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Bodycote plc

Interim results for the six months to 30 June 2023

"Strong first half performance, modestly ahead of expectations"

Financial summary

	Half year to 30 June 2023	Half year to 30 June 2022	% Change	% Change Constant Currency
Revenue	**£420.1m**	£358.5m	17.2%	13.8%
Headline operating profit[1]	**£62.8m**	£50.5m	24%	23%
Headline operating margin[1]	**15.0%**	14.1%		
Free cash flow[1]	**£56.2m**	£31.8m	77%	
Net debt[1,5]	**£26.6m**	£57.5m		
Basic headline earnings per share[1,2]	**23.8p**	19.1p	25%	
Interim dividend per share	**6.7p**	6.4p	5%	

Additional statutory measures

	Half year to 30 June 2023	Half year to 30 June 2022
Operating profit	**£58.7m**	£45.0m
Profit after tax	**£42.9m**	£32.5m
Net cash from operating activities	**£92.5m**	£61.0m
Basic earnings per share	**22.2p**	16.9p

Highlights

Results

- Revenue up 17.2% to £420.1m (13.8% at constant currency)
- 8.0% revenue growth[3] excluding energy-related surcharges
- Headline operating profit 23%[3] higher at £62.8m
- Operating margin of 16.5%, up 180 bps excluding energy surcharge revenues. Headline operating margin up 90 bps to 15.0%
- Free cash flow improved to £56.2m; 90% cash flow conversion (H1 2022: £31.8m, 63% conversion)

Key Achievements

- Strong first half performance, modestly ahead of expectations
- Energy surcharges continue to recover energy cost inflation
- Price increases successfully implemented, covering labour and other cost inflation
- 8% revenue growth[4] achieved in H1 led by:
  - Specialist Technologies up 13%
  - Emerging Markets up 10%
  - Civil Aerospace up 10%
  - Oil & Gas up 46%
  - Automotive up 8%
- Delivering on all strategic priorities and on track to achieve a margin in excess of 20% over the medium term

Commenting, Stephen Harris, Group Chief Executive, said:

"We have delivered a strong performance in the first half, which was modestly ahead of our expectations and with broad-based growth across most of our end markets. In particular, we achieved good progress in our strategic focus areas of Specialist Technologies, Emerging Markets, Civil Aerospace and electric vehicles. We continue to manage inflationary cost pressures well through energy surcharges and price increases. The Group remains on track to achieve a margin in excess of 20% over the medium term.

Cash conversion improved and net debt reduced in the period. The strength of our balance sheet continues to provide options to drive shareholder value, in line with our disciplined capital allocation framework.

The strong first half performance underpins our confidence in delivering progress for the full year.

Looking beyond 2023, the Board remains confident in the Group's prospects for continued profitable growth."

1 The headline performance measures represent the statutory results excluding certain items and are considered alternative performance measures (APMs). A reconciliation to the nearest IFRS equivalent is provided at the end of this report.
2 A detailed earnings per share reconciliation is provided in note 5 to the condensed consolidated financial statements.
3 At constant currency.
4 At constant currency excluding energy surcharges.
5 Net debt excluding lease liabilities.

END

Interim Results Presentation

Bodycote will be hosting a presentation for investors and analysts at **10.00 am UK BST on 27 July 2023**. The presentation will also be webcast live. Please find connection instructions below:

Webcast: https://www.bodycote.com/cast2023

Conference call details:
Participant dial-in numbers are:
United Kingdom: +44 800 358 1035
United Kingdom local: +44 20 4587 0498

Participant Code: **145132**

The presentation will be a live webcast. The audiocast and presentation will be available at www.bodycote.com in the investor section on 27 July 2023.

For further information, please contact:

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About Bodycote plc
With more than 165 accredited facilities in 22 countries, Bodycote is the world's largest provider of heat treatment and specialist thermal processing services. Through Classical Heat Treatment and Specialist Technologies, including thermal spray coatings, Bodycote improves the properties of metals and alloys, extending the life of vital components for a wide range of industries, including Aerospace, Defence, Automotive, Power Generation, Oil & Gas, Construction, Medical and Transportation. Customers have entrusted their products to Bodycote's care for more than 50 years. For more information, visit www.bodycote.com.

Half Year Commentary

Overview

The Group delivered a strong performance in H1, with revenues increasing 17.2% to £420.1m (13.8% at constant currency). Energy related surcharges accounted for 6% of the reported growth rate.

Revenue growth, excluding surcharges and at constant currency, was 8.0% driven by strong progress in Specialist Technologies, Emerging Markets and Civil Aerospace. In line with our strategic priorities, and reflecting the focused investments we are making, Specialist Technologies revenues rose by 13% (excluding surcharges), achieving significantly higher growth than the 6% growth (excluding surcharges) within our Classic Heat Treatment business.

Headline operating profit increased 24.3% to £62.8m from £50.5m in H1 2022. Headline operating margin was 15.0% (H1 2022: 14.1%). Adjusting for the effect of energy surcharge revenues, headline operating margin increased by 180 bps to 16.5% (H1 2022: 14.7%). The improvement in operating margin reflected price, volume growth and operational improvements together with the non-recurrence of the £5m energy surcharge shortfall we experienced in H1 2022.

Statutory operating profit increased from £45.0m to £58.7m.

The Group delivered improved free cash flow of £56.2m representing a cash flow conversion of 90% (H1 2022: £31.8m, 63% conversion), reflecting higher profitability and a lower working capital outflow from better receivables management. The balance sheet remains healthy, with closing net debt excluding lease liabilities reduced to £26.6m (FY 2022: £33.4m) after payment of £28.5m dividends to shareholders and £12.2m for the purchase of 1.85m shares into our Employee Benefit Trust to satisfy future share based incentive schemes.

Basic headline earnings per share for the Group increased by 24.6% to 23.8p (H1 2022: 19.1p). Basic earnings per share were 22.2p (H1 2022: 16.9p), reflecting the increase in statutory operating profit.

The following commentary reflects constant currency growth rates versus the comparable period last year, unless stated otherwise.

Market Sectors

The Group's strategy is to focus on investing in and growing key areas of our business while improving the operating efficiency and quality of the remainder of the business. Our strategic focus areas comprise Specialist Technologies, Emerging Markets, and the secular growth markets of Civil Aerospace and electric vehicles. First half results highlighted further progress in delivering on these strategic priorities.

Specialist Technologies continued their superior performance with 15.6% growth in revenues (13.0% excluding surcharges). The additional sales and marketing expertise we have been building, together with the capacity expansion we have invested in, are driving revenue growth in all our key end markets. We continue to add capacity to Specialist Technologies through disciplined capital investment in order to position the Group for continued superior growth in these technologies.

Emerging Markets revenue growth was 15.5% (10.2% excluding surcharges) reflecting strong rates of growth in Eastern Europe and Turkey. The outlook for our businesses in these regions remains strong and we are adding further capacity to enable us to maintain this good momentum. Our revenue growth in China was subdued in the first half, reflecting the country's slower than expected rate of recovery post the COVID lockdowns.

Aerospace & Defence revenues were 14.7% higher (8.5% excluding surcharges), driven by good growth in Civil Aerospace of 16.4% (9.6% excluding surcharges). Growth was driven by the continued increases in aircraft OEM production rates and higher aftermarket related demand together with our growing presence on new generation aircraft and engine platforms. We delivered higher growth in our European aerospace operations than in the US in H1, where growth was moderated by the difficulties encountered by customers' supply chains as they ramp up. We are starting to see these issues ease.

Automotive revenues increased by 14.0% (8.3% excluding surcharges). Underlying growth in H1 was ahead of our expectations and was led by Emerging Markets, focused in particular on the strong progress we are making in Eastern Europe. We had success in the first half securing a number of major new long-term contracts for electric vehicle related activity which are currently going through their pre-production phase. Start of production on these is expected to commence in Q1 2024. While electric vehicle related revenues are still relatively modest today, we expect these revenues to grow substantially from 2024 onwards.

General Industrial (including energy) revenues increased by 13.2% (7.6% excluding surcharges). We achieved strong growth in Oil & Gas and Medical, which constitute 17% of the revenues for this reported end market segment. The slower growth in certain General Industrial subsegments, notably Tooling and Industrial Machinery, which we had started to see towards the end of 2022, continued through the first half of this year.

Sustainability

Our internal carbon reduction initiatives are progressing well and we continue to deploy our expertise to help reduce our customers' carbon emissions.

Dividend

The Board has declared an interim dividend of 6.7p (2022: 6.4p) which will be paid on 10 November 2023 to all shareholders on the register at close of business 6 October 2023.

Summary and outlook

We have delivered a strong performance in the first half, which was modestly ahead of our expectations and with broad-based growth across most of our end markets. In particular, we achieved good progress in our strategic focus areas of Specialist Technologies, Emerging Markets, Civil Aerospace and electric vehicles. We continue to manage inflationary cost pressures well through energy surcharges and price increases. The Group remains on track to achieve a margin in excess of 20% over the medium term.

Cash conversion improved and net debt reduced in the period. The strength of our balance sheet continues to provide options to drive shareholder value, in line with our disciplined capital allocation framework.

The strong first half performance underpins our confidence in delivering progress for the full year.

Looking beyond 2023, the Board remains confident in the Group's prospects for continued profitable growth.

Business review

Bodycote has more than 165 facilities around the world which are organised into two customer-focused businesses: the AGI business and the ADE business.

The following review reflects constant currency growth rates versus the comparable period last year unless stated otherwise.

The AGI divisions

Revenue for the first half of the year was £239.6m, an increase of 11.1% on the prior year (14.3% at actual rates). Excluding surcharges, revenue grew by 4.9% driven by increased demand in our Automotive business with modest growth from General Industrial markets during the half.

Headline operating profit increased to £43.7m (H1 2022: £35.0m), with headline operating margins rising from 16.7% to 18.2%. The increase in profitability was driven by operational improvements in addition to the non-recurrence of the surcharge shortfall, which impacted H1 2022. Statutory operating profit increased to £42.9m (H1 2022: £33.7m).

Net capital expenditure was £14.3m (H1 2022: £13.2m) with ongoing expansion in Emerging Markets, particularly in Eastern Europe.

The ADE divisions

First half revenues rose by 17.5% to £180.5m, an increase of 21.2% at actual rates. Excluding surcharges, revenue grew by 12.1%, reflecting good growth in Civil Aerospace and strong progress in Oil & Gas revenues. Headline operating profit was £32.2m (H1 2022: £23.3m), with headline operating margins increasing to 17.8% (H1 2022: 15.6%). Statutory operating profit grew to £28.9m (H1 2022: £19.6m).

Net capital expenditure in the period was £14.6m (H1 2022: £7.7m) reflecting investment in capacity expansion in our North American HIP business.

Financial overview

	Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
Revenue	**420.1**	358.5
Headline operating profit	**62.8**	50.5
Amortisation of acquired intangible assets	**(4.1)**	(4.8)
Acquisition costs	**–**	(0.7)
Exceptional items	**–**	–
Operating profit	**58.7**	45.0
Net finance charge	**(3.5)**	(3.4)
Profit before taxation	**55.2**	41.6
Taxation charge	**(12.3)**	(9.1)
Profit for the period	**42.9**	32.5

Group revenue in the first half of 2023 was £420.1m, an increase of 17.2% at actual rates, 13.8% at constant currency. Headline operating profit for the six months increased by 24% to £62.8m (H1 2022: £50.5m) and was up 23% at constant currency, resulting in an increase in the headline operating margin to 15.0% (H1 2022: 14.1%). Cost inflation has been recovered through a combination of energy surcharges and underlying price increases. The Group maintains a strong focus on cost control and operational efficiency. Statutory operating profit rose to £58.7m (H1 2022: £45.0m).

Finance charge

The net finance charge was £3.5m (H1 2022: £3.4m), reflecting increased interest rates, analysed as follows:

	Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
Interest on loans and bank overdrafts	**(1.5)**	(0.8)
Lease and other interest charges	**(1.4)**	(1.5)
Finance and bank charges	**(1.1)**	(1.2)
Total finance charges	**(4.0)**	(3.5)
Interest received	**0.5**	0.1
Net finance charge	**(3.5)**	(3.4)

The Group's £250.9m Revolving Credit Facility which expires in May 2027 was drawn by £52.4m as at 30 June 2023 (30 June 2022: £90.8m) leaving Facility headroom of £198.5m (30 June 2022: £160.1m).

Taxation

The headline tax charge was £13.4m (H1 2022: £10.4m). The headline tax rate, being stated before accounting for amortisation of acquired intangibles, acquisition costs and exceptional items, was 22.5% (H1 2022: 22.2%).

The statutory tax charge in the first half of 2023 was £12.3m compared with a tax charge of £9.1m for the same period in 2022. The effective statutory tax rate was 22.3% (H1 2022: 21.9%).

Earnings per share

Basic headline earnings per share for the half year of 23.8p (H1 2022: 19.1p) was up 24.6% in line with the increase in headline operating profit. Basic earnings per share on a statutory basis was 22.2p (H1 2022: 16.9p). Fully diluted earnings were not materially different from basic earnings in either year.

Cash flow

	Half year to 30 June 2023 £m	Half year to 30 June 2022 £m	Year ended 31 Dec 2022 £m
Headline operating profit	**62.8**	50.5	112.2
Depreciation and amortisation	**37.2**	36.6	74.9
Other, including impairment and profit on disposal of PPE	**(1.0)**	(0.5)	3.0
Headline EBITDA	**99.0**	86.6	190.1
Net maintenance capital expenditure	**(28.4)**	(24.5)	(52.2)
Net working capital movement	**(8.5)**	(18.1)	(25.3)
Headline operating cash flow	**62.1**	44.0	112.6
Restructuring costs	**(1.0)**	(4.3)	(7.4)
Finance costs, net	**(3.3)**	(2.6)	(5.8)
Tax	**(1.6)**	(5.3)	(15.4)
Free cash flow	**56.2**	31.8	84.0
Expansionary capital expenditure	**(12.4)**	(7.2)	(22.1)
Acquisition spend	**–**	(0.7)	(0.9)
Ordinary dividend	**(28.5)**	(26.3)	(38.5)
Own shares purchased less SBP and others	**(7.9)**	2.9	1.7
Decrease in net debt	**7.4**	0.5	24.2
Opening net debt	**(99.4)**	(116.3)	(116.4)
Foreign exchange movements	**3.2**	(5.8)	(7.2)
Closing net debt	**(88.8)**	(121.6)	(99.4)
Lease liabilities	**62.2**	64.1	66.0
Net debt excluding lease liabilities	**(26.6)**	(57.5)	(33.4)

The Group's cash generation increased in the first half. Headline operating cash flow increased to £62.1m (H1 2022: £44.0m) with an improvement in headline operating cash flow conversion to 99% compared to 87%

for the same period last year. The statutory measure, net cash from operating activities, was £92.5m (H1 2022: £61.0m).

Free cash flow in the period was £56.2m (H1 2022: £31.8m) with a free cash flow conversion of 90% compared to 63% for H1 2022. Net tax payments in the first half were £1.6m (H1 2022: £5.3m) with the reduction reflecting the receipt of tax refunds relating to prior years.

Net debt, excluding lease liabilities, improved by £6.8m at 30 June 2023 to £26.6m after £12.4m of investment in expansionary capital expenditure, paying £28.5m of dividends to shareholders and £12.2m for the purchase of 1.85 million shares into our Employee Benefit Trust to satisfy future share-based payments under the Group's share incentive schemes. This purchase programme was completed subsequent to 30 June 2023 with a total of 2 million shares being purchased at an average price of £6.61 per share.

Principal risks and uncertainties

The Group has processes in place to identify, evaluate and mitigate the principal risks that could have an impact on the Group's performance. The Directors have reviewed the principal risks and uncertainties of the Group and consider that the principal risks and uncertainties of the Group published in the Annual Report for the year ended 31 December 2022 remain appropriate. Further details of these principal risks and associated risk management processes, including financial risks, can be found on pages 28-32 and 122-124 of the 2022 Annual Report, which is available at www.bodycote.com.

The principal 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;
- Competitor action;
- Safety and health;
- Climate change;
- Service quality;
- Contract review;
- Loss of key accreditations;
- Major disruption at a facility;
- Machine downtime;
- Information technology and cybersecurity; and
- Regulatory and legislative compliance.

Going concern

As described in the condensed consolidated interim financial statements, the Directors have formed a judgement, at the time of approving the condensed consolidated financial statements, that there are no material uncertainties that cast doubt on the Group's going concern status and that it is a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months. In making this judgement they have considered the potential impact of severe but plausible downside risks related to the Group's activities.

For this reason, the Directors continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Responsibility statement

We confirm to the best of our knowledge that:

(a) the condensed consolidated set of financial statements has been prepared in accordance with UK adopted IAS 34 Interim Financial Reporting;

(b) the Interim results 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 results include 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 2023

B. Fidler
Chief Financial Officer
27 July 2023

Cautionary statement
These Interim results have 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 results should not be relied on by any other party or for any other purpose.

These Interim results contain 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.

Independent review report to Bodycote plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Bodycote plc's condensed consolidated interim financial statements (the "interim financial statements") in the Interim results 2023 of Bodycote plc for the 6 month period ended 30 June 2023 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the unaudited condensed consolidated balance sheet as at 30 June 2023;
- the unaudited condensed consolidated income statement and the unaudited condensed consolidated statement of comprehensive income for the period then ended;
- the unaudited condensed consolidated cash flow statement for the period then ended;
- the unaudited condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim results 2023 of Bodycote plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, 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, 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.

We have read the other information contained in the Interim results 2023 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim results 2023, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim results 2023 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Interim results 2023, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Interim results 2023 based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
27 July 2023

Unaudited condensed consolidated income statement

Year ended 31 Dec 2022 £m		Note	**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
743.6	**Revenue**	1	**420.1**	358.5
(646.2)	Cost of sales and overheads excluding exceptional items [1]		**(367.5)**	(314.5)
9.2	Other operating income excluding exceptional items[1]		**6.5**	1.9
(4.5)	Other operating expenses excluding exceptional items[1]		**(0.2)**	(0.3)
(0.1)	Net impairment losses on financial assets		**(0.2)**	(0.6)
102.0	**Operating profit prior to exceptional items**	1	**58.7**	45.0
–	Exceptional items	2	**–**	–
102.0	**Operating profit**		**58.7**	45.0
0.4	Finance income		**0.5**	0.1
(7.1)	Finance charge		**(4.0)**	(3.5)
95.3	**Profit before taxation**		**55.2**	41.6
(21.0)	Taxation charge	3	**(12.3)**	(9.1)
74.3	**Profit for the period**		**42.9**	32.5
	Attributable to:			
73.7	Equity holders of the parent		**42.3**	32.2
0.6	Non-controlling interests		**0.6**	0.3
74.3			**42.9**	32.5
	Earnings per share	5		
Pence			**Pence**	Pence
38.6	Basic		**22.2**	16.9
38.5	Diluted		**22.1**	16.9

1 Consistent with the approach taken in the consolidated financial statements for the year ended 31 December 2022, the condensed consolidated income statement for the half year to 30 June 2023 has been represented to present the gross balances for other operating income and other operating expenses as separate line items. These balances were not material in the period ended 30 June 2022 and were previously presented within cost of sales and overheads excluding exceptional items.

All activities have arisen from continuing operations.

Unaudited condensed consolidated statement of comprehensive income

Year ended 31 Dec 2022 £m		Note	**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
74.3	**Profit for the period**		**42.9**	32.5
	Items that will not be reclassified to profit or loss:			
5.8	Actuarial gains on defined benefit pension schemes		**0.1**	0.1
(0.2)	Tax on items that will not be reclassified		**–**	–
5.6	**Total items that will not be reclassified to profit or loss**		**0.1**	0.1
	Items that may be reclassified subsequently to profit or loss:			
57.2	Exchange (losses)/gains on translation of overseas operations		**(34.9)**	47.3
(3.1)	Movements on hedges of net investments	7	**1.9**	(2.9)
(0.3)	Movements on cash flow hedges		**0.3**	–
53.8	**Total items that may be reclassified subsequently to profit or loss**		**(32.7)**	44.4
59.4	**Other comprehensive (expense)/income for the period**		**(32.6)**	44.5
133.7	**Total comprehensive income for the period**		**10.3**	77.0
	Attributable to:			
133.3	Equity holders of the parent		**10.2**	76.8
0.4	Non-controlling interests		**0.1**	0.2
133.7			**10.3**	77.0

Unaudited condensed consolidated balance sheet

As at 31 Dec 2022 £m		Note	**As at 30 June 2023 £m**	As at 30 June 2022 £m
	Non-current assets			
227.8	Goodwill	6	**220.9**	225.7
116.9	Other intangible assets		**111.5**	116.2
516.3	Property, plant and equipment		**495.0**	510.2
59.6	Right-of-use assets		**56.6**	57.3
1.5	Deferred tax assets		**2.0**	2.4
1.5	Trade and other receivables		**1.2**	1.3
923.6			**887.2**	913.1
	Current assets			
27.8	Inventories		**28.4**	24.8
24.4	Current tax assets		**16.2**	20.2
154.4	Trade and other receivables		**163.5**	151.5
37.2	Cash and bank balances		**25.9**	36.2
0.3	Assets held for sale		**–**	0.3
244.1			**234.0**	233.0
1,167.7	**Total assets**		**1,121.2**	1,146.1
	Current liabilities			
124.9	Trade and other payables		**127.2**	128.9
42.8	Current tax liabilities		**46.0**	36.7
70.6	Borrowings		**52.5**	93.7
12.3	Lease liabilities		**11.7**	12.7
0.3	Derivative financial instruments	7	**–**	–
10.2	Provisions		**9.6**	10.2
261.1			**247.0**	282.2
(17.0)	**Net current liabilities**		**(13.0)**	(49.2)
	Non-current liabilities			
53.7	Lease liabilities		**50.5**	51.4
10.9	Retirement benefit obligations		**10.6**	14.3
51.0	Deferred tax liabilities		**48.7**	50.3
7.9	Provisions		**7.4**	8.1
1.1	Other payables		**1.0**	1.1
124.6			**118.2**	125.2
385.7	**Total liabilities**		**375.8**	407.4
782.0	**Net assets**		**756.0**	738.7
	Equity			
33.1	Share capital		**33.1**	33.1
177.1	Share premium account		**177.1**	177.1
(5.2)	Own shares		**(14.7)**	(5.2)
134.9	Other reserves		**139.3**	136.5
81.2	Translation reserves		**46.8**	71.2
359.8	Retained earnings		**373.2**	325.1
780.9	**Equity attributable to equity holders of the parent**		**754.8**	737.8
1.1	Non-controlling interests		**1.2**	0.9
782.0	**Total equity**		**756.0**	738.7

Unaudited condensed consolidated cash flow statement

Year ended 31 Dec 2022 £m		Note	**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
142.9	**Net cash from operating activities**	8	**92.5**	61.0
	Investing activities			
(57.2)	Purchases of property, plant and equipment		**(34.9)**	(24.5)
4.7	Proceeds on disposal of property, plant and equipment and intangible assets		**3.9**	1.9
(9.8)	Purchases of other intangibles assets		**(4.2)**	(5.3)
0.4	Interest received		**0.5**	0.1
(61.9)	**Net cash used in investing activities**		**(34.7)**	(27.8)
	Financing activities			
(6.2)	Interest paid		**(3.7)**	(2.7)
(38.5)	Dividends paid	4	**(28.5)**	(26.3)
(13.8)	Principal elements of lease payments		**(6.7)**	(6.9)
50.7	Drawdown of bank loans		**5.2**	17.0
(75.0)	Repayments of bank loans		**(20.6)**	(19.0)
–	Own shares purchased		**(12.2)**	–
(82.8)	**Net cash used in financing activities**		**(66.5)**	(37.9)
(1.8)	**Net decrease in cash and cash equivalents**		**(8.7)**	(4.7)
37.9	**Cash and cash equivalents at beginning of year**		**36.2**	37.9
0.1	Effect of foreign exchange rate changes		**(1.7)**	0.1
36.2	**Cash and cash equivalents at end of the period**	8	**25.8**	33.3

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
1 January 2023	33.1	177.1	(5.2)	134.9	81.2	359.8	780.9	1.1	782.0
Profit for the period	–	–	–	–	–	**42.3**	**42.3**	**0.6**	**42.9**
Exchange differences on translation of overseas operations	–	–	–	–	**(34.4)**	–	**(34.4)**	**(0.5)**	**(34.9)**
Movements on hedges of net investments	–	–	–	**1.9**	–	–	**1.9**	–	**1.9**
Movements on cash flow hedges	–	–	–	**0.3**	–	–	**0.3**	–	**0.3**
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	**0.1**	**0.1**	–	**0.1**
Total comprehensive income for the period	–	–	–	**2.2**	**(34.4)**	**42.4**	**10.2**	**0.1**	**10.3**
Acquired in the year/settlement of share options	–	–	**(9.5)**	**(2.1)**	–	**(0.6)**	**(12.2)**	–	**(12.2)**
Share-based payments	–	–	–	**4.3**	–	–	**4.3**	–	**4.3**
Deferred tax on share-based payment transactions	–	–	–	–	–	**0.1**	**0.1**	–	**0.1**
Dividends	–	–	–	–	–	**(28.5)**	**(28.5)**	–	**(28.5)**
30 June 2023	**33.1**	**177.1**	**(14.7)**	**139.3**	**46.8**	**373.2**	**754.8**	**1.2**	**756.0**
1 January 2022	33.1	177.1	(6.2)	137.5	23.8	319.4	684.7	0.7	685.4
Profit for the period	–	–	–	–	–	32.2	32.2	0.3	32.5
Exchange differences on translation of overseas operations	–	–	–	–	47.4	–	47.4	(0.1)	47.3
Movements on hedges of net investments	–	–	–	(2.9)	–	–	(2.9)	–	(2.9)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	0.1	0.1	–	0.1
Total comprehensive income for the period	–	–	–	(2.9)	47.4	32.3	76.8	0.2	77.0
Acquired in the year/settlement of share options	–	–	1.0	(1.0)	–	(0.2)	(0.2)	–	(0.2)
Share-based payments	–	–	–	2.9	–	–	2.9	–	2.9
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Dividends	–	–	–	–	–	(26.3)	(26.3)	–	(26.3)
30 June 2022	33.1	177.1	(5.2)	136.5	71.2	325.1	737.8	0.9	738.7

	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
1 January 2022	33.1	177.1	(6.2)	137.5	23.8	319.4	684.7	0.7	685.4
Profit for the year	–	–	–	–	–	73.7	73.7	0.6	74.3
Exchange differences on translation of overseas operations	–	–	–	–	57.4	–	57.4	(0.2)	57.2
Movements on hedges of net investments	–	–	–	(3.1)	–	–	(3.1)	–	(3.1)
Movements on cash flow hedges	–	–	–	(0.3)		–	(0.3)	–	(0.3)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	5.6	5.6	–	5.6
Total comprehensive income for the year	–	–	–	(3.4)	57.4	79.3	133.3	0.4	133.7
Acquired in the year/settlement of share options	–	–	1.0	(0.9)	–	(0.1)	–	–	–
Share-based payments	–	–	–	1.7	–	–	1.7	–	1.7
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Dividends	–	–	–	–	–	(38.5)	(38.5)	–	(38.5)
31 December 2022	33.1	177.1	(5.2)	134.9	81.2	359.8	780.9	1.1	782.0

Included in other reserves is a capital redemption reserve of £129.8m (31 December 2022: £129.8m; 30 June 2022 £129.8m) and a share-based payments reserve of £8.9m (31 December 2022: £6.7m; 30 June 2022: £7.9m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 30 June 2023, 2,148,679 (31 December 2022: 639,125; 30 June 2022: 642,544) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes. In the period ended 30 June 2023, 1.85m shares were purchased for the Bodycote International Employee Benefit Trust at a cost of £12.2m.

Notes to the condensed consolidated financial information
Accounting policies

Basis of preparation

These condensed consolidated financial statements for the half year ended 30 June 2023 have been prepared in accordance with the UK adopted International Accounting Standards 34, 'Interim financial reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority (FCA).

The Group has adopted Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee of the IASB (IFRS IC). Individual standards and interpretations have to be adopted by the UK Endorsement Board (UKEB) before being applied in the UK. International Financial Reporting Standards (IFRS) are subject to ongoing amendment by the IASB and subsequent endorsement by the UKEB and are therefore subject to change.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2022, which were prepared in accordance with UK adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under these standards.

The financial information does not constitute statutory accounts as defined by section 434 of the UK Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2022 has been delivered to the Registrar of Companies. The auditors have reported on those accounts; their reports were (i) unqualified and (ii) did not contain a statement under section 498 (2) or (3) of the UK Companies Act 2006. These interim financial statements have been reviewed, not audited.

The Group is not significantly affected by timing differences in its operations. As such, seasonality has had no material impact on the preparation of these condensed consolidated financial statements and notes.

Going concern

In determining the basis of preparation for the condensed consolidated financial statements, the Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Financial overview included in this Interim Report includes a summary of the Group's financial position, cash flows, liquidity position and borrowings.

The current and plausible impact of macro-economic factors, including the war in Ukraine, energy and price inflation, economic growth and global supply chain impacts on the Group's activities, performance and revenue, in addition to other factors and risks, have been considered by the Directors in preparing its going concern assessment. The Group has modelled a base case, which reflects the Directors' current expectations of future trading in addition to potential severe but plausible impacts on revenues, profits and cash flows in a downside scenario.

Management's base case scenario is built upon the forecasting processes for 2023 and extended up to December 2024. This model shows an improvement in performance in both revenue and profits compared to 2022. The Group's record of cash conversion was used to estimate the cash generation and level of net debt over that period. The severe but plausible downside scenario assumes a significant decline in revenues of around 19% below the base case modelled through to the end of December 2024, and would result in H2 2023 sales 15% below H1 2023 levels.

In performing the scenarios, the assessment has considered both liquidity and compliance with the Group's covenants. The key covenants attached to the Group's Revolving Credit Facility relate to financial gearing (net debt to EBITDA) and interest cover, which are measured on a pre-IFRS 16 basis. The maximum financial gearing ratio permitted under the covenants is 3.0x (with a one-time acquisition spike at 3.5x) and the minimum interest cover ratio permitted is 4.0x. In both the base case and the severe but plausible downside scenario modelled, the Group continues to maintain sufficient liquidity and meets its gearing and interest cover covenants under the Revolving Credit Facility with substantial headroom.

Management also performed a reverse stress test. This indicated that H2 2023 revenues would need to decline by approximately 40% compared to H1 2023 levels, with no growth in FY24, before the Group's loan covenants were breached at the December 2024 test date. In this scenario minimum liquidity was over £136m throughout the entire period. This scenario included the benefit of a reduction in capital expenditure and dividends, but no further mitigating actions, such as restructuring of the cost base.

The Group meets its working capital requirements through a combination of committed and uncommitted facilities and overdrafts. For the purposes of the going concern assessment, the Directors have only taken into account the capacity under existing committed facilities, being predominantly the Group’s Revolving Credit Facility.

The Group has access to a £250.9m Revolving Credit Facility maturing in May 2027. The Group’s committed facilities at 30 June 2023 totalled £255.4m while uncommitted facilities totalled £50.9m. At 30 June 2023, the Group’s Revolving Credit Facility had drawings of £52.4m (31 December 2022: £69.6m) and the Group’s net debt was £26.6m (31 December 2022: £33.4m). The liquidity headroom was £228.8m at 30 June 2023 (31 December 2022: £222.0m), excluding uncommitted facilities.

Following this assessment, the Directors have formed a judgement, at the time of approving the financial statements, that there are no material uncertainties that cast doubt on the Group’s going concern status and that it is a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the approval date of the condensed consolidated financial statements. For this reason, the Directors continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Changes in accounting policies

The same accounting policies, presentation and methods of computation are followed in the condensed consolidated financial statements as applied in the Group’s latest annual audited financial statements, except as set out below.

In determining the tax charge for the interim period under IAS 34, the Group has applied the forecast annual effective corporate income tax rate to the pre-tax income for the six month period.

The Group’s latest annual audited financial statements set out the key sources of estimation uncertainty and the critical judgements that were made in preparing those financial statements. These related to the assumptions used to account for retirement benefit schemes under IAS 19 (revised), the decision to not recognise an asset in relation to the surplus on the UK defined benefit pension scheme and the recognition of tax provisions. There have been no changes to these key sources of estimation uncertainty or these critical judgements since year end. The economy in Turkey remains subject to high inflation and the Group has concluded that applying IAS 29 (Financial Reporting in Hyperinflationary Economies) is not required as the impact of adopting this standard is not material but will continue to assess the position going forward.

Climate change is referred to in the Principal risks and uncertainties and Sustainability sections of the Strategic report and within other areas of judgement and accounting estimates in the consolidated financial statements within the Annual Report for the year ended 31 December 2022 and the Group’s view is that climate change does not create any further material estimation uncertainty at this time.

New standards and interpretations not yet applied

At the date of the approval of these condensed consolidated financial statements, there were no new or revised IFRSs, amendments or interpretations in issue but not yet effective that are potentially material to the Group and which have not yet been applied.

1. Business and geographical segments

The Group has more than 165 facilities 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 regularly 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 business reporting structure of the Group.
We have also presented combined results of our two key business areas, ADE and AGI. The split being driven by customer behaviour and requirements, geography and services provided. 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. Allocations of plants between ADE and AGI is therefore derived by reference to the preponderance of markets served.

	Half year to 30 June 2023			
Group	**ADE 30 June 2023 £m**	**AGI 30 June 2023 £m**	**Central costs and eliminations 30 June 2023 £m**	**Consolidated 30 June 2023 £m**
Revenue				
Total revenue	**180.5**	**239.6**	**–**	**420.1**
Result				
Headline operating profit[1] prior to share-based payments and unallocated central costs	**33.1**	**45.6**	**–**	**78.7**
Share-based payments (including social charges)[2]	**(0.9)**	**(1.9)**	**(2.4)**	**(5.2)**
Unallocated central costs	**–**	**–**	**(10.7)**	**(10.7)**
Headline operating profit/(loss)	**32.2**	**43.7**	**(13.1)**	**62.8**
Amortisation of acquired intangible assets	**(3.3)**	**(0.8)**	**–**	**(4.1)**
Acquisition costs	**–**	**–**	**–**	**–**
Operating profit/(loss) prior to exceptional items	**28.9**	**42.9**	**(13.1)**	**58.7**
Exceptional items	**–**	**–**	**–**	**–**
Segment result	**28.9**	**42.9**	**(13.1)**	**58.7**
Finance income				**0.5**
Finance charge				**(4.0)**
Profit before taxation				**55.2**
Taxation				**(12.3)**
Profit for the period				**42.9**

1 Headline operating profit is an alternative performance measure and is defined in the APM section.
2 £4.3m (31 December 2022: £1.7m; 30 June 2022: £2.9m) IFRS 2 share-based payment charge in the period/year plus £0.9m charge (31 December 2022: £0.1m credit; 30 June 2022 £0.2m credit) for social security.

Inter-segment sales are not material in the period.

The Group does not have any one customer that contributes more than 10% of revenue.

Aerospace, Defence & Energy	Half year to 30 June 2023 Western Europe 30 June 2023 £m	North America 30 June 2023 £m	Emerging markets 30 June 2023 £m	Total ADE 30 June 2023 £m
Revenue				
Total revenue	**84.6**	**92.3**	**3.6**	**180.5**
Result				
Headline operating profit prior to share-based payments	**18.4**	**14.8**	**(0.1)**	**33.1**
Share-based payments (including social charges)	**(0.3)**	**(0.6)**	**–**	**(0.9)**
Headline operating profit/(loss)	**18.1**	**14.2**	**(0.1)**	**32.2**
Amortisation of acquired intangible assets	**(0.2)**	**(3.1)**	**–**	**(3.3)**
Segment result	**17.9**	**11.1**	**(0.1)**	**28.9**

Automotive & General Industrial	Half year to 30 June 2023 Western Europe 30 June 2023 £m	North America 30 June 2023 £m	Emerging markets 30 June 2023 £m	Total AGI 30 June 2023 £m
Revenue				
Total revenue	**136.5**	**54.2**	**48.9**	**239.6**
Result				
Headline operating profit prior to share-based payments	**29.7**	**5.5**	**10.4**	**45.6**
Share-based payments (including social charges)	**(1.4)**	**(0.4)**	**(0.1)**	**(1.9)**
Headline operating profit	**28.3**	**5.1**	**10.3**	**43.7**
Amortisation of acquired intangible assets	**(0.2)**	**(0.4)**	**(0.2)**	**(0.8)**
Segment result	**28.1**	**4.7**	**10.1**	**42.9**

Group	Half year to 30 June 2022 ADE 30 June 2022 £m	AGI 30 June 2022 £m	Central costs and eliminations 30 June 2022 £m	Consolidated 30 June 2022 £m
Revenue				
Total revenue	148.9	209.6	–	358.5
Result				
Headline operating profit prior to share-based payments and unallocated central costs	24.2	35.8	–	60.0
Share-based payments (including social charges)	(0.9)	(0.8)	(1.0)	(2.7)
Unallocated central costs	–	–	(6.8)	(6.8)
Headline operating profit/(loss)	23.3	35.0	(7.8)	50.5
Amortisation of acquired intangible assets	(3.4)	(1.4)	–	(4.8)
Acquisition costs	–	–	(0.7)	(0.7)
Operating profit/(loss) prior to exceptional items	19.9	33.6	(8.5)	45.0
Exceptional items	(0.3)	0.1	0.2	–
Segment result	19.6	33.7	(8.3)	45.0
Finance income				0.1
Finance costs				(3.5)
Profit before taxation				41.6
Taxation				(9.1)
Profit for the period				32.5

Aerospace, Defence & Energy	Half year to 30 June 2022 Western Europe 30 June 2022 £m	 North America 30 June 2022 £m	 Emerging markets 30 June 2022 £m	 Total ADE 30 June 2022 £m
Revenue				
Total revenue	65.7	79.9	3.3	148.9
Result				
Headline operating profit prior to share-based payments	10.8	13.3	0.1	24.2
Share-based payments (including social charges)	(0.1)	(0.8)	–	(0.9)
Headline operating profit	10.7	12.5	0.1	23.3
Amortisation of acquired intangible assets	(0.2)	(3.2)	–	(3.4)
Operating profit prior to exceptional items	10.5	9.3	0.1	19.9
Exceptional items	0.5	(0.8)	–	(0.3)
Segment result	11.0	8.5	0.1	19.6

Automotive & General Industrial	Half year to 30 June 2022 Western Europe 30 June 2022 £m	 North America 30 June 2022 £m	 Emerging markets 30 June 2022 £m	 Total AGI 30 June 2022 £m
Revenue				
Total revenue	119.9	49.5	40.2	209.6
Result				
Headline operating profit prior to share-based payments	24.5	3.7	7.6	35.8
Share-based payments (including social charges)	(0.4)	(0.4)	–	(0.8)
Headline operating profit	24.1	3.3	7.6	35.0
Amortisation of acquired intangible assets	(0.2)	(1.0)	(0.2)	(1.4)
Operating profit prior to exceptional items	23.9	2.3	7.4	33.6
Exceptional items	0.2	(0.1)	–	0.1
Segment result	24.1	2.2	7.4	33.7

Group	Year ended 31 December 2022 ADE 31 Dec 2022 £m	 AGI 31 Dec 2022 £m	 Central costs and eliminations 31 Dec 2022 £m	 Consolidated 31 Dec 2022 £m
Revenue				
Total revenue	312.7	430.9	–	743.6
Result				
Headline operating profit prior to share-based payments and unallocated central costs	52.1	81.1	–	133.2
Share-based payments (including social charges)	(1.3)	(0.3)	–	(1.6)
Unallocated central costs	–	–	(19.4)	(19.4)
Headline operating profit/(loss)	50.8	80.8	(19.4)	112.2
Amortisation of acquired intangible assets	(6.9)	(2.4)	–	(9.3)
Acquisition costs	–	–	(0.9)	(0.9)
Operating profit/(loss) prior to exceptional items	43.9	78.4	(20.3)	102.0
Exceptional items	0.1	(0.2)	0.1	–
Segment result	44.0	78.2	(20.2)	102.0
Finance income				0.4
Finance costs				(7.1)
Profit before taxation				95.3
Taxation				(21.0)
Profit for the year				74.3

Aerospace, Defence & Energy	Year ended 31 December 2022 Western Europe 31 Dec 2022 £m	North America 31 Dec 2022 £m	Emerging markets 31 Dec 2022 £m	Total ADE 31 Dec 2022 £m
Revenue				
Total revenue	137.1	168.6	7.0	312.7
Result				
Headline operating profit prior to share-based payments	24.5	27.4	0.2	52.1
Share-based payments (including social charges)	(0.4)	(0.9)	–	(1.3)
Headline operating profit	24.1	26.5	0.2	50.8
Amortisation of acquired intangible assets	(0.4)	(6.5)	–	(6.9)
Operating profit prior to exceptional items	23.7	20.0	0.2	43.9
Exceptional items	0.7	(0.6)	–	0.1
Segment result	24.4	19.4	0.2	44.0

Automotive & General Industrial	Year ended 31 December 2022 Western Europe 31 Dec 2022 £m	North America 31 Dec 2022 £m	Emerging markets 31 Dec 2022 £m	Total AGI 31 Dec 2022 £m
Revenue				
Total revenue	241.6	103.0	86.3	430.9
Result				
Headline operating profit prior to share-based payments	51.6	12.1	17.4	81.1
Share-based payments (including social charges)	(0.6)	0.2	0.1	(0.3)
Headline operating profit	51.0	12.3	17.5	80.8
Amortisation of acquired intangible assets	(0.5)	(1.5)	(0.4)	(2.4)
Operating profit prior to exceptional items	50.5	10.8	17.1	78.4
Exceptional items	0.2	(0.3)	(0.1)	(0.2)
Segment result	50.7	10.5	17.0	78.2

2. Exceptional items

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
(0.8)	Severance and redundancy provision release	–	(0.5)
(0.1)	Net impairment reversal	–	(0.4)
1.0	Site closure costs	–	0.8
0.1	Losses on sales of property, plant and equipment recognised in exceptional items	–	0.2
(0.2)	Environmental provisions credit	–	(0.1)
–	Total exceptional items[1]	–	–

1 Non-exceptional costs relating to severance and redundancy, impairment charges and reversals, site closure costs and environmental provisions are booked to other operating expenses. Non-exceptional gains and losses on sales of property, plant and equipment are booked to other operating income.

In 2020, the Group announced an organisation restructuring initiative and a number of plants were closed as a result of these restructuring activities. The related costs were recorded as exceptional items in line with the Group's accounting policy for exceptional items.

No exceptional items have been recorded for the period ended 30 June 2023.

As at 30 June 2023, £2.0m (31 December 2022 £3.0m; 30 June 2022 £6.2m) was held as exceptional provisions relating to the exceptional restructuring initiative.

3. Taxation charge

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
21.3	Current taxation – charge for the period	**12.8**	10.4
(0.6)	Current taxation – adjustments in respect of previous years	**–**	(1.0)
0.3	Deferred tax	**(0.5)**	(0.3)
21.0	Total taxation charge	**12.3**	9.1

The headline rate of tax for the six months ended 30 June 2023 was 22.5% (31 December 2022: 22.3%; 30 June 2022: 22.2%) of the headline operating profit before tax. The statutory effective tax rate was 22.3% (31 December 2022: 22.1%; 30 June 2022: 21.9%).

On 20 June 2023, the Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Group has applied the exception under the proposed IAS 12 amendment related to recognising and disclosing information about deferred tax assets and liabilities for top-up income taxes. The Group is reviewing these rules to assess any potential impacts.

4. Dividends

Amounts recognised as distributions to equity holders in the period:

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
	Amounts recognised as distributions to equity holders in the period:		
26.3	Final dividend for the year ended 31 December 2021 of 13.8p per share	**–**	26.3
12.2	Interim dividend for the year ended 31 December 2022 of 6.4p per share	**–**	–
–	Final dividend for the year ended 31 December 2022 of 14.9p per share	**28.5**	–
38.5		**28.5**	26.3
	Interim dividend for the year ended 31 December 2023 of 6.7p per share	**–**	

The Board approved the payment of an interim dividend for 2023 of 6.7p on 10 November 2023 which has not been included as a liability in these condensed consolidated financial statements.

The dividends are waived on shares held by the Bodycote International Employee Benefit Trust.

5. Earnings per share

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

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
	Earnings		
73.7	Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**42.3**	32.2

Number		Number	Number
	Number of shares		
190,779,615	Weighted average number of ordinary shares for the purpose of basic earnings per share	**190,603,804**	190,744,285
	Effect of dilutive potential ordinary shares:		
384,848	Shares subject to performance conditions[1]	**278,130**	7,647
191,502	Shares subject to vesting conditions	**217,088**	185,487
191,355,965	Weighted average number of ordinary shares for the purpose of diluted earnings per share	**191,099,022**	190,937,419

Pence		Pence	Pence
	Earnings per share:		
38.6	Basic	**22.2**	16.9
38.5	Diluted[1]	**22.1**	16.9

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
	Headline earnings		
73.7	Net profit attributable to equity holders of the parent	**42.3**	32.2
	Add back:		
7.0	Amortisation of acquired intangible assets (net of tax)	**3.1**	3.6
0.7	Acquisition costs (net of tax)	**–**	0.6
81.4	**Headline earnings**	**45.4**	36.4

Pence		Pence	Pence
	Headline earnings per share:		
42.7	Basic	**23.8**	19.1
42.5	Diluted[1]	**23.7**	19.1

1 As at 30 June 2023, in accordance with IAS 33, the related performance conditions for most open share-based payment plans have not been met resulting in a 0.1p dilution of earnings per share (31 December 2022: 0.2p; 30 June 2022: nil). See the statement of equity for more information on shares held by the Bodycote International Employee Benefit Trust to satisfy share-based payments.

6. Goodwill

As at 31 Dec 2022 £m		**As at 30 June 2023 £m**	As at 30 June 2022 £m
	Cost		
274.5	At 1 January	**288.9**	274.5
14.1	Exchange differences	**(7.3)**	12.3
0.3	Recognised on acquisition of businesses	**–**	–
288.9	Total cost	**281.6**	286.8
	Accumulated impairment		
60.6	At 1 January	**61.1**	60.6
0.5	Exchange differences	**(0.4)**	0.5
61.1	Total accumulated impairment	**60.7**	61.1
227.8	**Carrying amount**	**220.9**	225.7

Goodwill acquired through business combinations is allocated to the cash generating units (CGUs) that are expected to benefit from the synergies of the combination. The recoverable amounts of these CGUs are the higher of fair value less costs to dispose and value-in-use. Goodwill is allocated across the Group's segments as follows:

As at 31 Dec 2022 £m		**As at 30 June 2023 £m**	As at 30 June 2022 £m
	ADE:		
27.2	Western Europe	**27.1**	26.9
100.9	North America	**97.3**	100.2
	AGI:		
28.2	Western Europe	**27.4**	27.8
59.4	North America	**57.1**	59.1
12.1	Emerging markets	**12.0**	11.7
227.8		**220.9**	225.7

In accordance with IAS 36, the Group tests goodwill at least annually for impairment, and performs a trigger assessment at the end of each reporting period to determine if there is any indication of impairment, or more frequently if there are indicators that goodwill might be impaired. The most recent impairment test was performed as at 31 December 2022 and no impairment was identified. For the six months ended 30 June 2023, the Group has performed a trigger assessment to determine whether impairment testing is required on any of its CGUs. This assessment focused on a review of the year to date performance of each CGU versus the budget, and then also considered the headroom as at 31 December 2022 to determine whether it was reasonably possible that the performance of any CGU in the six months ended 30 June 2023 could result in an impairment if a full test was performed. Following this review the Directors concluded that no impairment triggers were identified and consequently no impairment testing is required for the period 30 June 2023.

7. Financial Instruments

In accordance with IFRS 7 Financial Instruments Disclosures, the Group's derivative financial instruments are considered to be classified as level 2 instruments. Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

There have been no transfers of assets or liabilities between levels of the fair value hierarchy in the period ended 30 June 2023. The carrying values of financial instruments at amortised cost as presented in the condensed consolidated financial statements approximate their fair values.

The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are primarily denominated in the currencies of the Group's principal markets. The losses recognised in the condensed consolidated income statement on the contracts which matured in 2023 amounted to £nil (31 December 2022: £0.1m;

30 June 2022: £nil). The unrecognised gains and losses were not material in either the period ended 30 June 2023 or 2022.

In accordance with IFRS 7 Financial Instruments Disclosures, fair value is determined using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The Group's interest rate risk is primarily in relation to its floating rate borrowings (cash flow risk). From time-to-time the Group will use interest rate derivative contracts to manage its exposure to interest rate movements within Group policy. At 30 June 2023 the Group's only recent interest rate swap, which was classified as a level 2 instrument and measured at fair value had matured (fair value at 31 December 2022: -£0.3m; 30 June 2022: £nil).

The Group continues to draw on the Revolving Credit Facility (RCF) as this was used to partly fund an acquisition in 2020 and the related deferred consideration payments. The related loans are denominated in GBP, USD and EUR. Certain EUR and USD amounts are designated as net investment hedges to the Group's subsidiaries with a matching functional currency on a 1:1 ratio.

The foreign exchange gain of £1.9m (31 December 2022: £3.1m loss; 30 June 2022: £2.9m loss) on translation of borrowings to GBP at the end of the reporting period is recognised in other comprehensive income and accumulated in the foreign currency translation reserve in shareholder's equity. There was no ineffectiveness to be recorded from the net investment hedges.

8. Notes to the cash flow statement

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
74.3	Profit for the period	**42.9**	32.5
	Adjustments for:		
(0.4)	Finance income	**(0.5)**	(0.1)
7.1	Finance charge	**4.0**	3.5
21.0	Taxation charge	**12.3**	9.1
102.0	Operating profit	**58.7**	45.0
	Adjustments for:		
60.2	Depreciation of property, plant and equipment recognised in operating profit	**29.9**	29.3
13.0	Depreciation of right-of-use assets	**6.4**	6.5
11.1	Amortisation of other intangible assets	**5.0**	5.7
(1.7)	Profit on disposal of property, plant and equipment recognised in operating profit	**(1.1)**	(0.6)
0.1	Loss on disposal of property, plant and equipment recognised in exceptional items	**–**	0.2
(0.1)	Profit on disposal of right-of-use assets	**–**	–
1.7	Share-based payments	**4.3**	2.9
(0.1)	Impairment reversal of property, plant and equipment and other assets recognised in exceptional items	**–**	(0.4)
4.8	Impairment of property, plant and equipment and other assets recognised in operating profit	**0.1**	–
191.0	**EBITDA (See definition in APM section)**	**103.3**	88.6
(8.5)	Increase in inventories	**(0.6)**	(4.7)
(37.4)	Increase in receivables	**(8.8)**	(27.4)
12.6	Increase in payables	**5.1**	11.2
(3.7)	Decrease in provisions	**(1.1)**	(1.6)
154.0	**Cash generated by operations**	**97.9**	66.1
(15.4)	Income taxes paid	**(1.6)**	(5.3)
0.8	Settlement of derivatives	**(0.3)**	0.2
1.8	Refund of post settlement pension surplus	**–**	–
1.7	Net exchange differences	**(3.5)**	–
142.9	**Net cash from operating activities**	**92.5**	61.0

As at 31 Dec 2022 £m		**As at 30 June 2023 £m**	As at 30 June 2022 £m
	Cash and cash equivalents comprise:		
37.2	Cash and bank balances	**25.9**	36.2
(1.0)	Bank overdrafts (included in borrowings)	**(0.1)**	(2.9)
36.2		**25.8**	33.3

The cash and cash equivalents disclosed above in the statement of cash flows includes £0.8m (31 December 2022: £0.8m; 30 June 2022: £nil) held in escrow relating to environmental provisions in the USA and £1.6m (31 December 2022: £1.8m; 30 June 2022: £nil) held in the USA related to the refund of a pension surplus. The Group intends to use this refund of pension surplus cash to fund future pension contributions for its USA employees, otherwise the full amount will become subject to regulatory restrictions in the USA.

9. Related party transactions

Transactions between subsidiaries of the Group, which are related parties to each other, have been eliminated on consolidation and are not disclosed in this note. Information on the remuneration of the Board of Directors, who are considered key management personnel of the Group, is disclosed in note 26 to the consolidated financial statements in the 2022 Annual Report.

10. Contingent liabilities

The Group is subject to certain legal proceedings, claims, complaints and investigations arising out of the ordinary course of business. Legal proceedings may include, but are not limited to, alleged breach of contract and alleged breach of environmental, competition, securities and health and safety laws. The Group may not be insured fully, or at all, in respect of such risks. The Group cannot predict the outcome of individual legal actions or claims or complaints or investigations. The Group may settle litigation or regulatory proceedings prior to a final judgement or determination of liability. The Group may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when it considers it has valid defences to liability. The Group considers that no material loss is expected to result from these legal proceedings, claims, complaints and investigations. Provision is made for all liabilities that are expected to materialise through legal and tax claims against the Group.

Alternative performance measures – APMs

Bodycote uses various APMs, in addition to those measures reported under International Financial Reporting Standards (IFRS), as management consider these measures enable users of the financial statements to assess the headline trading performance of the business. These APMs of financial performance, position or cash flows are not defined or specified according to IFRS and are defined below and, where relevant, are reconciled to IFRS measures. APMs are prepared on a consistent basis for all periods presented in this report.

The APMs used include headline operating profit, headline operating margin, headline operating margin excluding surcharge revenue, headline profit before taxation, EBITDA, headline EBITDA, organic revenue, revenue excluding surcharges, headline tax charge, headline tax rate, headline earnings per share (EPS), headline operating cash flow, free cash flow, headline operating cash conversion, free cash flow conversion, net debt, net debt excluding lease liabilities and revenue and headline operating profit at constant exchange rates. These measures reflect the headline trading performance of the business as they exclude certain non-operational items, exceptional items, acquisition costs and the amortisation of acquired intangible assets. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, to better represent the trading performance of the Group. The measures described above are also used in the targeting process for executive and management annual bonuses (headline operating profit and headline operating cash flow) and executive share schemes (headline EPS).

The constant exchange rate comparison uses the current period/year reported segmental information, stated in the relevant functional currency, and translates the results into its presentational currency using the prior period's monthly exchange rates. Expansionary capital expenditure is defined as capital expenditure invested to grow the Group's business.

Headline operating profit

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
102.0	Operating profit	**58.7**	45.0
	Add back:		
9.3	Amortisation of acquired intangibles	**4.1**	4.8
0.9	Acquisition costs	**–**	0.7
–	Exceptional items	**–**	–
112.2	**Headline operating profit**	**62.8**	50.5

Headline operating margin

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
112.2	Headline operating profit	**62.8**	50.5
743.6	Revenue	**420.1**	358.5
15.1%	**Headline operating margin**	**15.0%**	14.1%

Headline operating margin excluding surcharge revenue

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
112.2	Headline operating profit	**62.8**	50.5
697.0	Revenue excluding surcharges	**380.7**	342.5
16.1%	**Headline operating margin excluding surcharge revenue**	**16.5%**	14.7%

Headline profit before taxation

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
95.3	Profit before taxation	**55.2**	41.6
	Add back:		
9.3	Amortisation of acquired intangibles	**4.1**	4.8
0.9	Acquisition costs	**–**	0.7
–	Exceptional items	**–**	–
105.5	**Headline profit before taxation**	**59.3**	47.1

EBITDA and Headline EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortisation)

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
102.0	Operating profit	**58.7**	45.0
84.3	Depreciation and amortisation	**41.3**	41.5
(0.1)	Impairment reversal of property, plant and equipment and other assets – recognised in exceptional items	**–**	(0.4)
4.8	Impairment of property, plant and equipment and other assets – recognised in operating profit	**0.1**	–
(1.7)	Profit on disposal of property, plant and equipment – recognised in operating profit	**(1.1)**	(0.6)
(0.1)	Profit on disposal of right-of-use assets – recognised in operating profit	**–**	–
0.1	Loss on disposal of property, plant and equipment – recognised in exceptional items	**–**	0.2
1.7	Share-based payments	**4.3**	2.9
191.0	**EBITDA**	**103.3**	88.6
0.9	Acquisition costs	**–**	0.7
(0.1)	Exceptional items, excluding impairments	**–**	0.2
(1.7)	Share-based payments	**(4.3)**	(2.9)
190.1	**Headline EBITDA**	**99.0**	86.6
25.6%	**Headline EBITDA margin**	**23.6%**	24.2%

Organic Revenue

Excludes revenues from acquisitions in the current and comparative period to provide a like-for-like comparison:

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
743.6	Total revenue	**420.1**	358.5
(8.6)	Less adjustments for revenue from acquisitions completed in the current or prior year	**–**	(4.8)
735.0	**Total organic revenue**	**420.1**	353.7

Revenue excluding surcharges

Year ended 31 Dec 2022 £m		**Half year to 30 June 2023 £m**	Half year to 30 June 2022 £m
743.6	Total revenue	**420.1**	358.5
(46.6)	Less energy surcharges	**(39.4)**	(16.0)
697.0	**Total revenue excluding surcharges**	**380.7**	342.5

Headline operating cash flow

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
190.1	Headline EBITDA	**99.0**	86.6
	Less:		
(52.2)	Net maintenance capital expenditure	**(28.4)**	(24.5)
(25.3)	Net working capital movement	**(8.5)**	(18.1)
112.6	**Headline operating cash flow**	**62.1**	44.0

Free cash flow

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
112.6	Headline operating cash flow	**62.1**	44.0
	Less:		
(7.4)	Restructuring cash flows	**(1.0)**	(4.3)
(5.8)	Interest paid	**(3.3)**	(2.6)
(15.4)	Income taxes paid	**(1.6)**	(5.3)
84.0	**Free cash flow**	**56.2**	31.8

Headline operating cash conversion

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
112.6	Headline operating cash flow	**62.1**	44.0
112.2	Headline operating profit	**62.8**	50.5
100.4%	**Headline operating cash conversion**	**98.9%**	87.1%

Free cash flow conversion

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
84.0	Free cash flow	**56.2**	31.8
112.2	Headline operating profit	**62.8**	50.5
74.9%	**Free cash flow conversion**	**89.5%**	63.0%

Headline tax charge

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
21.0	Tax charge	**12.3**	9.1
2.3	Tax on amortisation of acquired intangibles	**1.1**	1.2
0.2	Tax on exceptional items and acquisition costs	**–**	0.1
23.5	**Headline tax charge**	**13.4**	10.4

Headline tax rate

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
23.5	Headline tax charge	**13.4**	10.4
105.5	Headline profit before taxation	**59.3**	47.1
22.3%	**Headline tax rate**	**22.5%**	22.2%

Headline earnings per share

A detailed reconciliation is provided in note 5 of the condensed consolidated financial statements.

Net debt and net debt excluding lease liabilities

Year ended 31 Dec 2022 £m		Half year to 30 June 2023 £m	Half year to 30 June 2022 £m
37.2	Cash and bank balances	**25.9**	36.2
(1.0)	Bank overdrafts (included in borrowings)	**(0.1)**	(2.9)
(69.6)	Bank loans (included in borrowings)	**(52.4)**	(90.8)
(33.4)	**Net debt excluding lease liabilities**	**(26.6)**	(57.5)
(66.0)	Lease liabilities	**(62.2)**	(64.1)
(99.4)	**Net debt**	**(88.8)**	(121.6)

Revenue and headline operating profit at constant exchange rates

Reconciled to revenue and headline operating profit in the table below:

	Half year to 30 June 2023			
	ADE £m	**AGI £m**	**Central cost and eliminations £m**	**Consolidated £m**
Revenue	**180.5**	**239.6**	**–**	**420.1**
Constant exchange rates adjustment	**(5.5)**	**(6.8)**	**–**	**(12.3)**
Revenue at constant currency	**175.0**	**232.8**	**–**	**407.8**
Less energy surcharges	**(12.9)**	**(25.1)**	**–**	**(38.0)**
Revenue excluding surcharges at constant currency	**162.1**	**207.7**	**–**	**369.8**

Headline operating profit	**32.2**	**43.7**	**(13.1)**	**62.8**
Constant exchange rates adjustment	**(0.8)**	**(0.3)**	**0.3**	**(0.8)**
Headline operating profit at constant currency	**31.4**	**43.4**	**(12.8)**	**62.0**

Company information

Financial calendar

Results for 2023	March 2024
Annual General Meeting	May 2024
Final dividend for 2023	June 2024
Interim results for 2024	July 2024
Interim dividend for 2024	November 2024

Shareholder enquiries

Enquiries on the following administrative matters can be addressed to the Company's registrars at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone +44 (0)333 207 5951. Lines open 8:30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales); Email: Log on to help. shareview.co.uk (from here you will be able to email your query securely).

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

Forms for some of these matters can be downloaded from the registrars' website www.shareview.co.uk. Shareholders can easily access and maintain their shareholding online by registering at www.shareview.co.uk. To register, shareholders will require their shareholder reference number which was recently provided.

Shareholder dealing service

For information on the share dealing service offered by Equiniti Limited, telephone +44 345 603 7037. Lines open 8.00am to 4.30pm (UK time), Monday to Friday excluding public holidays in England and Wales). Please either telephone Equiniti or look online at www.shareview.co.uk for the up to date commission rates.

General information

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 FCA Electronic Submission System which is situated at: https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

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