Bodycote plc
Audited results for the year ended 31 December 2016

Financial highlights	**2016**	2015	*% change*
Revenue	**£600.6m**	£567.2m	*5.9*
Headline operating profit[1]	**£99.6m**	£102.1m	*(2.4)*
Return on sales[2]	**16.6%**	18.0%	
Headline profit before taxation[1]	**£97.0m**	£99.2m	*(2.2)*
Headline operating cash flow[3]	**£91.4m**	£81.6m	*12.0*
Net cash	**£1.1m**	£12.3m	
Basic headline earnings per share[5]	**37.0p**	39.5p	*(6.3)*
Ordinary dividend per share	**15.8p**	15.1p	*4.6*
Return on capital employed[6]	**17.1%**	19.0%	

Statutory results

Operating profit	**£94.5m**	£77.9m
Profit before taxation	**£91.9m**	£75.0m
Operating cash flow[4]	**£83.2m**	£73.2m
Basic earnings per share	**35.2p**	29.6p

Highlights

- Robust performance; excluding energy, revenues at constant exchange rates were flat[7], with momentum building throughout the year
- Total Group like-for-like revenues down 3.5%[7]
- Headline operating margin resilient at 16.6%
- Headline operating cash conversion at 92%; £61m free cash flow
- Investment for future growth continued; Specialist Technologies now generates 42% of profit
- Five plants acquired for consideration of £30m; £20m annualised revenue at average Group margins
- Full year dividend 15.8p, up 4.6%

Commenting, Stephen Harris, Group Chief Executive said:
"The Group delivered a robust performance in 2016 despite significant headwinds in some key business sectors. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, resulted in resilient margins.

While our business, by its nature, has limited forward visibility, we continue to demonstrate that we are capable of adapting with great agility to changes in market conditions. Our outlook is positive and we remain optimistic that we are well placed to take advantage of an upturn in our markets.

The Board is confident that management's continued focus on business improvements and execution of the Group strategy will generate good returns through the cycle."

Definitions:

[1] Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £4.5m (2015: £4.2m), reorganisation costs of £nil (2015: £20.0m) and acquisition costs of £0.6m (2015: £nil).

[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 stated before cash flow relating to restructuring of £7.6m (2015: £8.4m) and acquisition costs of £0.6m (2015: £nil).

[4] Operating cash flow is defined as cash generated by operations of £146.3m (2015: £134.5m) less net capital expenditure of £63.1m (2015: £61.3m).

[5] A detailed reconciliation is provided in note 4 to this announcement.

[6] Return on capital employed (ROCE) is defined as headline operating profit of £99.6m (2015: £102.1m) divided by the average of opening and closing capital employed of £582.3m (2015: £538.4m) as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash/(debt).

[7] Like-for-like year-on-year revenue growth rates are at constant exchange rates and exclude acquisitions, closed sites and the impact of the disposal of businesses.

A live webcast of the analysts' meeting will be available from 10.30am at www.bodycote.com.

For further information, please contact:

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OVERVIEW
Reported revenues for the Group were up 6% in 2016. However, the significant weakness in the oil & gas market and the knock-on effect on general industrial demand continued to exert considerable downward pressure on Group results. Group revenue on a like-for-like basis[1] was down 3.5%. Like-for-like sales to the energy markets were down 27%. Excluding the impact of these falling energy revenues, the Group had flat sales year on year. It should be noted that like-for-like revenues at the half year were down 6%. The improved performance for the full year was due to a notable pickup in activity in the fourth quarter.

Civil aerospace in Western Europe was strong, particularly in the second half, while the North American business was more mixed as the supply chains for this sector continue to go through adjustment associated with the changeover of aircraft and engine platforms.

In automotive, car and light trucks built on the strong start to 2016, accelerating through the year such that the second half growth rate was 6% on a like-for-like basis. While the background market demand in the car and light truck market has moderated over recent months, Group revenues continue to grow on the back of new programme wins.

Specialist Technologies performed well overall, increasing their contribution to Group headline operating profit to 42%. While two of these technologies, Surface Technology and HIP Product Fabrication, continued to be hard hit by low levels of activity in the oil & gas sector, the remaining technologies once again showed good growth. Margins continued to exceed 30% in Specialist Technologies.

The Group's headline operating margin[2] was resilient at 16.6%. Headline operating profit declined 2% from £102.1m to £99.6m (13% at constant exchange rates). The robust margin performance was partly helped by favourable currency translation. However, the Bodycote Margin Model is helping to drive improvements and this, together with the improved flexibility the Group now has in its cost base and the favourable impact on mix coming from Specialist Technologies, combined to deliver margin resilience that would not have been possible in past downturns.

We completed the acquisition of five plants in 2016, in line with our bolt-on strategy in Classical Heat Treatment. In some cases these acquisitions brought new capability into the Group, but in all cases they strengthened our network and enhanced our local cluster strength. They were all completed in the second half of the year with the majority in the final quarter and, correspondingly, had an immaterial impact on our Group result. They will, on the other hand, provide us with a small impetus as we enter 2017. Annualised sales from the acquisitions will be around £20m, with average Group margins expected to be achieved in 2017. We have a good acquisition pipeline and fully intend to continue to execute these acquisition opportunities provided we are confident that they will create further shareholder value.

Basic headline earnings per share were 37.0p, a decline of 6%, principally reflecting a higher tax rate in 2016. Cash generation has remained strong, with 92% of headline operating profit turned into cash[3] (2015: 80%). Indeed, even after spending £30m on acquisitions, capital investment of £63m (corresponding to 1.1 times depreciation), restructuring costs and £48m of dividends, the Group's year end net cash position only reduced by £11.2m to £1.1m (2015: £12.3m). The Group continues to be in a strong financial position with plenty of available financial headroom.

[1] Like-for-like year-on-year revenue growth rates are at constant exchange rates and exclude acquisitions, closed sites and the impact of the disposal of businesses.
[2] Headline operating margin is defined as headline operating profit as a percentage of revenue.
[3] Cash conversion is defined as headline operating cash as a percentage of headline operating profit.

DIVIDEND
The Board considers the dividend to be an important component of shareholder returns and is proposing a final ordinary dividend of 10.8p, an increase of 4.9%, which will be paid on 2 June 2017, subject to shareholder approval at the 2017 Annual General Meeting (AGM). This brings the total ordinary dividend for 2016 to 15.8p (2015: 15.1p) costing £20.5m which represents a year-on-year increase of 4.6%. The Board is not recommending a special dividend this year, noting that, on top of the bolt-on acquisitions completed in 2016, there is a pipeline of further potential transactions, as well as other investments to support growth, which the Board believes will deliver superior returns for shareholders.

STRATEGIC PROGRESS
We continued our strategy of investing in areas where we see high-growth potential but are always mindful of the Group's minimum 20% hurdle rate for return on capital employed. Expenditure in the year included new facilities in the USA, Mexico, Poland and France, as well as continued expansion of our Specialist Technologies' capacities and capabilities, and further deployment of the Group's ERP programme. The strategy of preferential investment in Specialist Technologies continues to benefit the Group.

The Group's strategy remains relevant and unaltered. The drive for operational efficiency in the more mature parts of the business, expansion of the Group's footprint in rapid-growth countries and the focus on growth in the higher value-added businesses, particularly Specialist Technologies, are all designed to increase the quality of the Group's earnings and create significant value. We have made further progress during this challenging year and remain readier than ever to respond to developments in our markets.

SUMMARY AND OUTLOOK
The Group delivered a robust performance in 2016 despite significant headwinds in some key business sectors. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, resulted in resilient margins.

While our business, by its nature, has limited forward visibility, we continue to demonstrate that we are capable of adapting with great agility to changes in market conditions. Our outlook is positive and we remain optimistic that we are well placed to take advantage of an upturn in our markets.

The Board is confident that management's continued focus on business improvements and execution of the Group strategy will generate good returns through the cycle.

BUSINESS PERFORMANCE

	2016 £m	2015 £m
Revenue	**600.6**	567.2
Operating profit	**94.5**	77.9
Acquisition costs	**0.6**	-
Reorganisation costs	**-**	20.0
Operating profit prior to exceptional items	**95.1**	97.9
Amortisation of acquired intangible fixed assets	**4.5**	4.2
Headline operating profit	**99.6**	102.1

Group revenue was £600.6m, a decrease of 4.7% at constant exchange rates and 3.5% on a like-for-like basis, with revenue at actual exchange rates up 5.9% as a result of the significant depreciation in the value of sterling following the UK's EU referendum in June.

Headline operating profit for the year decreased by 2.4% from £102.1m to £99.6m and headline operating margin was 16.6% (2015: 18.0%). While profitability and margins were negatively impacted by lower sales, the significant depreciation in sterling tempered the operating profit decline at actual exchange rates.

Cash flow is analysed as follows:

	2016 £m	2015 £m
Headline operating profit	**99.6**	102.1
Add back non-cash items:		
Depreciation and amortisation	**55.2**	49.6
Impairment of fixed assets	**5.1**	-
Share-based payments	**0.5**	(0.4)
Profit on disposal of property, plant and equipment	**(4.5)**	(2.1)
Headline EBITDA[1]	**155.9**	149.2
Net capital expenditure	**(63.1)**	(61.3)
Net working capital movement	**(1.4)**	(6.3)
Headline operating cash flow	**91.4**	81.6
Cash cost of restructuring	**(7.6)**	(8.4)
Acquisition costs	**(0.6)**	-
Operating cash flow	**83.2**	73.2
Interest	**(2.3)**	(2.6)
Taxation	**(20.4)**	(23.2)
Free cash flow	**60.5**	47.4

Operating cash flow was £83.2m (2015: £73.2m) with the increase, compared to prior year, mainly attributable to improved working capital flows. Group net cash at 31 December 2016 was £1.1m (2015: £12.3m).

Capital spend (net of asset sales) in 2016 was £63.1m (2015: £61.3m), being 1.1 times depreciation[2] (2015: 1.2 times). There was a working capital inflow in the year as the higher than average inventory levels present at the end of 2015 decreased to more normal levels. The increase in receivables was driven by increased activity in the final quarter of 2016.

[1] Earnings before interest, tax, depreciation, amortisation, share-based payments, impairment of fixed assets, profit or loss on disposal of property, plant and equipment and exceptional items.

[2] Net capital expenditure to depreciation ratio is defined as capital expenditure less proceeds from asset disposals as a proportion of depreciation and amortisation.

KEY PERFORMANCE INDICATORS

The Group focuses on a small number of Key Performance Indicators (KPIs), which cover both financial and non-financial metrics.

The financial KPIs are Return on Capital Employed[1], Return on Sales[2], Headline Earnings per Share[3] and Headline Operating Cash Flow[4]. The non-financial KPIs are Accident Frequency[5] and Carbon Footprint[6].

Financial

Return on capital employed decreased by 1.9 percentage points during the year, from 19.0% to 17.1%. Headline operating profit decreased by 2.4% from £102.1m to £99.6m, while average capital employed increased by 8.2% to £582.3m.

Return on sales decreased by 1.4 percentage points during the year, from 18.0% to 16.6%. Revenue increased by 5.9% from £567.2m to £600.6m.

Headline earnings per share decreased by 2.5 pence (6.3%) during the year, from 39.5 pence to 37.0 pence.

Headline operating cash flow for the Group was £91.4m (2015: £81.6m). This was 92% of headline operating profit (2015: 80%).

Non-financial

Bodycote works tirelessly to reduce workplace accidents and is committed to providing a safe environment for everyone who works at or visits our locations. The accident frequency rate has increased to 1.5 in the year (2015: 1.4).

On a normalised basis, the carbon footprint decreased by 4.1% from 558.4 tonnes per £m sales to 535.6 tonnes per £m sales.

[1] Headline operating profit as a percentage of the average of opening and closing capital employed as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash/(debt).
[2] Headline operating profit as a percentage of revenue.
[3] Headline earnings per share is defined in note 4 to this announcement.
[4] Headline operating cash flow stated before cash flow relating to restructuring of £7.6m (2015: £8.4m) and acquisition costs of £0.6m (2015: £nil).
[5] Accident frequency is defined as the number of lost time accidents x 200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.
[6] Carbon footprint is defined as tonnes of CO_2 equivalent emissions divided by £m revenue. CO_2 equivalent emissions are calculated by taking electricity and gas usage in kilowatt hours and multiplying by country specific conversion factors provided by the International Energy Agency (IEA). Normalised emissions statistics restate prior year figures using current year country specific conversion (IEA) factors and current year average exchange rates.

MARKETS

Aerospace, Defence & Energy markets

Civil aerospace revenues increased in 2016 by 2%[1] at constant exchange rates (12%[1] at actual exchange rates), with strong growth in Western Europe. Available seat kilometres grew globally again in 2016 by a further 6%, and prospects remain good, with a number of key development programmes expected to boost output in coming years once they are properly up and running. In the meantime, supply chain adjustments and the exact pace of the changeover of aircraft and engine platforms make this a difficult market to forecast.

Revenues in oil & gas were substantially lower again in 2016, falling by more than 40%[1] at constant exchange rates as a result of the knock-on impact from the fall in crude oil prices noted above. The Specialist Technologies of HIP Product Fabrication and Surface Technology were both affected as the commercial rationale for oil field projects remained difficult at current crude oil prices. While crude oil prices closed 2016 at their highest levels in over two years, they remain at less than half the prices seen through most of 2011 to 2014. It is too early to tell whether investment will pick up in the oil & gas sector in the near term.

Automotive & General Industrial markets

Automotive revenues increased year on year by 2%[1] at constant exchange rates (13%[1] at actual exchange rates), reflecting a strong performance in car and light truck, particularly in the second half. This was most notable in businesses served by our Western European plants, which benefited from the buoyant global market, as well as new contract wins. Car and light truck revenue growth of 3%[1] in the first half accelerated to 6%[1] in the second half. Heavy truck revenues, on the other hand, were weak, reflecting softness in the heavy truck market more generally.

Bodycote also provides services for a wide range of capital equipment customers in our General Industrial markets. In 2016, these customers suffered from the knock-on effect of lower demand from the oil & gas and other resources sectors. As a result, General Industrial revenues fell by 3%[1] at constant exchange rates (8%[1] increase at actual exchange rates).

[1] Like-for-like year-on-year revenue growth rates exclude acquisitions, closed sites and the impact of the disposal of businesses.

BUSINESS REVIEW – AEROSPACE, DEFENCE & ENERGY

Within the Aerospace, Defence & Energy (ADE) business, our customers think and operate globally and increasingly expect Bodycote to service them in the same way. Consequently, the ADE business is organised globally. This gives Bodycote a notable advantage as the only thermal processing company with a global footprint and an understanding of operating in all of the world's key manufacturing areas. A number of Bodycote's multinational customers fall within the compass of ADE and Bodycote intends to continue to leverage its unique market position to increase revenues in these market sectors. The business incorporates the Group's activities in hot isostatic pressing and surface technology as well as the relevant heat treatment services, encompassing 63 facilities in total.

Results

Revenues for the ADE business were £250.9m in 2016 compared to £243.5m in 2015, an increase of 3.0% (6.7% decrease at constant exchange rates). Sales declined in the business' key geographies, with the weakness in the oil & gas market hitting both Western Europe and North America. On the positive side, Western Europe enjoyed strong aerospace sales in France throughout the year, as well as in the UK in the second half, and the IGT and power generation businesses also registered growth. North America had a tough year all round with lower aerospace revenues as the business jet market suffered and there was some Original Equipment Manufacturer (OEM) supply chain realignment.

Headline operating profit[1] for ADE was £55.6m (2015: £59.2m) and headline operating profit margin reduced from 24.3% to 22.2%, once again demonstrating good cost control in the face of reduced sales.

Net capital expenditure in 2016 was £19.9m (2015: £17.4m) which represents 1.0 times depreciation (2015: 0.9 times). The Group continued to invest in additional capacity, with investments in new facilities in Poland, France and the US, as well as the relocation of a US facility. We will continue to add further capacity as we identify market opportunities and support anticipated growth in the Group's Specialist Technologies and other high-value offerings.

Return on capital employed in 2016 was 19.7% (2015: 23.0%), reflecting the drop in ADE profitability noted above.

Achievements in 2016

The ADE business made further progress during the year as it continued to ramp up support for the new and growing civil aerospace programmes. The new facilities, noted above, will ramp up in 2017, contributing to Group revenue. They will inevitably experience the normal start-up losses but will contribute to Group profitability beyond 2017.

Organisation and people

Total full-time equivalent headcount at 31 December 2016 was 1,706 (2015: 1,785), a decrease of 4.4% compared to the revenue decline in ADE of 6.7% (at constant exchange rates).

Looking ahead

We expect to see continued modest growth in our civil aerospace business and, depending on the actions of the new USA administration, we may see some pick up in our defence business. We anticipate no near-term improvement in the oil & gas sector and are likely to see continued negative year-on-year development as the business enters 2017 at a weaker level than a year ago. However, Bodycote believes it is well placed to respond to any developments in its markets and capitalise on its world-leading position in the aerospace, defence and energy markets.

[1] Headline operating profit is reconciled to operating profit in note 1 to this announcement. Bodycote plants do not exclusively supply services to customers of a given market sector.

BUSINESS REVIEW – AUTOMOTIVE & GENERAL INDUSTRIAL

Whilst the Automotive & General Industrial (AGI) marketplace has many multinational customers, which tend to operate on a regionally-focused basis, it also has numerous medium-sized and smaller businesses, all of whom are very important to Bodycote. Generally, there are more competitors to Bodycote in AGI and much of the business is locally oriented, meaning that proximity to the customer is very important. Bodycote's extensive network of 126 AGI facilities enables the business to offer the widest range of technical capability and security of supply, while continuing to increase the proportion of technically differentiated services that it offers. Bodycote has a long and successful history of serving this wide-ranging customer base.

Results

AGI business revenues were £349.7m in 2016, compared to £323.7m in 2015, an increase of 8.0% (3.2% decrease at constant exchange rates).

AGI revenues saw a small benefit from the acquisitions made towards the end of the year. However, this was more than offset by the impact of plant closures from 2015. As a result, like-for-like AGI sales were down a modest 1.8% for the full year, with the second half revenues virtually flat against the same period in 2015. Weakness in the General Industrial business was more pronounced in North America than in Western Europe, but Emerging Markets registered good growth. While some OEM destocking held our business back in North America, car and light truck revenues were strong in Western Europe, with solid growth in the key French and German markets, as we won business building on the strengths of our Specialist Technologies. Strong car and light truck revenue growth was recorded in Emerging Markets, as the Group benefited from its investments in these markets. The depressed bus and heavy trucks market negatively impacted sales in the USA and Sweden.

Headline operating profit[1] in AGI was £58.5m compared to £53.4m in 2015. Headline operating margin increased to 16.7% (2015: 16.5%), reflecting a further improvement in mix towards higher value work, along with strong cost control. Revenues from the Group's Specialist Technologies grew well at high margins.

Net capital expenditure in 2016 was £37.4m (2015: £39.8m), which represents 1.1 times depreciation (2015: 1.3 times). This included further investments in China, Mexico, Czech Republic and Turkey. The Group also completed the acquisition of five plants for total consideration of £30.2m as part of its bolt-on acquisition strategy, adding sites in Germany, the USA and Canada.

Return on capital employed in 2016 decreased to 15.2% (2015: 16.0%), reflecting the lower profitability as a result of lower sales. It is worth noting that the acquisitions have impacted the average opening and closing capital employed figures significantly more than they have contributed in terms of profitability, given that they all completed towards the end of the year. Excluding acquisitions, return on capital employed would have been 15.5%.

Achievements in 2016

AGI has clearly had to contend with weak General Industrial demand across all of its territories. Nonetheless, the continued development of our Emerging Markets businesses in China, Mexico, Czech Republic and Poland has been pleasing. We continue to win good high-margin business, and our AGI focused Specialist Technologies of S^{3}P, Low Pressure Carburising and Corr-I-Dur® all continue to be a key driver of the improved profitability in the AGI business.

Organisation and people

At 31 December 2016, the number of full-time equivalent employees in AGI was 3,502 (including 188 from acquired businesses) compared to 3,331 at the end of 2015 and its peak of 5,244 in July 2008.

Looking ahead
The decline in the General Industrial business has undoubtedly been largely driven by the knock-on impact on capital equipment demand from lower activity in the oil & gas and other resources sectors. We do not foresee further significant declines in these markets. As far as the Automotive business is concerned, any policy changes by the new USA administration towards the existing USA fuel efficiency targets (and on international trade agreements more generally) could have an impact on our business but the likely outcome is unpredictable at this stage.

The multinational nature of Bodycote's AGI businesses puts us in a great position to take advantage of market developments. In the meantime, we will continue to build on the success of enhancing margins through capturing high-value work. The focus on improving customer service helps drive this effort while the prioritisation of existing capacity in favour of higher-value work and investing in Specialist Technologies provides additional momentum. In addition the Group will continue with its strategy of adding to its existing footprint in the rapid-growth countries when the right opportunities at the right price present.

[1] Headline operating profit is reconciled to operating profit in note 1 to this announcement. Bodycote plants do not exclusively supply services to customers of a given market sector.

FINANCIAL OVERVIEW

	2016 £m	2015 £m
Revenue	**600.6**	567.2
Headline operating profit	**99.6**	102.1
Amortisation of acquired intangible fixed assets	**(4.5)**	(4.2)
Operating profit prior to exceptional items	**95.1**	97.9
Acquisition costs	**(0.6)**	-
Reorganisation costs	**-**	(20.0)
Operating profit	**94.5**	77.9
Net finance charge	**(2.6)**	(2.9)
Profit before taxation	**91.9**	75.0
Taxation	**(24.9)**	(18.8)
Profit for the year	**67.0**	56.2

Group revenue was £600.6m, an increase of 5.9%, with revenues at constant exchange rates down 4.7% and foreign exchange rate movements having a positive impact of 10.6%.

Headline operating profit for the year decreased by 2.4% from £102.1m to £99.6m, and headline operating margin was 16.6% (2015: 18.0%). Headline operating profit at constant exchange rates decreased by £13.7m, whilst favourable foreign exchange rate movements increased headline operating profit by £11.2m. The drop in headline operating profit as a proportion of the drop in revenue, both at constant exchange rates, was 51%. Given that most of the Group's costs are fixed in the very short term, this creditable result is testament to the Group's dedication to act quickly to adjust the cost base when weaker demand is experienced.

The amortisation of acquired intangible assets arises from acquisitions in the current and prior years. The charge has increased to £4.5m (2015: £4.2m).

Operating profit was £94.5m (2015: £77.9m) after charging £4.5m (2015: £4.2m) in respect of the amortisation of acquired intangible assets, £0.6m (2015: £nil) of acquisition costs and reorganisation costs of £nil (2015: £20.0m).

Headline operating cash flow[1] for the Group was £91.4m (2015: £81.6m). This was 92% of headline operating profit (2015: 80%), reflecting improved working capital flows compared with last year. Net working capital in the year benefited from higher than average inventory levels present at the end of 2015 decreasing to more normal levels. The increase in receivables was driven by increased activity in the final quarter of 2016. Net capital expenditure was 1.1 times depreciation (2015: 1.2 times). It is worth noting that only half of this capital expenditure was expended to maintain the Group's existing business. The other half was expended to help grow the business in the future, most notably in greenfield facilities and in expanding capacity in our high-margin Specialist Technologies businesses.

After deducting interest and tax, the Group recorded positive free cash flow[1] of £60.5m (2015: £47.4m).

[1] Headline operating cash flow and free cash flow are reconciled in the Business Performance section of this announcement.

EXCEPTIONAL COSTS
Total exceptional costs charged to the income statement amounted to £0.6m (2015: £20.0m) and related to acquisition costs. In 2015 reorganisation costs amounting to £23.8m were incurred, offset by a profit on disposal of the Group's Brazilian and Indian operations of £3.8m.

Restructuring provisions outstanding at 31 December 2016 totalled £13.3m (2015: £14.7m), of which £9.7m is expected to be spent in 2017. All expenditure anticipated after the end of 2017 relates to ongoing environmental remediation, primarily in the USA.

PROFIT BEFORE TAXATION
Headline profit before taxation was £97.0m (2015: £99.2m). Profit before taxation was £91.9m (2015: £75.0m). These amounts are reconciled as follows:

	2016 £m	2015 £m
Headline operating profit	**99.6**	102.1
Net finance charge	**(2.6)**	(2.9)
Headline profit before taxation	**97.0**	99.2
Amortisation of acquired intangible fixed assets	**(4.5)**	(4.2)
Profit before taxation prior to exceptional items	**92.5**	95.0
Acquisition costs	**(0.6)**	-
Reorganisation costs	**-**	(20.0)
Profit before taxation	**91.9**	75.0

FINANCE CHARGE
The net finance charge was £2.6m compared to £2.9m in 2015. The net finance charge is lower as a result of lower interest rates and financing costs.

	2016 £m	2015 £m
Net interest payable	**0.2**	0.3
Financing costs	**1.3**	1.5
Bank and other charges	**0.8**	0.8
Pension finance charge	**0.3**	0.3
Net finance charge	**2.6**	2.9

TAXATION
The taxation charge was £24.9m for the year (2015: £18.8m).

The headline taxation rate for 2016 was 27.5% (2015: 24.4%), being stated before accounting for exceptional items and amortisation of goodwill and acquired intangibles. The rate in 2015 benefited from the recognition of some brought forward tax losses. 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 (as defined in note 4 to this announcement) decreased to 37.0p from 39.5p. Basic earnings per share for the year increased to 35.2p from 29.6p, with the prior year significantly impacted by reorganisation costs.

DIVIDEND AND DIVIDEND POLICY
The Group aims to pay ordinary dividends so that dividend cover will be at or above 2.0 times earnings. The Board may also recommend payment of a supplemental distribution to shareholders. The amount of any supplemental distribution will be assessed in light of the cash position of the Group, along with funding requirements for both organic growth and acquisitions.

The Board has recommended a final ordinary dividend of 10.8p (2015:10.3p) bringing the total ordinary dividend to 15.8p per share (2015: 15.1p). If approved by shareholders, the final ordinary dividend of 10.8p per share will be paid on 2 June 2017 to all shareholders on the register at the close of business on 21 April 2017.

CAPITAL STRUCTURE
The Group's balance sheet at 31 December 2016 is summarised below:

	Assets £m	Liabilities £m	**Net assets £m**
Property, plant and equipment	509.0	-	509.0
Goodwill and intangible assets	206.7	-	206.7
Current assets and liabilities	163.8	(181.7)	(17.9)
Other non-current assets and liabilities	0.4	(13.2)	(12.8)
Retirement benefit obligations	-	(21.5)	(21.5)
Deferred tax	32.5	(68.8)	(36.3)
Total before net cash	912.4	(285.2)	627.2
Net cash	12.0	(10.9)	1.1
Net assets as at 31 December 2016	**924.4**	**(296.1)**	**628.3**
Net assets as at 31 December 2015	805.5	(255.9)	549.6

Net assets increased by £78.7m (14.3%) to £628.3m (2015: £549.6m), mainly as a result of the positive translation impact following the significant depreciation in the value of sterling after the UK's EU referendum. At constant exchange rates, net assets decreased by £22.5m (4.1%).

NET CASH
Group net cash at 31 December 2016 was £1.1m (2015: £12.3m). The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of funding.

CASH FLOW
The net decrease in cash and cash equivalents was £6.5m (2015: £23.6m), made up of net cash from operating activities of £125.9m (2015: £111.3m), less investing activities of £84.6m (2015: £59.9m) and less cash used in financing activities of £47.8m (2015: £75.0m).

The increase in net cash flow from operating activities from £111.3m to £125.9m was driven primarily by the increase in EBITDA from £134.9m to £155.2m.

Net cash outflows from investing activities increased from £59.9m to £84.6m, primarily as a result of the acquisition of various businesses in the year. The level of net capital expenditure in 2016 was £63.1m (2015: £61.3m), consistent with plans to increase the Group's capacity in its Specialist Technologies and high-growth markets.

Net cash outflows used in financing activities decreased from £75.0m to £47.8m, primarily due to the decrease in dividend payments, from £66.0m in 2015 to £48.1m in 2016.

Receivable days at 31 December 2016 increased by one day to 63 days (2015: 62 days).

Net interest payments for the year were £2.3m (2015: £2.6m). Tax payments were £20.4m (2015: £23.2m).

CAPITAL EXPENDITURE

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £63.1m (2015: £61.3m). The multiple of net capital expenditure to depreciation was 1.1 times (2015: 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. Crucially, almost half of the Group's capital expenditure was expended to help grow the business in the future, most notably in greenfield facilities and in expanding capacity in our high-margin Specialist Technologies businesses. As a consequence of the timing of all these key projects, the value of assets under construction has increased by £16.9m, from £51.6m in 2015 to £68.5m in 2016.

BORROWING FACILITIES

The Group is financed by a mix of cash flows from operations, short-term borrowings, long-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. The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of long-term funding.

The total undrawn committed facility funding available to the Group at 31 December 2016 was £225.0m (2015: £230.0m). At 31 December 2016, 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 July 2019	230.0	5.0	225.0

CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising capital, reserves and retained earnings.

The capital structure is reviewed regularly by the Board. The Group's policy is to maintain gearing, determined as the proportion of net debt to total capital, within defined parameters, allowing movement in the capital structure appropriate to the business cycle and corporate activity. Due to the net cash position at 31 December 2016 the gearing ratio is 0% (2015: 0%).

GOING CONCERN

In determining the basis of preparation for the Annual Report, the directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. 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 cash resources, committed and uncommitted facilities and overdrafts. The overdrafts and uncommitted facilities are repayable on demand but the committed facilities are due for renewal as set out below. There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future.

The committed facilities as at 31 December 2016 were as follows:

- £230m Revolving Credit Facility maturing 3 July 2019

The December 2016 weighted average life of the committed facilities was 2.5 years.

The Group’s forecasts and projections, 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 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 financial statements.

ALTERNATIVE PERFORMANCE MEASURES

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, headline profit before tax, headline operating cash flow and free cash flow, together with current measures restated at constant exchange rates, to allow the users of this announcement to gain a clearer understanding of the underlying performance of the business, allowing the impact of restructuring and re-organisation activities and acquisition costs to be separately identified.

CAUTIONARY STATEMENT

This review has been prepared solely to provide information to shareholders to assess how the directors have performed their duty to promote the success of the Group.

This review 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BODYCOTE PLC ON THE PRELIMINARY ANNOUNCEMENT OF BODYCOTE PLC

We confirm that we have issued an unqualified opinion on the full financial statements of Bodycote plc.

Our audit report on the full financial statements sets out the following risks of material misstatement which had the greatest effect on our audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those risks and the key observations arising from our work:

IMPAIRMENT OF NON-CURRENT ASSETS

Risk description

The Group has a significant non-current asset base including tangible fixed assets of £509.0m and intangible assets (including goodwill) of £206.7m as shown in notes 11, 12 and 13 in the full financial statements. Current macro-economic uncertainties result in a risk regarding the carrying value of these assets. Performing an impairment review of these non-current assets requires the exercise of judgement regarding future growth rates, discount rates and sensitivity assumptions, as described in note 11 in the full financial statements, and represents a key source of estimation uncertainty for the Group as described in the Group's accounting policies.

How the scope of our audit responded to the risk

We challenged the assumptions used in the impairment model for intangible and tangible assets. As part of our procedures we:

- considered the appropriateness of the growth rate assumptions by comparing them to historical trading performance and World Bank historical GDP data across the Group's geographical and market segments;
- considered the impact of the sensitivities performed by management in assessing whether it reflects a reasonable possible change;
- assessed the appropriateness of the assumptions concerning inputs to the discount rate against latest market expectations. In performing our procedures, we used our internal valuation specialists and third party evidence to assess the individual inputs to the discount rates of between 13.4% and 14.4% applied; and
- considered management's assertions of the future utilisation of assets supporting their carrying value by reviewing the strategic plan for the business by cash generating unit.

Key observations

Based on the procedures performed, no impairments were noted and we have concluded that the assumptions in the impairment model were appropriate.

COMPLETENESS AND ACCURACY OF ENVIRONMENTAL REMEDIATION PROVISIONS

Risk description

Given the nature of the Group's operations and potential environmental contamination which could have arisen historically, a risk arises in connection with the appropriateness and completeness of the £13.8m environmental remediation provisions as described in note 23 in the full financial statements. The risk specifically applies to the level of judgement involved in calculating the provisions required and to the likely period of utilisation. As the majority of the balance resides in the USA, we have focused our work on the provisions held in the US businesses.

How the scope of our audit responded to the risk

We evaluated the environmental provisions by undertaking the following testing:

- assessing the completeness and accuracy of the provision recognised; and
- challenging the status and utilisation of provisions.

As part of our audit procedures we reviewed the available third party evidence collated by management's experts and assumptions detailing the assessment of environmental liabilities for the Group together with correspondence from the Group's internal environmental remediation team. We considered the appropriateness of the qualifications of management's experts and have benchmarked the Group's accounting policy against comparator companies. We have also considered the requirement to discount the balance should the impact of doing so be material and audited management's calculation for this assessment.

Key observations
Based on the procedures performed, no impairments were noted and we have concluded that the assumptions in the impairment model were appropriate.

TAXATION ACCOUNTING – ADEQUACY OF TAX PROVISIONS
Risk description
The tax risk concerns the judgements and estimates applied in the determination of provisions for liabilities attributed to specific uncertain tax positions linked to the Group's corporate arrangements as described in note 3 to this announcement.

How the scope of our audit responded to the risk
In conjunction with our taxation audit specialists, we have assessed the assumptions and judgements concerning the adequacy of tax provisions for uncertain tax positions by viewing the latest correspondence from the various tax authorities and drawing on the experience of our tax specialists in respect of similar situations.

Key observations
From the work performed above we are satisfied that the assumptions applied in respect of the carrying value of amounts held on the balance sheet for uncertain tax positions are reasonable.

PENSIONS – DEFINED BENEFIT UK SCHEME LIABILITY ASSUMPTIONS
Risk description
This risk concerns the appropriateness of the actuarial assumptions applied in calculating the Group's UK scheme defined benefit liability of £126.6m (2015: £99.9m) within the net UK defined benefit liability of £3.6m (2015: £2.7m) as shown in note 31 in the full financial statements. The valuation of the Group's IAS 19 liability involves significant judgement in the choice of discount rate used and in the key sources of estimation uncertainty in particular in relation to the inflation assumptions, as described in the Group's accounting policies.

How the scope of our audit responded to the risk
We have assessed the appropriateness of the assumptions underpinning the valuation of the scheme liabilities. Specifically we challenged the discount rate, inflation and mortality assumptions applied in the calculation by using our internal pension specialists to benchmark the assumptions applied against comparable third party data and assessed the appropriateness of the assumptions in the context of the Group's own position.

Key observations
From the work performed we are satisfied that the assumptions applied in respect of the valuation of the Group's IAS 19 liabilities are reasonable. We consider the assumptions to be towards the prudent end of our benchmarked range.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.
Our liability for this report, and for our full audit report on the financial statements, is to the Company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for our audit report or this report, or for the opinions we have formed.

Deloitte LLP
Chartered Accountants and Statutory Auditor

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £m	2015 £m	Note
Revenue	**600.6**	567.2	
Cost of sales and overheads	**(505.5)**	(469.3)	
Operating profit prior to exceptional items	**95.1**	97.9	
Acquisition costs	**(0.6)**	-	
Reorganisation costs	**-**	(20.0)	
Operating profit	**94.5**	77.9	2
Investment revenue	**-**	0.1	
Finance costs	**(2.6)**	(3.0)	
Profit before taxation	**91.9**	75.0	
Taxation	**(24.9)**	(18.8)	3
Profit for the year	**67.0**	56.2	
Attributable to:			
Equity holders of the parent	**67.0**	56.2	
Non-controlling interests	**-**	-	
	67.0	56.2	
Earnings per share			
	Pence	Pence	4
Basic	**35.2**	29.6	
Diluted	**35.2**	29.6	

All activities have arisen from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £m	2015 £m
Profit for the year	**67.0**	56.2
Items that will not be reclassified to profit or loss:		
Actuarial losses on defined benefit pension schemes	**(5.0)**	(1.7)
Tax on items not reclassified	**1.0**	0.2
Total items that will not be reclassified to profit or loss	**(4.0)**	(1.5)
Items that may be reclassified subsequently to profit or loss:		
Exchange gains on translation of foreign operations	**65.5**	0.4
Cumulative exchange differences recycled to profit or loss on disposal of subsidiaries / Group reorganisation	**(2.2)**	(3.3)
Total items that may be reclassified subsequently to profit or loss	**63.3**	(2.9)
Other comprehensive income / (expense) for the year	**59.3**	(4.4)
Total comprehensive income for the year	**126.3**	51.8
Attributable to:		
Equity holders of the parent	**126.3**	51.9
Non-controlling interests	**-**	(0.1)
	126.3	51.8

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2016

	2016 £m	2015 £m	Note
Non-current assets			
Goodwill	**160.9**	140.0	
Other intangible assets	**45.8**	35.2	
Property, plant and equipment	**509.0**	429.6	
Other investments	**-**	0.2	
Deferred tax assets	**32.5**	31.2	
Trade and other receivables	**0.4**	0.4	
	748.6	636.6	
Current assets			
Inventories	**16.6**	19.5	
Derivative financial instruments	**0.1**	-	
Current tax assets	**19.0**	26.3	
Trade and other receivables	**126.3**	105.7	
Cash and bank balances	**12.0**	16.2	
Assets held for sale	**1.8**	1.2	
	175.8	168.9	
Total assets	**924.4**	805.5	
Current liabilities			
Trade and other payables	**133.5**	111.1	
Current tax liabilities	**36.5**	37.3	
Obligations under finance leases	**0.1**	0.1	
Borrowings	**5.8**	3.8	
Provisions	**11.7**	12.5	5
	187.6	164.8	
Net current (liabilities) / assets	**(11.8)**	4.1	
Non-current liabilities			
Borrowings	**5.0**	-	
Retirement benefit obligations	**21.5**	17.9	
Deferred tax liabilities	**68.8**	61.9	
Provisions	**8.8**	8.8	5
Other payables	**4.4**	2.5	
	108.5	91.1	
Total liabilities	**296.1**	255.9	
Net assets	**628.3**	549.6	
Equity			
Share capital	**33.1**	33.1	
Share premium account	**177.1**	177.1	
Own shares	**(8.0)**	(9.3)	
Other reserves	**133.9**	134.1	
Translation reserves	**57.5**	(5.8)	
Retained earnings	**234.3**	220.0	
Equity attributable to equity holders of the parent	**627.9**	549.2	
Non-controlling interests	**0.4**	0.4	
Total equity	**628.3**	549.6	

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £m	2015 £m	Note
Net cash from operating activities	**125.9**	111.3	6
Investing activities			
Purchases of property, plant and equipment	**(64.7)**	(61.1)	
Proceeds on disposal of property, plant and equipment and intangible assets	**7.6**	5.4	
Purchases of intangible fixed assets	**(6.0)**	(5.6)	
Acquisition of businesses	**(23.7)**	-	
Purchase of sundry investments	**-**	(0.2)	
Disposal of sundry investments	**0.3**	-	
Disposal of subsidiary undertakings	**1.9**	1.6	
Net cash used in investing activities	**(84.6)**	(59.9)	
Financing activities			
Interest received	**-**	0.1	
Interest paid	**(2.3)**	(2.7)	
Dividends paid	**(48.1)**	(66.0)	
Repayments of bank loans	**(2.3)**	-	
Payments of obligations under finance leases	**(0.1)**	(0.2)	
New bank loans raised	**5.0**	0.5	
Own shares purchased / settlement of share options	**-**	(6.7)	
Net cash used in financing activities	**(47.8)**	(75.0)	
Net decrease in cash and cash equivalents	**(6.5)**	(23.6)	
Cash and cash equivalents at beginning of year	**12.4**	36.0	
Effect of foreign exchange rate changes	**0.3**	-	
Cash and cash equivalents at end of year	**6.2**	12.4	6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	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 2015	33.1	177.1	(7.1)	136.6	(3.0)	233.7	570.4	0.5	570.9
Net profit for the year	-	-	-	-	-	56.2	56.2	-	56.2
Exchange differences on translation of overseas operations	-	-	-	-	0.5	-	0.5	(0.1)	0.4
Cumulative exchange differences recycled to profit or loss on disposal of subsidiaries	-	-	-	-	(3.3)	-	(3.3)	-	(3.3)
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	(1.5)	(1.5)	-	(1.5)
Total comprehensive income for the year	-	-	-	-	(2.8)	54.7	51.9	(0.1)	51.8
Acquired in the year / settlement of share options	-	-	(2.2)	(2.1)	-	(2.4)	(6.7)	-	(6.7)
Share-based payments	-	-	-	(0.4)	-	-	(0.4)	-	(0.4)
Dividends paid	-	-	-	-	-	(66.0)	(66.0)	-	(66.0)
31 December 2015	**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 subsidiaries / 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 of £129.8m (2015: £129.8m) and the share-based payments reserve of £3.3m (2015: £3.5m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2016 1,289,378 (2015: 1,464,515) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016

1 Business and geographical segments

The Group has 189 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. Allocations of plants between ADE and AGI is therefore derived by reference to the preponderance of markets served.

Group	ADE 2016 £m	AGI 2016 £m	Central costs and eliminations 2016 £m	Consolidated 2016 £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**

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

1 Business and geographical segments (continued)

Aerospace, Defence & Energy	**Western Europe 2016 £m**	**North America 2016 £m**	**Emerging markets 2016 £m**	**Total ADE 2016 £m**
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**

Automotive & General Industrial	**Western Europe 2016 £m**	**North America 2016 £m**	**Emerging markets 2016 £m**	**Total AGI 2016 £m**
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**

Group	ADE 2015 £m	AGI 2015 £m	Central costs and eliminations 2015 £m	Consolidated 2015 £m
Revenue				
Total revenue	243.5	323.7	-	567.2
Result				
Headline operating profit prior to share-based payments and unallocated central costs	59.1	53.7	-	112.8
Share-based payments (including social charges)	0.1	(0.3)	0.8	0.6
Unallocated central costs	-	-	(11.3)	(11.3)
Headline operating profit / (loss)	59.2	53.4	(10.5)	102.1
Amortisation of acquired intangible fixed assets	(1.4)	(2.8)	-	(4.2)
Operating profit / (loss) prior to exceptional items	57.8	50.6	(10.5)	97.9
Reorganisation costs	(5.1)	(14.9)	-	(20.0)
Segment result	52.7	35.7	(10.5)	77.9
Investment revenue				0.1
Finance costs				(3.0)
Profit before taxation				75.0
Taxation				(18.8)
Profit for the year				56.2

1 Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total ADE 2015 £m
Revenue				
Total revenue	111.2	130.3	2.0	243.5
Result				
Headline operating profit prior to share-based payments	23.4	35.6	0.1	59.1
Share-based payments (including social charges)	(0.1)	0.2	-	0.1
Headline operating profit	23.3	35.8	0.1	59.2
Amortisation of acquired intangible fixed assets	(0.3)	(1.1)	-	(1.4)
Operating profit prior to exceptional items	23.0	34.7	0.1	57.8
Reorganisation costs	(3.3)	(1.8)	-	(5.1)
Segment result	19.7	32.9	0.1	52.7

Automotive & General Industrial	Western Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total AGI 2015 £m
Revenue				
Total revenue	195.9	89.3	38.5	323.7
Result				
Headline operating profit prior to share-based payments	34.1	16.3	3.3	53.7
Share-based payments (including social charges)	(0.3)	0.1	(0.1)	(0.3)
Headline operating profit	33.8	16.4	3.2	53.4
Amortisation of acquired intangible fixed assets	(0.2)	(2.4)	(0.2)	(2.8)
Operating profit prior to exceptional items	33.6	14.0	3.0	50.6
Reorganisation costs	(8.0)	(1.6)	(5.3)	(14.9)
Segment result	25.6	12.4	(2.3)	35.7

Other information

Group	**ADE 2016 £m**	**AGI 2016 £m**	**Central costs and eliminations 2016 £m**	**Consolidated 2016 £m**
Gross capital additions	**25.8**	**39.0**	**5.9**	**70.7**
Depreciation and amortisation	**22.2**	**36.5**	**1.0**	**59.7**
Balance sheet				
Assets:				
Segment assets	**343.1**	**514.8**	**66.5**	**924.4**
Liabilities:				
Segment liabilities	**(67.8)**	**(122.4)**	**(105.9)**	**(296.1)**
	275.3	**392.4**	**(39.4)**	**628.3**
Allocation of head office net liabilities	**(16.2)**	**(23.2)**	**39.4**	**-**
Adjusted segment net assets	**259.1**	**369.2**	**-**	**628.3**

1 Business and geographical segments (continued)

Aerospace, Defence & Energy	**Western Europe 2016 £m**	**North America 2016 £m**	**Emerging markets 2016 £m**	**Total ADE 2016 £m**
Gross capital additions	**10.5**	**13.0**	**2.3**	**25.8**
Depreciation and amortisation	**9.3**	**12.7**	**0.2**	**22.2**
Balance sheet				
Assets:				
Segment assets	**142.7**	**196.9**	**3.5**	**343.1**
Liabilities:				
Segment liabilities	**(29.7)**	**(36.3)**	**(1.8)**	**(67.8)**
Segment net assets	**113.0**	**160.6**	**1.7**	**275.3**

Automotive & General Industrial	**Western Europe 2016 £m**	**North America 2016 £m**	**Emerging markets 2016 £m**	**Total AGI 2016 £m**
Gross capital additions	**20.2**	**10.6**	**8.2**	**39.0**
Depreciation and amortisation	**21.7**	**10.5**	**4.3**	**36.5**
Balance sheet				
Assets:				
Segment assets	**279.8**	**163.3**	**71.7**	**514.8**
Liabilities:				
Segment liabilities	**(91.8)**	**(21.0)**	**(9.6)**	**(122.4)**
Segment net assets	**188.0**	**142.3**	**62.1**	**392.4**

Group	ADE 2015 £m	AGI 2015 £m	Central costs and eliminations 2015 £m	Consolidated 2015 £m
Gross capital additions	17.9	43.3	5.5	66.7
Depreciation and amortisation	20.3	32.7	0.8	53.8
Balance sheet				
Assets:				
Segment assets	309.2	421.5	74.8	805.5
Liabilities:				
Segment liabilities	(69.0)	(111.1)	(75.8)	(255.9)
	240.2	310.4	(1.0)	549.6
Allocation of head office net liabilities	(0.4)	(0.6)	1.0	-
Adjusted segment net assets	239.8	309.8	-	549.6

1 Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total ADE 2015 £m
Gross capital additions	8.7	9.2	-	17.9
Depreciation and amortisation	9.0	11.0	0.3	20.3
Balance sheet				
Assets:				
Segment assets	136.2	170.6	2.4	309.2
Liabilities:				
Segment liabilities	(35.8)	(32.1)	(1.1)	(69.0)
Segment net assets	100.4	138.5	1.3	240.2

Automotive & General Industrial	Western Europe 2015 £m	North America 2015 £m	Emerging markets 2015 £m	Total AGI 2015 £m
Gross capital additions	18.5	13.4	11.4	43.3
Depreciation and amortisation	19.6	8.7	4.4	32.7
Balance sheet				
Assets:				
Segment assets	232.7	127.6	61.2	421.5
Liabilities:				
Segment liabilities	(83.4)	(18.4)	(9.3)	(111.1)
Segment net assets	149.3	109.2	51.9	310.4

Geographical information

The Group's revenue from external customers and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by country are detailed below:

	Revenue from external customers		**Non-current assets**	
	2016 £m	2015 £m	**2016 £m**	2015 £m
USA	**219.0**	211.5	**298.9**	257.3
France	**97.6**	82.2	**73.8**	60.4
Germany	**69.9**	59.8	**85.4**	58.5
UK	**48.5**	50.9	**76.4**	74.6
Sweden	**36.1**	41.9	**37.5**	35.8
Netherlands	**25.3**	23.2	**22.6**	20.9
Others	**104.2**	97.7	**121.1**	97.5
	600.6	567.2	**715.7**	605.0

2 Operating profit

	2016 £m	2015 £m
Revenue	**600.6**	567.2
Cost of sales	**(378.4)**	(359.0)
Gross profit	**222.2**	208.2
Other net operating income	**-**	6.2
Distribution costs	**(20.9)**	(18.5)
Administration expenses[1]	**(101.7)**	(93.8)
Headline operating profit	**99.6**	102.1
Amortisation of acquired intangible fixed assets[1]	**(4.5)**	(4.2)
Operating profit prior to exceptional items	**95.1**	97.9
Exceptional items[1]	**(0.6)**	(20.0)
Operating profit	**94.5**	77.9

[1] Administration and exceptional expenses total £106.8m (2015: £118.0m).

Exceptional items comprise:

	2016 £m	2015 £m
Acquisition costs	**0.6**	-
Reorganisation costs	**-**	20.0
	0.6	20.0

Profit for the year has been arrived at after charging/(crediting):

	2016 £m	2015 £m
Net foreign exchange (gains) / losses	**(0.5)**	0.4
Inventory expensed	**48.2**	44.5
Depreciation of property, plant and equipment	**54.1**	48.8
Amortisation of intangible fixed assets	**5.6**	5.0
Gain on disposal of property, plant and equipment	**(4.5)**	(2.1)
Staff costs	**239.5**	220.3
Acquisition costs	**0.6**	-
Impairment loss on trade receivables	**1.2**	1.3
Impairment of fixed assets - recognised in exceptional items	**-**	9.0
Impairment of fixed assets - recognised in operating profit	**5.1**	-
Impairment of other assets - recognised in exceptional items	**-**	0.5

3 Taxation

	2016 **£m**	2015 £m
Current taxation – charge for the year	**24.9**	22.3
Current taxation – adjustments in respect of previous years	**2.2**	(0.1)
Deferred tax	**(2.2)**	(3.4)
	24.9	18.8

The Group has chosen to use a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements. The appropriate tax rate for this comparison is 32.36% (2015: 35.75%).

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2016 **£m**	2015 £m
Profit before taxation	**91.9**	75.0
Tax at the weighted average country tax rate of 32.36% (2015: 35.75%)	**29.7**	26.8
Tax effect of expenses not deductible in determining taxable profit[1]	**(0.2)**	(0.8)
Non-recognition of current year timing differences[2]	**0.5**	0.2
Effect of long-term capital financing[3]	**(1.0)**	(1.5)
Tax effect of other adjustments in respect of previous years:		
Current tax	**2.2**	-
Deferred tax	**(0.6)**	0.2
Deferred tax impact of derecognising assets, including losses[2]	**1.6**	(1.8)
Effect of financing activities between jurisdictions[3]	**(7.2)**	(5.4)
Impact of trade and minimum corporate taxes	**1.1**	1.0
Effect of changes in statutory tax rates on deferred tax assets and liabilities	**(1.2)**	0.1
Tax expense for the year	**24.9**	18.8

Tax on items taken directly to equity is a credit of £1.0m (2015: £0.2m).

Tax on exceptional items and amortisation of acquired intangible fixed assets is £1.8m (2015: £5.4m).

[1] Those costs in various territories not deductible in calculating taxable profits.
[2] The most significant item relates to the non-recognition of tax losses on the balance sheet.
[3] The Group is externally financed by a mix of cash flows from operations, short-term borrowings, long-term loans and finance leases. Internally, operating subsidiaries are predominantly financed via intercompany loans.

4 Earnings per share

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

Earnings	2016 £m	2015 £m
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**67.0**	56.2

Number of shares	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**190,166,794**	189,991,657
Effect of dilutive potential ordinary shares:		
Share options	**-**	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**190,166,794**	189,991,657

	Pence	Pence
Earnings per share:		
Basic	**35.2**	29.6
Diluted	**35.2**	29.6

Headline earnings	£m	£m
Net profit attributable to equity holders of the parent	**67.0**	56.2
Add back:		
Amortisation of acquired intangible fixed assets (net of tax)	**2.8**	3.2
Acquisition costs (net of tax)	**0.5**	-
Reorganisation costs (net of tax)	**-**	15.6
Headline earnings	**70.3**	75.0

Headline earnings per share:	Pence	Pence
Basic	**37.0**	39.5
Diluted	**37.0**	39.5

5 Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
At 1 January 2016	8.1	6.6	6.6	**21.3**
Increase in provision	5.0	1.0	-	**6.0**
Release of provision	(0.6)	(0.8)	(0.2)	**(1.6)**
Utilisation of provision	(6.3)	(1.3)	(0.4)	**(8.0)**
Exchange difference	0.5	1.1	1.2	**2.8**
At 31 December 2016	**6.7**	**6.6**	**7.2**	**20.5**

Included in current liabilities	**11.7**
Included in non-current liabilities	**8.8**
	20.5

The restructuring provision relates to the costs associated with the closure of a number of Heat Treatment sites. The net addition to restructuring and restructuring environmental provisions of £4.6m relates to costs associated with new restructuring initiatives announced, primarily in Canada.

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 the restructuring programme 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.

6 Notes to the cash flow statement

	2016 £m	2015 £m
Profit for the year	**67.0**	56.2
Adjustments for:		
Investment revenue	**-**	(0.1)
Finance costs	**2.6**	3.0
Taxation	**24.9**	18.8
Depreciation of property, plant and equipment	**54.1**	48.8
Amortisation of intangible assets	**5.6**	5.0
Profit on disposal of property, plant and equipment	**(4.5)**	(2.1)
Share-based payments	**0.5**	(0.4)
Impairment of fixed assets	**5.1**	9.0
Impairment of other assets	**-**	0.5
Profit on sale of subsidiaries	**(0.1)**	(3.8)
EBITDA[1]	**155.2**	134.9
Decrease in inventories	**5.5**	0.7
(Increase) / decrease in receivables	**(4.1)**	0.9
Decrease in payables	**(6.7)**	(6.3)
(Decrease) / increase in provisions	**(3.6)**	4.3
Cash generated by operations	**146.3**	134.5
Income taxes paid	**(20.4)**	(23.2)
Net cash from operating activities	**125.9**	111.3

[1] Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets and other assets, profit or loss on disposal of property, plant and equipment, profit on sale of subsidiaries and share-based payments.

	2016 £m	2015 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**12.0**	16.2
Bank overdrafts (included in borrowings)	**(5.8)**	(3.8)
	6.2	12.4

7 Basis of preparation

The financial information has been based on the Company's financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. Whilst the financial information contained in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with those standards. The Company expects to publish full financial statements that comply with IFRS in March 2017. The financial information has been prepared under the same accounting policies as the 2015 financial statements.

8 Non-statutory financial statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; the reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s.498 (2) or (3) Companies Act 2006.