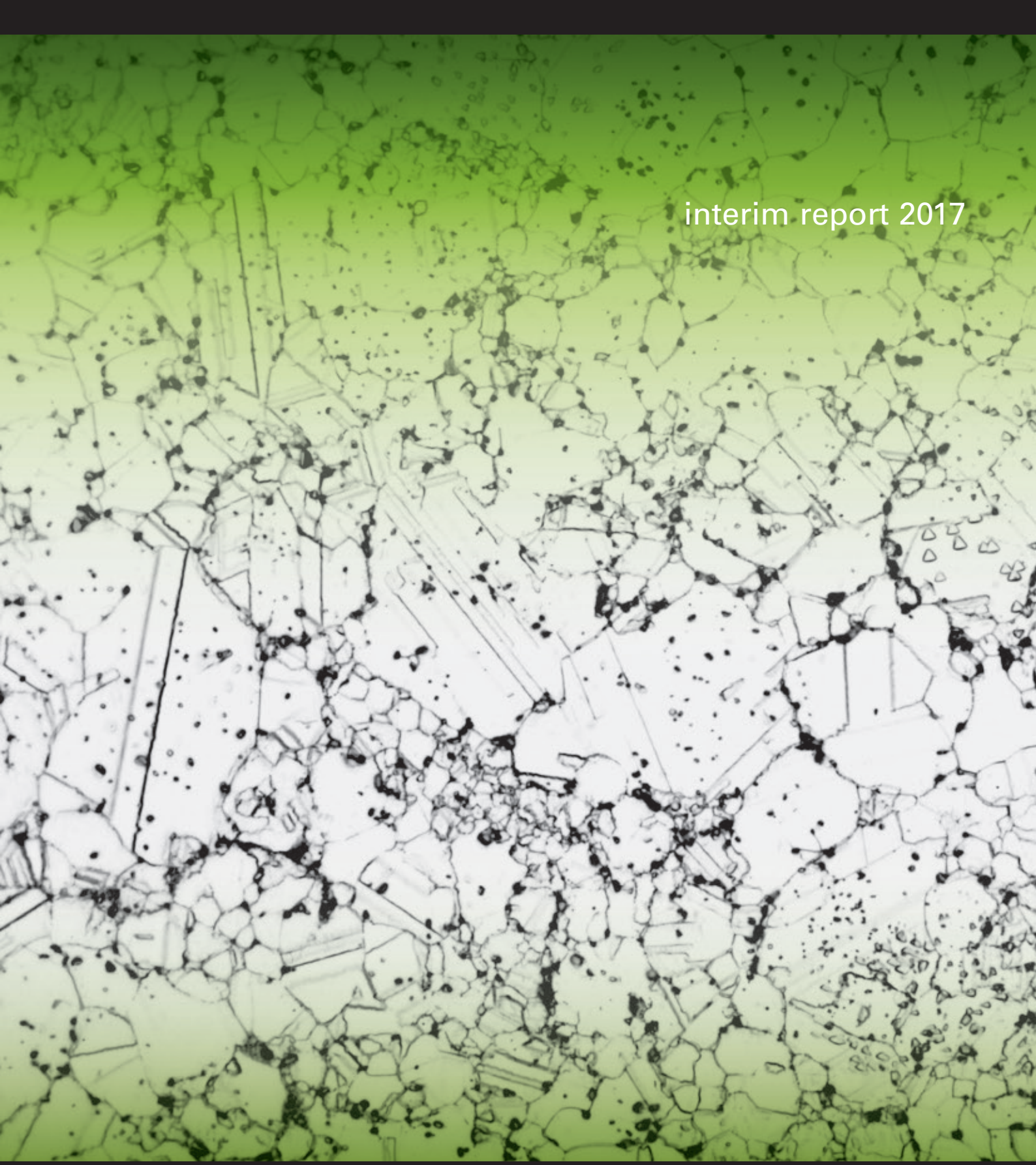


A microscopic image of a material, possibly a polymer or composite, showing a complex network of fibers and voids. The image is overlaid with a green gradient that is darker at the top and lighter at the bottom.

interim report 2017

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 2017 Interim Results presentation in the Investor Relations section of the website. We invite you to view and to listen by visiting www.bodycote.com/audiocast

Cover image

This microstructure shows a nickel-based alloy at 400x magnification. The material has been manufactured using Bodycote's Powdermet® Near-Net-Shape (NNS) technology which produces components with a high degree of complexity not possible via conventional forging and casting techniques. Structural homogeneity and the elimination of all internal porosity are characteristics of components using this technology. Bodycote's innovative engineering solutions, Powdermet® technologies*, improve customers' product design and system operations while contributing to overall savings.

*Patents pending.

Financial highlights

	Half year to 30 June 2017	Half year to 30 June 2016
Revenue	£345.7m	£291.0m
Headline operating profit ¹	£61.7m	£49.3m
Return on sales ²	17.8%	16.9%
Operating profit	£59.4m	£47.1m
Headline profit before taxation ¹	£60.5m	£48.1m
Profit before taxation	£58.2m	£45.9m
Headline operating cash flow ³	£59.9m	£38.0m
Operating cash flow ⁴	£57.6m	£33.7m
Net cash/(debt)	£17.7m	£(5.5)m
Basic headline earnings per share ⁵	23.6p	18.3p
Basic earnings per share ⁵	22.9p	17.5p
Interim dividend per share ⁶	5.3p	5.0p

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¹ Headline operating profit and headline profit before taxation are before amortisation of acquired intangibles of £2.3m (2016: £2.2m).
² Return on sales is defined as headline operating profit as a percentage of revenue.
³ Headline operating cash flow is defined as operating cash flow before cash flow relating to restructuring of £2.3m (2016: £4.3m).
⁴ Operating cash flow is defined as cash generated by operations of £87.3m (2016: £64.7m) less net capital expenditure of £29.7m (2016: £31.0m).
⁵ A detailed reconciliation is provided in note 5 on page 16.
⁶ See note 6 on page 17.

Interim management report

Overview

Bodycote revenues grew 18.8% to £345.7m in the first half (2016: £291.0m) corresponding to a growth of 8.3% at constant exchange rates. The five sites acquired in 2016 provided 3.5% of the constant currency growth such that organic constant currency growth was 4.8%. The contribution of recent greenfield investments made up 2.0% of the growth at constant exchange rates. The remaining 2.8% of the constant currency growth stems primarily from the macro-economic tailwind the Group has seen since the second half of 2016.

Of particular note was the performance of the general industrial business, which returned to healthy growth in the first half after three years of declines. The recovery has been broad based, although North American growth rates did not start to strengthen until the final months of the first half.

Oil & gas remains a drag on growth although now much less pronounced than in previous periods. The onshore business in North America did register strong growth in the second quarter but subsea continued to decline.

Excluding the oil & gas sector, Specialist Technologies revenues increased 10.2% at constant exchange rates. HIP Product Fabrication (HIP PF) and Surface Technology have large portions of their business exposed to the oil & gas sector, and in particular to subsea. Revenues from these technologies were, therefore, down.

The recent acquisitions are performing well and are achieving average Group margins although, as expected, the greenfield start-ups are still somewhat below this level. However, the Group's strong operational gearing and the AGI margin expansion programme helped push the Group's headline operating margin¹ up to 17.8% (2016: 16.9%). The Group's headline operating profit grew 25.2% to £61.7m (2016: £49.3m). The Group's headline tax rate was reduced to 25.5% (2016: 27.5%) and is now expected to increase gradually from this reduced base. The net impact of these movements has been to drive first half headline earnings per share up 29% to 23.6p (2016: 18.3p).

The Group continues to maintain tight control over capital expenditure as well as costs. Net capital expenditure in the first half was £29.7m (2016: £31.0m), which equates to 1.0 times depreciation (2016: 1.2 times). The Group has a number of areas of increasing prospects for superior return on investments, particularly in the Specialist Technology arena. Engineering and project management resources are being increased to take advantage of this and a higher level of capital investment is expected to be achieved going forward. In keeping with these prospects, growth projects involving capital investment of £36m were approved in the first half.

The improved profitability, as well as tight control of working capital, resulted in free cash flow increasing to £42.1m in the first half (2016: £20.9m). Net cash at the half year was £17.7m (2016: net debt £5.5m).

The main strands of the Group's strategy are the drive for operational efficiency and margin expansion in the more mature parts of the business; expansion of the Group's footprint in the rapid growth countries; bolt-on acquisitions in classical heat treatment where the Group's target investment returns can be achieved more quickly than greenfield investment alone; and the focus on growth in the higher value-added businesses, particularly the Specialist Technologies. The validity of this consistent strategy is clear with significant progress now apparent across all aspects.

¹ Headline operating margin is defined as headline operating profit as a percentage of revenue.

Markets

Overall civil aerospace revenues were up 4.4%¹, led by strong growth in the UK, while defence (predominantly a North American market for the Group) was down on the same period last year.

Revenues from the energy sector were 4.1%¹ lower, with the oil & gas sector continuing to register a decline compared with the first half of 2016, when oil & gas revenues were still falling. A bright spot in oil & gas was in our North American onshore business, which showed strong growth in the second quarter. Growth in industrial gas turbine and other power generation revenues was not able to fully offset the oil & gas decline.

Bodycote achieved revenue growth of 15.5%¹ in the car and light truck sector as new programmes, especially using Specialist Technologies, continue to build. Revenues in the volatile heavy truck market were up in the second quarter to register overall positive growth in the first half although heavy truck remains a small part of the Group's business.

Group revenues in the general industrial sector increased 11.8%¹ in the first half, with growth across all of the Group's key territories. With general industrial revenues representing 39% of Group revenues, this change in trend is an important contributor to the Group's growth.

Growth in the emerging markets was also strong with revenues increasing by 24.5%¹. Macro-economic demand has improved here but most of Bodycote's growth has come from the investment in greenfield sites in these territories.

Business review

	Half year to 30 June					
	Revenue		Headline operating profit		Headline operating margin	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 %	2016 %
ADE	136.1	121.9	30.7	27.4	22.6	22.5
AGI	209.6	169.1	36.9	27.9	17.6	16.5
	345.7	291.0	67.6	55.3	19.6	19.0
Central costs	–	–	(5.9)	(6.0)	–	–
Total	345.7	291.0	61.7	49.3	17.8	16.9

Aerospace, Defence & Energy (ADE)

Revenues for the ADE business were £136.1m in the six months to June 2017 compared with £121.9m in 2016, an increase of 11.6%. At constant exchange rates revenues increased 2.1%.

Headline operating profit² was £30.7m (2016: £27.4m), an increase of 12.0%, including a 9.9% increase resulting from favourable foreign currency movements. The headline operating margin increased slightly from 22.5% to 22.6%.

Net capital expenditure was £10.8m (2016: £10.3m), representing a spend rate of 1.0 times depreciation (2016: 1.0 times). The Group continued to invest in additional aerospace capacity, with investments in new facilities in Poland and France, and expansion of existing facilities in the UK.

Average capital employed for the period was £258.3m (2016: £242.7m).

Automotive & General Industrial (AGI)

Revenues for the AGI business were £209.6m in the first half of 2017, compared with £169.1m in 2016, an increase of 24.0%. Revenues increased 12.8% at constant exchange rates.

Headline operating profit² was £36.9m (2016: £27.9m), an increase of 32.3%, including an 11.5% increase due to favourable foreign currency movements. Headline operating margin improved from 16.5% to 17.6%.

Net capital expenditure was £16.2m (2016: £16.6m) representing a spend rate of 0.9 times depreciation (2016: 1.1 times). This included further investments in Mexico and Czech Republic. The Group continues to invest in its Specialist Technologies and other high value-added processes in developed markets.

Average capital employed for the period was £372.6m (2016: £325.8m).

¹ At constant exchange rates.

² Headline operating profit is reconciled to operating profit in note 2. Bodycote plants do not exclusively supply services to customers of a given market sector (see note 2).

Interim management report continued

Financial overview

	Half year to 30 June	
	2017	2016
	£m	£m
Revenue	345.7	291.0
Headline operating profit	61.7	49.3
Amortisation of acquired intangible fixed assets	(2.3)	(2.2)
Operating profit	59.4	47.1
Net finance charge	(1.2)	(1.2)
Profit before taxation	58.2	45.9

Revenue for the half year was £345.7m (2016: £291.0m), an increase of 18.8% compared to the same period last year. At constant exchange rates, revenue increased 8.3% (£24.2m). Favourable foreign exchange rate movements resulted in a £30.5m positive effect.

Headline operating profit increased to £61.7m (2016: £49.3m) and headline operating margin increased to 17.8% (2016: 16.9%). At constant exchange rates, headline operating profit increased £6.6m (13.4%).

The amortisation of acquired intangible assets arises from acquisitions in prior years. The charge has increased to £2.3m (2016: £2.2m).

Accordingly, operating profit increased to £59.4m (2016: £47.1m) and operating margin was 17.2% (2016: 16.2%).

The net finance charge for the Group was £1.2m, in line with 2016.

Taxation

The tax charge in the first half of 2017 was £14.6m, compared to a charge of £12.6m for the same period of 2016. The effective tax rate was 25.1% (2016: 27.5%).

The headline tax rate, being stated before accounting for exceptional items and amortisation of goodwill and acquired intangibles, is 25.5% in the first six months of 2017 (2016: 27.5%). A number of the Group's key markets have rates of corporation tax above the Group average. Future profitability growth in these markets, therefore, is likely to place some upward pressure on the Group's blended corporation tax rate.

Earnings per share

Basic headline earnings per share from operations for the half year were 23.6p (2016: 18.3p). Basic earnings per share from operations for the half year were 22.9p (2016: 17.5p). Diluted earnings per share were 22.9p (2016: 17.5p).

Cash flow

	Half year to 30 June	
	2017	2016
	£m	£m
Headline operating profit	61.7	49.3
Add back non-cash items:		
Depreciation and amortisation	29.4	25.9
Impairment of fixed assets	0.4	0.2
Share-based payments	2.7	1.6
Profit on disposal of property, plant and equipment	(0.1)	(0.1)
Headline EBITDA ¹	94.1	76.9
Net capital expenditure	(29.7)	(31.0)
Net working capital movement	(4.5)	(7.9)
Headline operating cash flow	59.9	38.0
Cash cost of restructuring	(2.3)	(4.3)
Operating cash flow	57.6	33.7
Interest	(1.2)	(0.9)
Taxation	(14.3)	(11.9)
Free cash flow ²	42.1	20.9

Free cash flow for the period was £42.1m compared to £20.9m in the first six months of 2016. The increase is mainly a result of the increase in headline EBITDA and lower restructuring cash outflows.

The net working capital outflow for the six month period amounted to £4.5m (2016: £7.9m). Receivables in the first half increased £9.8m (2016: £3.6m) as a result of increased trade and the normal seasonally higher revenues in May and June in comparison to November and December. Receivable days at 30 June 2017 are 61 days (31 December 2016: 63 days and 30 June 2016: 63 days). Payables increased £4.0m (2016: £6.3m decrease) and inventory decreased £0.5m (2016: £2.2m).

The utilisation of restructuring provisions resulted in a cash outflow of £2.3m (2016: £4.3m).

The Group continued to manage carefully its capital expenditure programme and is focused on growth in the higher value-added businesses and in particular the Specialist Technologies. Net capital expenditure for the first half was £29.7m (2016: £31.0m) and the ratio to depreciation was 1.0 times (2016: 1.2 times). The Group continues to invest in maintaining its assets to a high quality, as well as investing in the implementation of a new ERP system.

Income taxes paid during the first six months at £14.3m were £2.4m greater than the same period last year, reflecting the higher tax charge and timing of payments made in various tax jurisdictions.

¹ Earnings before interest, tax, depreciation, amortisation, impairment, profit or loss on disposal of property, plant and equipment and share-based payments.
² Free cash flow is defined as net cash from operating activities of £73.0m (2016: £52.8m) less net capital expenditure of £29.7m (2016: £31.0m) and net interest paid of £1.2m (2016: £0.9m).

Net debt

Group net cash at 30 June 2017 was £17.7m (31 December 2016 net cash: £1.1m and 30 June 2016 net debt: £5.5m). No loans were drawn under the committed facilities at 30 June 2017, compared to £5.0m at 31 December 2016 and £7.4m at 30 June 2016. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding.

Borrowing facilities

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 and uncommitted facilities and loans from several sources over a spread of maturities.

On 3 April 2017, the Group extended the £230m Revolving Credit Facility for five years to April 2022. At 30 June 2017, the Group had the following drawings and headroom under the committed facility:

Facility	Expiry date	Facility £m	Facility utilisation £m	Facility headroom £m
£230m Revolving Credit	3 April 2022	230.0	–	230.0

Dividend

The Board has declared an interim dividend of 5.3p (2016: 5.0p) which represents an increase of 6.0% over the prior year. The interim dividend will be paid on 3 November 2017 to all shareholders on the register at the close of business on 6 October 2017.

Principal risks and uncertainties

The directors have reconsidered the principal risks and uncertainties of the Group. The outcome of the Brexit negotiations is not expected to have a material transactional impact on the Group as customers are served locally and cross-border trading is minimal. The risk of a wider macro-economic effect as a result of the UK leaving the European Union is included as an element of the Group's existing market risk. Accordingly, the directors do not consider that the principal risks and uncertainties of the Group have significantly changed since the publication of the Annual Report for the year ended 31 December 2016. The risks and associated risk management processes, including financial risks, can be found on pages 24, 25, 26, 109 and 110 of the 2016 Annual Report, which is available at 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;
- Competitor action;
- Safety and health;
- Service quality;
- Major disruption at a facility;
- Information technology projects;
- Regulatory and legislative compliance;
- Liquidity;
- Interest rate fluctuation; and
- Currency exchange rate 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.

Interim management report continued

Summary and outlook

Bodycote achieved strong revenue growth in the first half, with good momentum in virtually all parts of the Group. Notably, the General Industrial business, which represents almost 40% of Group revenues, experienced a broad based recovery after over three years of decline. Automotive and Aerospace also moved ahead.

The growth strategy of bolt-on acquisitions and greenfield investment contributed 5.5% of the 8.3% constant currency growth. Investment in new projects has been stepped up.

The high margin Specialist Technologies continue to perform strongly and the margin expansion programme in European AGI is seeing further success.

The positive momentum achieved in the first half is expected to continue. While our business, by its nature, has limited forward visibility, the Board now expects the full year result to be towards the upper end of market expectations¹.

Responsibility statement

We confirm to the best of our knowledge:

- a. the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting;
- b. the Interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- c. the Interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board,

S.C. Harris

Group Chief Executive
27 July 2017

D. Yates

Chief Financial Officer
27 July 2017

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.

¹ Company compiled analysts' estimates of full year headline operating profit range from £106.5m to £118.9m.

Unaudited condensed consolidated income statement

Year ended 31 Dec 2016 £m		Note	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
600.6	Revenue	2	345.7	291.0
(505.5)	Cost of sales and overheads		(286.3)	(243.9)
95.1	Operating profit prior to exceptional items		59.4	47.1
(0.6)	Acquisition costs		–	–
94.5	Operating profit	2	59.4	47.1
–	Investment revenue		–	0.1
(2.6)	Finance costs		(1.2)	(1.3)
91.9	Profit before taxation		58.2	45.9
(24.9)	Taxation	4	(14.6)	(12.6)
67.0	Profit for the period		43.6	33.3
	Attributable to:			
67.0	Equity holders of the parent		43.5	33.3
–	Non-controlling interests		0.1	–
67.0			43.6	33.3
	Earnings per share	5		
Pence			Pence	Pence
35.2	Basic		22.9	17.5
35.2	Diluted		22.9	17.5

All activities have arisen from continuing operations.

Unaudited condensed consolidated statement of comprehensive income

Year ended 31 Dec 2016 £m		Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
67.0	Profit for the period	43.6	33.3
	Items that will not be reclassified to profit or loss:		
(5.0)	Actuarial gains/(losses) on defined benefit pension schemes	0.3	0.4
1.0	Tax on items not reclassified	–	(0.7)
(4.0)	Total items that will not be reclassified to profit or loss	0.3	(0.3)
	Items that may be reclassified subsequently to profit or loss:		
65.5	Exchange (losses)/gains on translation of overseas operations	(2.3)	48.5
(2.2)	Cumulative exchange differences recycled to profit or loss on disposal of businesses/ Group reorganisation	–	–
63.3	Total items that may be reclassified subsequently to profit or loss	(2.3)	48.5
59.3	Other comprehensive (expense)/income for the period	(2.0)	48.2
126.3	Total comprehensive income for the period	41.6	81.5
	Attributable to:		
126.3	Equity holders of the parent	41.5	81.4
–	Non-controlling interests	0.1	0.1
126.3		41.6	81.5

Unaudited condensed consolidated balance sheet

As at 31 Dec 2016 £m		Note	As at 30 June 2017 £m	As at 30 June 2016 £m
	Non-current assets			
160.9	Goodwill		158.8	146.5
45.8	Other intangible assets		45.2	37.8
509.0	Property, plant and equipment		504.6	477.2
–	Other investments		–	0.3
32.5	Deferred tax assets		32.7	32.8
0.4	Trade and other receivables		1.2	0.3
748.6			742.5	694.9
	Current assets			
16.6	Inventories		16.4	19.3
0.1	Derivative financial instruments		–	0.1
19.0	Current tax assets		21.0	30.5
126.3	Trade and other receivables		135.8	119.7
12.0	Cash and bank balances		20.0	10.7
1.8	Assets held for sale		2.6	1.7
175.8			195.8	182.0
924.4	Total assets		938.3	876.9
	Current liabilities			
133.5	Trade and other payables		132.9	119.0
36.5	Current tax liabilities		39.1	40.7
0.1	Obligations under finance leases		–	–
5.8	Borrowings		2.3	10.8
–	Derivative financial instruments		0.1	–
11.7	Provisions	3	10.0	8.9
187.6			184.4	179.4
(11.8)	Net current assets/(liabilities)		11.4	2.6
	Non-current liabilities			
5.0	Borrowings		–	5.4
21.5	Retirement benefit obligations		21.9	16.2
68.8	Deferred tax liabilities		66.9	69.2
8.8	Provisions	3	8.4	9.7
4.4	Other payables		4.4	2.9
108.5			101.6	103.4
296.1	Total liabilities		286.0	282.8
628.3	Net assets		652.3	594.1
	Equity			
33.1	Share capital		33.1	33.1
177.1	Share premium account		177.1	177.1
(8.0)	Own shares		(7.3)	(8.2)
133.9	Other reserves		135.9	135.1
57.5	Translation reserves		55.2	42.6
234.3	Retained earnings		257.8	213.9
627.9	Equity attributable to equity holders of the parent		651.8	593.6
0.4	Non-controlling interests		0.5	0.5
628.3	Total equity		652.3	594.1

Unaudited condensed consolidated cash flow statement

Year ended 31 Dec 2016 £m		Note	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
125.9	Net cash from operating activities	7	73.0	52.8
	Investing activities			
(64.7)	Purchases of property, plant and equipment		(28.2)	(28.5)
7.6	Proceeds on disposal of property, plant and equipment and intangible assets		1.7	0.7
(6.0)	Purchases of intangible fixed assets		(3.2)	(3.2)
(23.7)	Acquisition of businesses		(5.2)	–
0.3	Disposal of sundry investments		–	–
1.9	Disposal of businesses		–	–
(84.6)	Net cash used in investing activities		(34.9)	(31.0)
	Financing activities			
–	Interest received		–	0.1
(2.3)	Interest paid		(1.2)	(1.0)
(48.1)	Dividends paid		(20.5)	(38.6)
(2.3)	Repayments of bank loans		(5.0)	–
(0.1)	Payments of obligations under finance leases		–	(0.1)
5.0	New bank loans raised		–	7.3
(47.8)	Net cash used in financing activities		(26.7)	(32.3)
(6.5)	Net increase/(decrease) in cash and cash equivalents		11.4	(10.5)
12.4	Cash and cash equivalents at beginning of period		6.2	12.4
0.3	Effect of foreign exchange rate changes		0.1	0.1
6.2	Cash and cash equivalents at end of period	7	17.7	2.0

Unaudited condensed consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
Half year to 30 June 2017									
1 January 2017	33.1	177.1	(8.0)	133.9	57.5	234.3	627.9	0.4	628.3
Net profit for the period	–	–	–	–	–	43.5	43.5	0.1	43.6
Exchange differences on translation of overseas operations	–	–	–	–	(2.3)	–	(2.3)	–	(2.3)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	0.3	0.3	–	0.3
Total comprehensive income for the period	–	–	–	–	(2.3)	43.8	41.5	0.1	41.6
Acquired in the period/settlement of share options	–	–	0.7	(0.7)	–	–	–	–	–
Share-based payments	–	–	–	2.7	–	–	2.7	–	2.7
Deferred tax on share-based payment transactions	–	–	–	–	–	0.2	0.2	–	0.2
Dividends paid	–	–	–	–	–	(20.5)	(20.5)	–	(20.5)
30 June 2017	33.1	177.1	(7.3)	135.9	55.2	257.8	651.8	0.5	652.3
Half year to 30 June 2016									
1 January 2016	33.1	177.1	(9.3)	134.1	(5.8)	220.0	549.2	0.4	549.6
Net profit for the period	–	–	–	–	–	33.3	33.3	–	33.3
Exchange differences on translation of overseas operations	–	–	–	–	48.4	–	48.4	0.1	48.5
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Total comprehensive income for the period	–	–	–	–	48.4	33.0	81.4	0.1	81.5
Acquired in the period/settlement of share options	–	–	1.1	(0.6)	–	(0.5)	–	–	–
Share-based payments	–	–	–	1.6	–	–	1.6	–	1.6
Dividends paid	–	–	–	–	–	(38.6)	(38.6)	–	(38.6)
30 June 2016	33.1	177.1	(8.2)	135.1	42.6	213.9	593.6	0.5	594.1
Year ended 31 December 2016									
1 January 2016	33.1	177.1	(9.3)	134.1	(5.8)	220.0	549.2	0.4	549.6
Net profit for the year	–	–	–	–	–	67.0	67.0	–	67.0
Exchange differences on translation of overseas operations	–	–	–	–	65.5	–	65.5	–	65.5
Cumulative exchange differences recycled to profit or loss on disposal of businesses/Group reorganisation	–	–	–	–	(2.2)	–	(2.2)	–	(2.2)
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(4.0)	(4.0)	–	(4.0)
Total comprehensive income for the year	–	–	–	–	63.3	63.0	126.3	–	126.3
Acquired in the year/settlement of share options	–	–	1.3	(0.7)	–	(0.6)	–	–	–
Share-based payments	–	–	–	0.5	–	–	0.5	–	0.5
Dividends paid	–	–	–	–	–	(48.1)	(48.1)	–	(48.1)
31 December 2016	33.1	177.1	(8.0)	133.9	57.5	234.3	627.9	0.4	628.3

Included in other reserves is the capital redemption reserve arising on redemption of the Group's B shares of £129.8m (2016: £129.8m) and the share-based payment reserve of £5.3m (2016: £4.4m).

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 2017 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 2016, which was filed with the Registrar of Companies on 30 May 2017.

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, 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.

On 3 April 2017, the Group extended the £230m Revolving Credit Facility for five years to April 2022. The committed facilities as at 30 June 2017 were as follows:

- £230m Revolving Credit Facility maturing 3 April 2022

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 Group'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 policies

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.

No new or revised standards adopted in the current period have had a material impact on the Group's financial statements.

2 Business and geographical segments

The Group has 188 locations across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

In accordance with IFRS 8 Operating Segments, the segmentation of Group activity reflects the way the Group is managed by the chief operating decision maker, being the Group Chief Executive, who on a monthly basis reviews the operating performance of six operating segments, split between the Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI) business areas, as follows:

- ADE – Western Europe;
- ADE – North America;
- ADE – Emerging markets;
- AGI – Western Europe;
- AGI – North America; and
- AGI – Emerging markets.

The split of operating segments by geography reflects the divisional reporting structure of the Group.

In accordance with the aggregation criteria of IFRS 8, the operating segments are aggregated into the Group's two key business areas, ADE and AGI, the split being driven by customer behaviour and requirements. Customers in the ADE segment tend to operate and purchase more globally and have long supply chains, whilst customers in the AGI segment tend to purchase more locally and have shorter supply chains.

Bodycote plants do not exclusively supply services to customers of a given market sector. The allocation of plants between ADE and AGI is therefore derived by reference to the preponderance of markets served.

Notes to the condensed consolidated financial information continued

2 Business and geographical segments (continued)

Group	Half year to 30 June 2017			Consolidated £m
	ADE £m	AGI £m	Central costs and eliminations £m	
Revenue				
Total revenue	136.1	209.6	–	345.7
Result				
Headline operating profit prior to share-based payments and unallocated central costs	31.6	38.6	–	70.2
Share-based payments (including social charges)	(0.9)	(1.7)	(0.7)	(3.3)
Unallocated central costs	–	–	(5.2)	(5.2)
Headline operating profit/(loss)	30.7	36.9	(5.9)	61.7
Amortisation of acquired intangible fixed assets	(0.8)	(1.5)	–	(2.3)
Segment result	29.9	35.4	(5.9)	59.4
Finance costs				(1.2)
Profit before taxation				58.2
Taxation				(14.6)
Profit for the period				43.6

Inter-segment sales are not material.

The Group does not rely on any individual major customers.

	Half year to 30 June 2017			Total ADE £m
	Western Europe £m	North America £m	Emerging markets £m	
Aerospace, Defence & Energy				
Revenue				
Total revenue	61.8	73.6	0.7	136.1
Result				
Headline operating profit prior to share-based payments	13.4	18.0	0.2	31.6
Share-based payments (including social charges)	(0.4)	(0.5)	–	(0.9)
Headline operating profit	13.0	17.5	0.2	30.7
Amortisation of acquired intangible fixed assets	(0.2)	(0.6)	–	(0.8)
Segment result	12.8	16.9	0.2	29.9

	Half year to 30 June 2017			Total AGI £m
	Western Europe £m	North America £m	Emerging markets £m	
Automotive & General Industrial				
Revenue				
Total revenue	129.6	54.7	25.3	209.6
Result				
Headline operating profit prior to share-based payments	25.1	6.4	7.1	38.6
Share-based payments (including social charges)	(1.2)	(0.3)	(0.2)	(1.7)
Headline operating profit	23.9	6.1	6.9	36.9
Amortisation of acquired intangible fixed assets	(0.2)	(1.3)	–	(1.5)
Segment result	23.7	4.8	6.9	35.4

2 Business and geographical segments (continued)

Group	Half year to 30 June 2016			
	ADE £m	AGI £m	Central costs and eliminations £m	Consolidated £m
Revenue				
Total revenue	121.9	169.1	–	291.0
Result				
Headline operating profit prior to share-based payments and unallocated central costs	27.9	28.6	–	56.5
Share-based payments (including social charges)	(0.5)	(0.7)	(0.5)	(1.7)
Unallocated central costs	–	–	(5.5)	(5.5)
Headline operating profit/(loss)	27.4	27.9	(6.0)	49.3
Amortisation of acquired intangible fixed assets	(0.8)	(1.4)	–	(2.2)
Segment result	26.6	26.5	(6.0)	47.1
Investment revenue				0.1
Finance costs				(1.3)
Profit before taxation				45.9
Taxation				(12.6)
Profit for the period				33.3

Aerospace, Defence & Energy	Half year to 30 June 2016			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Revenue				
Total revenue	55.9	65.5	0.5	121.9
Result				
Headline operating profit/(loss) prior to share-based payments	11.5	16.6	(0.2)	27.9
Share-based payments (including social charges)	(0.2)	(0.3)	–	(0.5)
Headline operating profit/(loss)	11.3	16.3	(0.2)	27.4
Amortisation of acquired intangible fixed assets	(0.1)	(0.7)	–	(0.8)
Segment result	11.2	15.6	(0.2)	26.6

Automotive & General Industrial	Half year to 30 June 2016			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Revenue				
Total revenue	104.4	45.6	19.1	169.1
Result				
Headline operating profit prior to share-based payments	17.3	6.7	4.6	28.6
Share-based payments (including social charges)	(0.5)	(0.1)	(0.1)	(0.7)
Headline operating profit	16.8	6.6	4.5	27.9
Amortisation of acquired intangible fixed assets	(0.1)	(1.3)	–	(1.4)
Segment result	16.7	5.3	4.5	26.5

Notes to the condensed consolidated financial information continued

2 Business and geographical segments (continued)

Group	Year ended 31 December 2016			
	ADE £m	AGI £m	Central costs and eliminations £m	Consolidated £m
Revenue				
Total revenue	250.9	349.7	–	600.6
Result				
Headline operating profit prior to share-based payments and unallocated central costs	56.3	57.9	–	114.2
Share-based payments (including social charges)	(0.7)	0.6	(0.6)	(0.7)
Unallocated central costs	–	–	(13.9)	(13.9)
Headline operating profit/(loss)	55.6	58.5	(14.5)	99.6
Amortisation of acquired intangible fixed assets	(1.5)	(3.0)	–	(4.5)
Operating profit/(loss) prior to exceptional items	54.1	55.5	(14.5)	95.1
Acquisition costs	–	(0.6)	–	(0.6)
Segment result	54.1	54.9	(14.5)	94.5
Finance costs				(2.6)
Profit before taxation				91.9
Taxation				(24.9)
Profit for the year				67.0

	Year ended 31 December 2016			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Aerospace, Defence & Energy				
Revenue				
Total revenue	115.1	134.7	1.1	250.9
Result				
Headline operating profit/(loss) prior to share-based payments	24.0	32.7	(0.4)	56.3
Share-based payments (including social charges)	(0.2)	(0.5)	–	(0.7)
Headline operating profit/(loss)	23.8	32.2	(0.4)	55.6
Amortisation of acquired intangible fixed assets	(0.3)	(1.2)	–	(1.5)
Segment result	23.5	31.0	(0.4)	54.1

	Year ended 31 December 2016			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Automotive & General Industrial				
Revenue				
Total revenue	214.9	94.3	40.5	349.7
Result				
Headline operating profit prior to share-based payments	36.8	10.7	10.4	57.9
Share-based payments (including social charges)	0.4	0.1	0.1	0.6
Headline operating profit	37.2	10.8	10.5	58.5
Amortisation of acquired intangible fixed assets	(0.4)	(2.6)	–	(3.0)
Operating profit prior to exceptional items	36.8	8.2	10.5	55.5
Acquisition costs	(0.4)	(0.2)	–	(0.6)
Segment result	36.4	8.0	10.5	54.9

2 Business and geographical segments (continued)

Alternative performance measures

Bodycote uses various alternative performance measures (APMs), in addition to those reported under IFRS, as management believe these measures enable users of the financial statements to assess the underlying trading performance of the business. The APMs used include headline operating profit, headline earnings per share, headline profit before taxation, headline operating cash flow and free cash flow, together with current measures of revenue restated at constant exchange rates. These measures reflect the underlying performance of the business as they exclude the impact of amortisation of acquired intangible assets, exceptional items and the impact of foreign exchange movements.

The constant exchange rate comparison uses the current year reported segmental information, stated in the relevant functional currency, and translates the results into the presentational currency using the prior year's monthly exchange rates.

APMs are defined and reconciled to the IFRS statutory measures as follows:

- Headline operating profit and headline profit before taxation are defined in the Financial highlights section;
- Headline operating cash flow is reconciled in the Financial overview;
- Headline earnings per share is reconciled in note 5;
- Free cash flow is defined and reconciled in the Financial overview; and
- Revenue and headline operating profit at constant exchange rates are reconciled to revenue and headline operating profit in the table below.

	Half year to 30 June 2017			
	ADE £m	AGI £m	Central costs and eliminations £m	Consolidated £m
Revenue	136.1	209.6	–	345.7
Constant exchange rates adjustment	(11.7)	(18.8)	–	(30.5)
Revenue at constant exchange rates	124.4	190.8	–	315.2
Headline operating profit	30.7	36.9	(5.9)	61.7
Constant exchange rates adjustment	(2.7)	(3.2)	0.1	(5.8)
Headline operating profit at constant exchange rates	28.0	33.7	(5.8)	55.9

3 Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
1 January 2017	6.7	6.6	7.2	20.5
Increase in provision	–	–	1.3	1.3
Release of provision	(0.3)	–	–	(0.3)
Utilisation of provision	(1.6)	(0.7)	(0.2)	(2.5)
Exchange difference	(0.1)	(0.2)	(0.3)	(0.6)
30 June 2017	4.7	5.7	8.0	18.4
Included in current liabilities				10.0
Included in non-current liabilities				8.4
				18.4

The restructuring provision relates to the costs associated with the closure of a number of 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 annually and is separated into restructuring environmental and environmental to identify separately environmental provisions relating to restructuring programmes from those arising in the ordinary course of business.

The majority of cash outflows in respect of these liabilities are expected to occur within five years.

Whilst the Group's use of chlorinated solvents and other hazardous chemicals continues to reduce, the Group remains exposed to contingent liabilities in respect of environmental remediation liabilities. In particular, the Group could be subjected to regulatory or legislative requirements to remediate sites in the future. However, it is not possible at this time to determine whether and to what extent any liabilities exist, other than for those recognised above. Therefore, no provision is recognised in relation to these items.

Notes to the condensed consolidated financial information continued

4 Taxation

Year ended 31 Dec 2016 £m		Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
24.9	Current tax – charge for the period	15.3	12.6
2.2	Current tax – adjustments in respect of prior periods	–	–
(2.2)	Deferred tax	(0.7)	–
24.9		14.6	12.6

The rate of tax for the interim period is 25.1% (2016: 27.5%) of the profit before tax.

5 Earnings per share

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

Year ended 31 Dec 2016 £m		Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
Earnings			
67.0	Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	43.5	33.3
Number of shares			
Number		Number	Number
190,166,794	Weighted average number of ordinary shares for the purposes of basic earnings per share	190,274,928	190,141,575
–	Effect of dilutive potential ordinary shares: Share options	–	–
190,166,794	Weighted average number of ordinary shares for the purposes of diluted earnings per share	190,274,928	190,141,575
Earnings per share			
Pence		Pence	Pence
35.2	Basic	22.9	17.5
35.2	Diluted	22.9	17.5
Headline earnings			
£m		£m	£m
67.0	Net profit attributable to equity holders of the parent	43.5	33.3
Add back:			
2.8	Amortisation of acquired intangible fixed assets (net of tax)	1.5	1.6
0.5	Acquisition costs (net of tax)	–	–
70.3	Headline earnings	45.0	34.9
Headline earnings per share			
Pence		Pence	Pence
37.0	Basic	23.6	18.3
37.0	Diluted	23.6	18.3

6 Dividends

Amounts recognised as distributions to equity holders in the period:

Year ended 31 Dec 2016 £m		Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
19.6	Final dividend for the year ended 31 December 2015 of 10.3p per share	–	19.6
19.0	Special dividend for the year ended 31 December 2015 of 10.0p per share	–	19.0
9.5	Interim dividend for the year ended 31 December 2016 of 5.0p per share	–	–
–	Final dividend for the year ended 31 December 2016 of 10.8p per share	20.5	–
48.1		20.5	38.6
	Proposed interim dividend for the year ended 31 December 2017 of 5.3p (2016: 5.0p) per share	10.1	9.5

The proposed interim dividend was approved by the Board on 27 July 2017 and has not been included as a liability in these condensed financial statements.

7 Notes to the cash flow statement

Year ended 31 Dec 2016 £m		Half year to 30 June 2017 £m	Half year to 30 June 2016 £m
67.0	Profit for the period	43.6	33.3
	Adjustments for:		
–	Investment revenue	–	(0.1)
2.6	Finance costs	1.2	1.3
24.9	Taxation	14.6	12.6
54.1	Depreciation of property, plant and equipment	28.8	25.5
5.6	Amortisation of intangible assets	2.9	2.6
(4.5)	Profit on disposal of property, plant and equipment	(0.1)	(0.1)
0.5	Share-based payments	2.7	1.6
5.1	Impairment of fixed assets	0.4	0.2
(0.1)	Profit on sale of businesses	–	–
155.2	EBITDA*	94.1	76.9
5.5	Decrease in inventories	0.5	2.2
(4.1)	Increase in receivables	(9.8)	(3.6)
(6.7)	Increase/(decrease) in payables	4.0	(6.3)
(3.6)	Decrease in provisions	(1.5)	(4.5)
146.3	Cash generated by operations	87.3	64.7
(20.4)	Income taxes paid	(14.3)	(11.9)
125.9	Net cash from operating activities	73.0	52.8

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

Cash and cash equivalents comprise:

12.0	Cash and bank balances	20.0	10.7
(5.8)	Bank overdrafts (included in borrowings)	(2.3)	(8.7)
6.2		17.7	2.0

Notes to the condensed consolidated financial information continued

8 Related party transactions

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

9 General information

The comparative information for the year ended 31 December 2016 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.

Copies of this report and the last Annual Report are available from the Group Company Secretary, Bodycote plc, Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield, Cheshire SK10 2XF, and can each be downloaded or viewed via the Group's website at www.bodycote.com. Copies of this report have also been submitted to the UK Listing Authority and will shortly be available at the UK Listing Authority's Document Viewing Facility at 25 The North Colonnade, Canary Wharf, London E14 5HS (Telephone: +44 (0)20 7066 1000).

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 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and related notes 1 to 9. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct 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 2017 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 Conduct Authority.

Deloitte LLP

Statutory Auditor
London, United Kingdom
27 July 2017

Company information

Financial calendar

Interim dividend for 2017
Results for 2017
Annual General Meeting
Final dividend for 2017
Interim results for 2018
Interim dividend for 2018

3 November 2017
February 2018
May 2018
June 2018
July 2018
November 2018

Shareholder enquiries

Enquiries on the following administrative matters can be addressed to the Company's registrars at Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone: 0871 664 0300 (calls cost 12p per minute plus your phone company's access charge). If you are outside the UK, please call +44 (0)371 664 0300. Lines are open 9.00am until 5.30pm, Monday to Friday. Fax: +44 (0)1484 600 911; and email shareholderenquiries@capita.co.uk.

- Change of address
- Stock transfer form including guidance notes
- Dividend mandates
- ShareGift donation coupon

Forms for these matters can be downloaded from the registrars' website at www.signalshares.com, where shareholders can also check their holdings and details. If you have not previously registered for this service, you will require your investor code, which is located on your share certificate or dividend confirmation.

Shareholder dealing service

Information on a low cost share dealing service offered by our registrars is available from Capita on 0371 664 0445 or at www.capitadeal.com. Calls are charged at the standard geographical rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The service is open between 9.00am and 5.30pm Monday to Friday excluding public holidays in England and Wales.



To view the Bodycote Interim Report online visit
<http://bodycote.interimreport2017.com>

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