (10.6) | - |
| 46.7 | Headline earnings | 26.9 | 21.8 |
| Pence | | Pence | Pence |
| Earnings per share from headline earnings: | | | |
| 14.6 | Basic | 11.7 | 6.8 |
| 14.6 | Diluted | 11.7 | 6.8 |

Notes to the Financial Statements (continued)

4 Acquisition of Subsidiaries

The Group acquired the following subsidiaries during the period:

| Interest | Date of acquisition | % of shares acquired | Principal activity |
|---|----------------------------|-----------------------------|---------------------------|
| Coalescence Ltd | 05 Jan 2006 | 100.0 | IS for Testing |
| West Coast Analytical Services Inc | 31 Jan 2006 | 100.0 | Testing |
| Norwest Soil Research Ltd | 03 Feb 2006 | 100.0 | Testing |
| Warrington Fire Research Group Ltd and subsidiaries | 25 Mar 2006 | 100.0 | Testing |
| Saab Metech AB and subsidiaries | 26 Apr 2006 | 100.0 | Testing |
| Ceramet Plasma Coatings Ltd | 28 Apr 2006 | 100.0 | Plasma Coatings |

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

| Interest | Date of acquisition | Principal activity |
|---|----------------------------|---------------------------|
| SGB Härterei GmbH & Co KG | 04 Jan 2006 | Heat Treatment |
| Tetra-Labs Ltd | 04 Jan 2006 | Testing |
| ACT Laboratories Inc, Testing & Engineering Services Division | 20 Feb 2006 | Testing |
| Stanger Environmental Analysis Ltd | 05 Jun 2006 | Testing |

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

| | Total Group | £m |
|--|--------------------|----|
| Book value and fair value of net assets acquired: | | |
| Intangible assets: | | |
| At book value | 0.1 | |
| Fair value adjustment | 2.8 | |
| At fair value | 2.9 | |
| Property, plant and equipment | 11.7 | |
| Deferred tax assets | 0.1 | |
| Inventories | 1.1 | |
| Trade and other receivables | 10.6 | |
| Cash and cash equivalents | 3.4 | |
| Trade payables and other payables | (7.2) | |
| Current tax liability | (0.2) | |
| Bank loans | (0.6) | |
| Finance leases | (0.7) | |
| Deferred tax liabilities | (0.4) | |
| Provisions | (0.4) | |
| Goodwill | 20.3 | |
| Total consideration | 34.1 | |
| Satisfied by: | | |
| Cash | 54.0 | |
| Directly attributable costs | 0.4 | |
| Net cash outflow arising on acquisition: | | |
| Cash consideration | 54.4 | |
| Cash and cash equivalents acquired | (3.4) | |
| | 51.0 | |

The goodwill arising on the acquisitions is attributable to the anticipated profitability of the distribution of the Group's services and the anticipated future operating synergies from the combination. The acquired businesses contributed £15.6 million revenue and £2.7 million to the Group's profit before tax for the period between their dates of acquisition and the balance sheet date. If the acquisition of all the businesses had been completed on the first day of the financial year, group revenues for continuing operations for the period would have been £290.6 million and group profit attributable to equity holders of the parent would have been £38.5 million.

5 Movement on Reserves

| | Share premium account | Own shares | Other reserves | Hedging and translation reserves | Retained earnings | Total |
|---|-----------------------------|--------------|-------------------|--|----------------------|--------------|
| | £m | £m | £m | £m | £m | £m |
| Half year to 30 June 2006 | | | | | | |
| 1 January 2006 | 300.3 | (2.5) | 1.7 | 11.1 | 89.4 | 400.0 |
| Profit for the period attributable to equity holders of the parent | - | - | - | - | 37.2 | 37.2 |
| Dividend declared | - | - | - | - | (13.0) | (13.0) |
| Actuarial gains on defined benefit pension schemes | - | - | - | - | 5.2 | 5.2 |
| Tax on items taken directly to equity | - | - | - | - | (1.6) | (1.6) |
| Premium on shares issued | 1.3 | - | - | - | - | 1.3 |
| Exercise of share options | - | 0.1 | - | - | - | 0.1 |
| Share based payments | - | - | 1.0 | - | - | 1.0 |
| Currency adjustments | - | - | - | 0.6 | - | 0.6 |
| 30 June 2006 | 301.6 | (2.4) | 2.7 | 11.7 | 117.2 | 430.8 |
| Half year to 30 June 2005 | | | | | | |
| 1 January 2005 | 300.0 | (0.8) | 1.5 | 16.2 | 72.0 | 388.9 |
| Profit for the period attributable to equity holders of the parent | - | - | - | - | 19.9 | 19.9 |
| Dividend declared | - | - | - | - | (12.4) | (12.4) |
| Actuarial gains on defined benefit pension schemes | - | - | - | - | - | - |
| Tax on items taken directly to equity | - | - | - | - | - | - |
| Premium on shares issued | 0.1 | - | - | - | - | 0.1 |
| Exercise of share options | - | - | - | - | - | - |
| Share based payments | - | - | 0.1 | - | - | 0.1 |
| Currency adjustments | - | - | - | (12.0) | - | (12.0) |
| 30 June 2005 | 300.1 | (0.8) | 1.6 | 4.2 | 79.5 | 384.6 |
| Year ended 31 December 2005 | | | | | | |
| 1 January 2005 | 300.0 | (0.8) | 1.5 | 16.2 | 72.0 | 388.9 |
| Profit for the period attributable to equity holders of the parent | - | - | - | - | 40.7 | 40.7 |
| Dividend declared | - | - | - | - | (19.8) | (19.8) |
| Actuarial losses on defined benefit pension schemes | - | - | - | - | (3.7) | (3.7) |
| Tax on items taken directly to equity | - | - | - | - | 0.2 | 0.2 |
| Premium on shares issued | 0.3 | - | - | - | - | 0.3 |
| Own shares purchased | - | (1.7) | - | - | - | (1.7) |
| Share based payments | - | - | 0.2 | - | - | 0.2 |
| Currency adjustments | - | - | - | (5.1) | - | (5.1) |
| 31 December 2005 | 300.3 | (2.5) | 1.7 | 11.1 | 89.4 | 400.0 |

Notes to the Financial Statements (continued)

6 Notes to the Cash Flow Statement

| Year ended 31 Dec 05 | | Half year to 30 June 06 | Half year to 30 June 05 |
|-------------------------|--|----------------------------|----------------------------|
| £m | | £m | £m |
| 61.0 | Operating profit from continuing operations | 39.7 | 30.7 |
| 0.8 | Share of associates' interest and tax | 0.6 | 0.5 |
| 40.5 | Depreciation of property, plant and equipment | 22.3 | 20.1 |
| 0.9 | Amortisation of intangible assets | 0.6 | 0.4 |
| 5.8 | Impairment of goodwill | - | 1.8 |
| <hr/> | | <hr/> | <hr/> |
| 109.0 | EBITDA* | 63.2 | 53.5 |
| (0.6) | (Gain)/loss on disposal of property, plant and equipment | - | - |
| (1.5) | Income from associates | (0.9) | (0.8) |
| 0.2 | Share-based payments | 1.0 | 0.1 |
| <hr/> | | <hr/> | <hr/> |
| 107.0 | Operating cash flows before movements in working capital | 63.3 | 52.8 |
| (2.1) | Increase in inventories | - | (1.5) |
| (8.4) | Increase in receivables | (15.5) | (10.5) |
| 2.7 | Increase/(decrease) in payables | 4.0 | (0.6) |
| 4.7 | (Decrease)/increase in provisions | (0.9) | - |
| <hr/> | | <hr/> | <hr/> |
| 104.0 | Cash generated by operations | 50.9 | 40.2 |
| (8.3) | Income taxes paid | (3.2) | (2.6) |
| <hr/> | | <hr/> | <hr/> |
| 95.7 | Net cash from operating activities | 47.7 | 37.6 |

*Earnings before interest, tax, depreciation and amortisation.

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

7 Contingent Liabilities

Under the terms of the transfer of the Group's assets into the IonBond associated undertaking, IonBond has a commitment to purchase equipment from a third party supplier in 2006 to the value of €1.7 million (£1.2 million). If IonBond does not meet this commitment, Bodycote International PLC is required to reimburse the supplier at a rate of 35% of any shortfall resulting in a maximum contingent liability of €0.6 million (£0.4 million).

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

| Year ended 31 Dec 05 | | Half year to 30 June 06 | Half year to 30 June 05 |
|-------------------------|---------------------------------|----------------------------|----------------------------|
| £m | | £m | £m |
| 3.6 | Sale of goods and services | 0.3 | 0.3 |
| 0.2 | Purchase of goods and services | 0.1 | 0.1 |
| 0.2 | Amounts owed to related parties | 0.1 | 0.1 |
| 5.7 | Amounts owed by related parties | 5.5 | 6.8 |

Sales of goods and services includes the sale of property, payments received from finance leases and the provision of management services. All transactions were made at arms length.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

9 Events After the Balance Sheet Date

On 10 July 2006 the Group acquired the entire share capital of Norpath Laboratories Ltd.

Notes to the Financial Statements (continued)

10 General Information

The information for the year ended 31 December 2005 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

11 Accounting Policies

The interim financial report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) and in accordance with those disclosed in the annual report for the year ended 31 December 2005 published by the company on 21 April 2006.

Copies of this report and the last Annual Report and Accounts are available from the Secretary, Bodycote International plc, Hulley Road, Macclesfield, Cheshire SK10 2SG, and can each be downloaded or viewed via the Group's website at www.bodycote.com. Copies of this report are also being 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).

Independent Review Report to Bodycote International plc



Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006, which comprise the income statement, the balance sheet, the statement of recognised income and expense, the cash flow statement and related notes 1 to 11. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority, which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

Deloitte & Touche LLP

Chartered Accountants

Manchester

22 August 2006

Financial Calendar

| | |
|----------------------------------|----------------|
| Interim dividend for 2006 | 5 January 2007 |
| Results for 2006 | February 2007 |
| Annual general meeting | 23 May 2007 |
| Final dividend for 2006 | July 2007 |
| Interim results for 2007 | July 2007 |
| Interim dividend for 2007 | January 2008 |

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: 0870 1623131 or +44(0)208 639 2157; Fax: +44(0)1484 600911; and email: shareholder.services@capitaregistrars.com

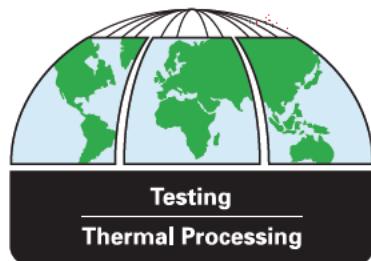
- Change of address
- Lost share certificates or dividend cheques
- Dividend mandates
- Amalgamation of holdings

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 0870 458 4577 or at www.capitadeal.com

www.bodycote.com



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