Bodycote plc
Audited results for the year ended 31 December 2015

Financial highlights	**2015**	2014	*% change*
Revenue	**£567.2m**	£609.1m	*(6.9)*
Headline operating profit[1]	**£102.1m**	£111.1m	*(8.1)*
Return on sales[2]	**18.0%**	18.2%	
Headline profit before taxation[1]	**£99.2m**	£107.8m	*(8.0)*
Headline operating cash flow[3]	**£81.6m**	£100.0m	
Net cash	**£12.3m**	£35.7m	
Basic headline earnings per share[5]	**39.5p**	43.8p	*(9.8)*
Ordinary dividend per share	**15.1p**	14.4p	*4.9*
Special dividend per share	**10.0p**	20.0p	
Return on capital employed[6]	**19.0%**	20.7%	

Statutory results

Operating profit	**£77.9m**	£107.0m
Profit before taxation	**£75.0m**	£103.7m
Operating cash flow[4]	**£73.2m**	£96.8m
Basic earnings per share	**29.6p**	41.7p

Highlights

- Revenue down 4% at constant currency
- Business improvements and restructuring actions mitigated challenging energy and general industrial markets
- Headline operating margin sustained at 18%
- Capital investment accelerated for future growth
- Net cash of £12.3m
- Final dividend of 10.3p
- Special dividend of 10.0p

Commenting, Stephen Harris, Group Chief Executive said:

"The Group delivered a resilient performance in 2015. Automotive and aerospace revenues moved ahead. However, the decline in oil price combined with downward pressures on our general industrial business led to Group revenues falling by 4% at constant exchange rates. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, enabled headline operating margins to be sustained. Recognising the Group's net cash position, the Board is recommending a further special dividend.

The Group will continue to follow its strategy of investing in areas of robust revenue opportunity, notably in Specialist Technologies and in higher growth territories, as well as further enriching the mix towards higher added value services. The Board is confident that management's continued focus on business improvements will generate good returns throughout the cycle."

Definitions:

[1] Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £4.2m (2014: £3.9m), reorganisation costs of £20.0m (2014: £nil) and acquisition costs of £nil (2014: £0.2m).
[2] Return on sales is defined as headline operating profit as a percentage of revenue.
[3] Headline operating cash flow is defined as operating cash flow stated before cash flow relating to restructuring of £8.4m (2014: £3.0m) and acquisition costs of £nil (2014: £0.2m).
[4] Operating cash flow is defined as cash generated by operations of £134.5m (2014: £150.6m) less net capital expenditure of £61.3m (2014: £53.8m).
[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 £102.1m (2014: £111.1m) divided by the average of opening and closing capital employed of £538.4m (2014: £538.0m) as adjusted for certain items of goodwill written off. Capital employed is defined as net assets adjusted for net cash / (debt).

A live webcast of the analysts' meeting will be available from 9.00am at www.bodycote.com.

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OVERVIEW

The Group benefits from serving a broad spread of industrial sectors and geographies. In 2015 the macro-economics were favourable for our aerospace and automotive sectors, but the rapid decline in oil prices weighed heavily on our customers in the energy sector. The weakness in the energy sector bled over into the general industrial markets and was further compounded by the slowing growth in China, weakening global demand for many commodities and the embargo on global trade with Russia.

The net result for Bodycote was a 7% decline in revenue to £567.2m (2014: £609.1m). However, headline operating profit only reduced by 8% to £102.1m (2014: £111.1m), including negative foreign currency translation of £2.3m.

The potential impact the weakening global demand conditions would have on the Group started to become clear early in the year. As a consequence, management decided to undertake a series of actions to mitigate the situation, some giving immediate benefit, while others are aimed at accelerating future growth.

A restructuring programme was announced at the half year, with an associated charge of £20m (of which £9m related to non-cash impairments) and which focused on our facilities serving the oil services and general industrial sectors. By year end we had successfully exited the businesses in Brazil and India. Elsewhere we have closed five facilities and consolidated poorly performing activities within a further six facilities. Closure of an additional five facilities will be completed in the first half of 2016. Equipment is being relocated within the Group, and in many cases business is being transferred to neighbouring facilities.

The speed and effectiveness of management's actions, in conjunction with the ongoing drive for mix and efficiency improvements, have been such that the headline margin[1] has been sustained at 18%.

Improving the flexibility of the Group's cost base has been a high priority for several years. A noteworthy element of this has been greater use of temporary labour which can be flexed at little or no cost to suit the prevailing workload. Temporary employees were reduced by 11% during the year, however at year end, temporary and contract labour still represented 12.7% of total employees.

Basic headline earnings per share was 39.5p, a decline of 9.8% which reflects the absence of the one-off tax credit the Group enjoyed in 2014. Bodycote is reporting another year of strong cash generation, with 80% of headline operating profit turned into cash[2] (2014: 90%). As a result, the Group continues to be in a strong financial position and had net cash of £12.3m at 31 December 2015. Return on capital employed remained excellent at 19.0% for the year (2014: 20.7%).

[1] Return on sales as defined as headline operating profit as a percentage of revenue

[2] Cash conversion as 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 10.3p, an increase of 5.1%, which will be paid on 3 June 2016, subject to shareholder approval at the 2016 Annual General Meeting. This brings the total ordinary dividend for 2015 to 15.1p (2014: 14.4p) costing £28.7m which represents a year-on-year increase of 4.9%. Recognising the net cash position of the Group the Board is, for the third successive year, recommending a supplemental distribution by way of a special dividend, also payable on 3 June 2016, amounting to 10.0p per share (2014: 20.0p) costing £19.0m (2014: £38.1m).

STRATEGIC PROGRESS

To enhance our future growth we have accelerated investment in high growth potential areas, mindful of the Group's 20% hurdle rate for return on capital employed. The increase in capital expenditure was driven by the number of greenfield facilities under construction along with specific capacity expansion in Specialist Technologies and civil aerospace. Nine greenfield sites were under construction in 2015, of which four are for Specialist Technologies and three are in the targeted expanding markets of Eastern Europe, Mexico and China. Additionally, capacity has been expanded at specific existing Specialist Technologies and civil aerospace facilities.

Overall capital investment increased by 14% to £61m, corresponding to 1.2 times depreciation.

The strategy of preferential investment in Specialist Technologies continues to benefit the Group. While two of these technologies, Surface Technology and HIP Product Fabrication, were hard hit by the decline in activity in the oil sector, the remaining four showed good growth. Average margins continue to exceed 30% in Specialist Technologies.

During the year we launched a new specialist technology in the field of ion implantation. We believe it to be the only form of ion implantation that is capable of processing bulk material. Applications include hardening of materials without temperature distortion and the reduction of surface friction in polymers, eliminating the need for lubrication. Sales are currently at the pilot stage.

The pursuit of operational excellence in the Group is a major priority. Part of this effort is a goal to improve the margins in the AGI Classical Heat Treatment business to the level we have been able to achieve in ADE Classical Heat Treatment. This is particularly the case in AGI in Europe where margins have been lower for some years. One of the tools used for this is the Bodycote Margin Model which employs a job costing methodology and strategic pricing process to help facilities drive the mix of work towards higher added value. Lean techniques are also being deployed at an increasing rate, which help to improve production flows and efficiencies. This work, in conjunction with the restructuring actions taken, drove the margins in the AGI business up by 90 bps, notwithstanding the decline in revenues.

During 2015 we continued to pursue potential acquisitions, although none were completed during the year. The acquisition priorities are divided into two broad areas. The first is to acquire bolt-on activities in Classical Heat Treatment that will enhance our network of operations. These will typically be small businesses in Western Europe and North America as there are few, if any, suitable targets outside of these territories and very few of any scale. The second area we look to acquire in is Specialist Technologies. There are few potential targets given the rarity of competitors, but some of the targets are of a larger scale. We also actively pursue ideas in areas adjacent to our existing technologies. The environment in 2016 looks more conducive to making acquisitions and the Group is well placed should sufficiently attractive targets become available.

SUMMARY AND OUTLOOK

The Group delivered a resilient performance in 2015. Automotive and aerospace revenues moved ahead. However, the decline in oil price combined with downward pressures on our general industrial business led to Group revenues falling by 4% at constant exchange rates. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, enabled headline operating margins to be sustained. Recognising the Group's net cash position, the Board is recommending a further special dividend.

The Group will continue to follow its strategy of investing in areas of robust revenue opportunity, notably in Specialist Technologies and in higher growth territories, as well as further enriching the mix towards higher added value services. The Board is confident that management's continued focus on business improvements will generate good returns throughout the cycle.

BUSINESS PERFORMANCE

	2015	2014
	£m	£m
Revenue	**567.2**	609.1
Operating profit	**77.9**	107.0
Acquisition costs	**-**	0.2
Reorganisation costs	**20.0**	-
Operating profit prior to exceptional items	**97.9**	107.2
Amortisation of acquired intangible fixed assets	**4.2**	3.9
Headline operating profit	**102.1**	111.1

Group revenue was £567.2m, a decrease of 6.9%, with revenues at constant exchange rates down 4.1% and foreign exchange rate movements having a negative impact of 2.8%.

Headline operating profit for the year decreased by 8.1% from £111.1m to £102.1m, and headline operating margin was 18.0% (2014: 18.2%). Headline operating profit at constant exchange rates decreased by £6.7m, whilst adverse foreign exchange rate movements decreased headline operating profit by a further £2.3m.

Cash flow is analysed as follows:

	2015 £m	2014 £m
Headline operating profit	**102.1**	111.1
Add back non-cash items:		
Depreciation and amortisation	**49.6**	51.2
Impairment of fixed assets	**-**	2.7
Share-based payments	**(0.4)**	1.9
Profit on disposal of property, plant and equipment	**(2.1)**	(1.4)
Headline EBITDA[1]	**149.2**	165.5
Net capital expenditure	**(61.3)**	(53.8)
Net working capital movement	**(6.3)**	(11.7)
Headline operating cash flow	**81.6**	100.0
Cash cost of restructuring	**(8.4)**	(3.0)
Acquisition costs	**-**	(0.2)
Operating cash flow	**73.2**	96.8
Interest	**(2.6)**	(2.7)
Taxation	**(23.2)**	(19.0)
Free cash flow	**47.4**	75.1

Operating cash flow was £73.2m (2014: £96.8m) with the decrease, compared to prior year, attributable to a reduction in profits, increased capital investment and reorganisation costs. Group net cash at 31 December 2015 was £12.3m (2014: £35.7m).

Capital spend (net of asset sales) in 2015 was £61.3m (2014: £53.8m), being 1.2 times depreciation[2] (2014: 1.0 times). There has been a continued focus on cash collection and receivable days at 31 December 2015 were 62 days (31 December 2014: 60 days). There was a working capital outflow in the year mainly due to an increase in receivable days caused by lower than anticipated cash collection in December and a decrease in payables, arising primarily due to a reduction in accruals for variable staff costs.

[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 plus impairment of fixed assets.

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 1.7 percentage points during the year, from 20.7% to 19.0%.

Headline operating profit decreased by 8.1% from £111.1m to £102.1m, while average capital employed increased by 0.1% to £538.4m.

Return on sales decreased by 0.2 percentage points during the year, from 18.2% to 18.0%. Revenue decreased by 6.9% from £609.1m to £567.2m.

Headline earnings per share decreased by 4.3 pence during the year, from 43.8 pence to 39.5 pence. Headline earnings decreased by 10.1% from £83.4m to £75.0m, while the average number of shares in issue remained static.

Headline operating cash flow for the Group was £81.6m (2014: £100.0m). This was 80% of headline operating profit (2014: 90%).

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 decreased to 1.5 in the year (2014: 1.7).

On a normalised basis, the carbon footprint decreased by 1.0% from 628.2 tonnes per £m sales to 621.9 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] Operating cash flow stated before cash flow relating to restructuring of £8.4m (2014: £3.0m) and acquisition costs of £nil (2014: £0.2m).
[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 DEFRA (Department for Environment, Food & Rural Affairs). Normalised emissions statistics restate prior year figures using current year country specific conversion factors and current year average exchange rates.

MARKETS

Aerospace, Defence & Energy markets
Civil aerospace revenues increased in 2015 by 1% at constant exchange rates (1% increase at actual exchange rates), reflecting increased demand for new generation engines, especially in France, and despite continued significant Original Equipment Manufacturer (OEM) weakness in the UK. Available seat kilometres grew by 6% indicating a continued increase in aircraft flying hours which, in turn, resulted in resilient demand for aftermarket parts. Sales into the civil aerospace sector account for 18% of Group revenues.

Sales into the defence sector, which accounted for 6% of Group revenues, were again soft.

Demand for the Group's services in the power generation sector were weak, with revenues below 2014 by 9% at constant exchange rates (9% decrease at actual exchange rates).

Revenues in oil & gas were substantially lower in 2015 as a result of the fall in crude oil prices. Heat treatment and surface technology bore the brunt of the reduction in demand. HIP PF revenues were lower than in 2014 but by notably less than the background market as new orders continue to be won. Overall revenues were down 28% (at constant exchange rates) compared to 2014 and by 29% at actual exchange rates. Sales into the oil & gas sectors accounted for 8% of Group revenue.

Automotive & General Industrial markets
Revenues in car and light truck markets increased year-on-year by 6% at constant exchange rates (2% at actual exchange rates). The increase in revenue was widely spread across the Group, reflecting both new contract wins and strong OEM production rates.

Heavy truck sector revenues in North America grew strongly again in 2015 and were ahead of the prior year by 9% at constant exchange rates (18% at actual exchange rates). In contrast, demand in Western Europe was very weak and revenues declined by 10% at constant exchange rates, in part driven by a notable programme turning end-of-life in Sweden, (the decline was 19% at actual exchange rates).

Bodycote provides thermal processing services for a wide range of capital equipment customers. In 2015, many sectors served by Bodycote were badly affected by the heavy declines in most commodity prices. This was particularly noteworthy in agricultural equipment and in many types of industrial machinery. Overall revenues fell by 5% at constant exchange rates (11% decline at actual exchange rates).

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 60 facilities in total.

Results
Revenues for the ADE business were £243.5m in 2015 compared to £263.0m in 2014, a decrease of 7.4% (8.1% decrease at constant exchange rates). Overall, revenues from the commercial aerospace sector remained solid but there have been significantly varying levels of demand in different OEM supply chains. Some have focused on significant destocking, while others have delivered good growth on the back of new engine series and airframes. Defence demand has been subdued, resulting in further modest declines in revenue. Demand in the energy sector and particularly the oil & gas sector, has been very weak. Oil & gas revenues have been most depressed in North American heat treatment and in both the USA and the UK for Surface Technology. Declines in HIP PF have been less severe, despite a number of delays to subsea projects, as customers continue to convert to HIP PF from forgings.

Headline operating profit[1] for ADE was £59.2m (2014: £70.6m) and headline operating profit margin reduced from 26.8% to 24.3%, demonstrating good cost control in the face of reduced demand.

In 2015, the Group added capacity in a number of facilities, including installation of a new high pressure HIP in the USA. In addition initial works have been undertaken to establish a new aerospace focused facility in South East Poland. In the coming year it is expected that capital expenditure will be slightly above depreciation as further capacity and capability are added to support anticipated growth in the Group's Specialist Technologies and other high-value offerings.

Net capital expenditure in 2015 was £17.4m (2014: £18.4m) which represents 0.9 times depreciation (2014: 0.9 times).

Average capital employed in ADE in 2015 was £234.2m (2014: £236.3m). The Group continues to invest in high-return projects in the ADE business. Return on capital employed in 2015 was 23.0% (2014: 26.6%).

Achievements in 2015

The ADE divisions made further progress during the year in gaining new agreements with a range of customers and for a variety of end uses. In ADE Heat Treatment, new agreements were signed with key suppliers to the growing A350 and A320NEO aerospace programmes. In Surface Technology, a new agreement was signed for the provision of thermal spray coating services for helicopter turbine blades.

The HIP division continues to make good progress, with new customers choosing to use the Group's proprietary Product Fabrication (PF) technology for the first time.

Organisation and people

Total full-time equivalent headcount at 31 December 2015 was 1,785 (2014: 1,898), a decrease of 6.0% compared to the revenue decline in ADE of 8.1% (at constant currencies).

Looking ahead

Order books for commercial aerospace OEMs remain strong, and destocking at certain OEMs and their supply chains is expected to be completed at some point in 2016. We expect no near term improvement in the oil & gas sector. Defence markets are expected to be stable. Bodycote believes it will continue to 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 uniquely large network of 118 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 £323.7m in 2015, compared to £346.1m in 2014, a decrease of 6.5% (1.1% decrease at constant exchange rates).

In 2015, overall sales from the automotive sector increased by 3.6%, at constant exchange rates. Sales into car and light truck have again been good in all geographies, with the increase reflecting both new contract wins and strong OEM production rates. Revenues to heavy truck declined overall, with strong North American growth being more than offset by weak demand in Europe. General industrial markets have been weak in all territories.

Headline operating profit[1] in AGI was £53.4m compared to £54.1m in 2014. Headline operating margin increased to 16.5%. (2014: 15.6%) 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 2015 was £39.8m (2014: £31.1m), which represents 1.3 times depreciation (2014: 0.9 times). Notable projects included the opening of a new facility for S^{3}P in France, for LPC in Mexico and in Classical Heat Treatment, new facilities were opened in Poland and China.

In 2016 we expect that capital expenditure will be approximately 1.2 times depreciation as we continue to expand our Specialist Technologies and operations in the rapid growth countries. Return on capital employed in 2015 was maintained at 16.0% (2014: 16.0%). This reflects the continued focus on improving capital returns by continuing to target higher added-value work. On average, capital employed in 2015 was £304.1m (2014: £301.8m).

Achievements in 2015

The Group continued to win business across all geographies. In both North America and Europe our ability to support automotive manufacturers, as they move to newer technologies in pursuit of better fuel efficiency and enhanced corrosion performance, continues to provide Bodycote with market share gains. A number of new contract wins in each of our AGI focused Specialist Technologies of S^{3}P, Low Pressure Carburising and Corr-I-Dur® continues to be a key driver of improved profitability in the AGI business.

The AGI business continued to see the benefits of mix improvement and market focus. Together with an emphasis on improved efficiency these factors have been crucial in the achievement of ongoing margin enhancements in this business.

Organisation and people

At 31 December 2015, the number of full-time equivalent employees in AGI was 3,331 compared to 3,616 at the end of 2014 and 1,913 less than its peak in July 2008.

Looking ahead

The AGI businesses 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.

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

	2015 £m	2014 £m
Revenue	**567.2**	609.1
Headline operating profit	**102.1**	111.1
Amortisation of acquired intangible fixed assets	**(4.2)**	(3.9)

Operating profit prior to exceptional items	**97.9**	107.2
Acquisition costs	**-**	(0.2)
Reorganisation costs	**(20.0)**	-
Operating profit	**77.9**	107.0
Net finance charge	**(2.9)**	(3.3)
Profit before taxation	**75.0**	103.7
Taxation	**(18.8)**	(24.4)
Profit for the year	**56.2**	79.3

Group revenue was £567.2m, a decrease of 6.9%, with revenues at constant exchange rates down 4.1% and foreign exchange rate movements having an adverse impact of 2.8%.

Headline operating profit for the year decreased by 8.1% from £111.1m to £102.1m and headline operating margin was 18.0% (2014: 18.2%). Headline operating profit at constant exchange rates decreased by £6.7m, whilst adverse foreign exchange rate movements decreased headline operating profit by a further £2.3m.

The amortisation of acquired intangible assets arises from acquisitions in prior years. The charge has increased to £4.2m (2014: £3.9m).

Operating profit was £77.9m (2014: £107.0m) after charging £4.2m (2014: £3.9m) in respect of the amortisation of acquired intangible assets, £nil (2014: £0.2m) of acquisition costs and reorganisation costs of £20.0m (2014: £nil).

Headline operating cash flow[1] for the Group was £81.6m (2014: £100.0m). This was 80% of headline operating profit (2014: 90%). Net capital expenditure was 1.2 times depreciation (2014: 1.0 times) as the Group continued to follow its strategy of investing in Specialist Technologies and greenfield facilities in higher growth markets. There was a working capital outflow in the year mainly due to an increase in receivable days caused by lower than anticipated cash collection in December and a decrease in payables, arising primarily due to a reduction in accruals for variable staff costs.

After deducting interest and tax, the Group recorded positive free cash flow[1] of £47.4m (2014: £75.1m).

[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 £20.0m (2014: £0.2m). Of this, reorganisation costs amounting to £23.8m (2014: £nil) were incurred, offset by a profit on disposal of the Group's Brazilian and Indian operations of £3.8m (2014: £nil). Cost savings of £4m as a result of the reorganisation were realised in 2015 and a further £6m are anticipated in 2016. In 2015 no acquisition costs were expensed (2014: £0.2m).

Restructuring provisions outstanding at 31 December 2015 totalled £14.7m (2014: £9.4m), £11.0m is expected to be spent in 2016 and £3.7m in 2017 and later. All expenditure after the end of 2016 relates to ongoing environmental remediation, primarily in the USA.

PROFIT BEFORE TAXATION

Headline profit before taxation was £99.2m (2014: £107.8m). Profit before taxation was £75.0m (2014: £103.7m). These amounts are reconciled as follows:

	2015 £m	2014 £m
Headline operating profit	**102.1**	111.1
Net finance charge	**(2.9)**	(3.3)
Headline profit before taxation	**99.2**	107.8
Amortisation of acquired intangible fixed assets	**(4.2)**	(3.9)
Profit before taxation prior to exceptional items	**95.0**	103.9
Acquisition costs	**-**	(0.2)
Reorganisation costs	**(20.0)**	-
Profit before taxation	**75.0**	103.7

FINANCE CHARGE

The net finance charge was £2.9m compared to £3.3m in 2014. The net interest payable is higher as a result of lower average net cash during the year, offset by lower bank and financing charges and a lower pension finance charge.

	2015 £m	2014 £m
Net interest payable	**0.3**	0.2
Financing costs	**1.5**	1.6
Bank and other charges	**0.8**	0.9
Pension finance charge	**0.3**	0.6
Net finance charge	**2.9**	3.3

TAXATION

The taxation charge was £18.8m for the year (2014: £24.4m).

The effective taxation rate of 25.1% (2014: 23.5%) resulted from the blending of differing tax rates in each of the countries in which the Group operates. The increase in the taxation rate is primarily due to more of the Group's profits deriving from countries with a higher rate of tax.

The headline taxation rate for 2015 was 24.4% (2014: 22.7%), being stated before accounting for exceptional items and amortisation of goodwill and acquired intangibles.

In recent years the Group's effective tax rate has benefited from the use of historical tax losses, the majority of the remaining benefits of which are reflected in the 2015 taxation rate. As a result it is expected that the underlying Group effective taxation rate will be approximately 28% going forward, all other things remaining equal.

EARNINGS PER SHARE

Basic headline earnings per share (as defined as note 4 to this announcement) decreased to 39.5p from 43.8p. Basic earnings per share for the year decreased to 29.6p from 41.7p.

DIVIDEND

The Board has recommended a final ordinary dividend of 10.3p (2014: 9.8p) bringing the total ordinary dividend to 15.1p per share (2014: 14.4p). The Board has also recommended a supplemental distribution, by way of a special dividend, amounting to 10.0p per share (2014: 20.0p). If approved by shareholders, the final ordinary dividend of 10.3p per share for 2015 and the supplemental distribution of 10.0p per share for 2015 will be paid on 3 June 2016 to all shareholders on the register at the close of business on 22 April 2016.

CAPITAL STRUCTURE

The Group's balance sheet at 31 December 2015 is summarised below:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	429.6	-	429.6
Goodwill and intangible assets	175.2	-	175.2
Current assets and liabilities	152.7	(160.9)	(8.2)
Other non-current assets and liabilities	0.6	(11.3)	(10.7)
Retirement benefit obligations	-	(17.9)	(17.9)
Deferred tax	31.2	(61.9)	(30.7)
Total before net cash	789.3	(252.0)	537.3
Net cash	16.2	(3.9)	12.3
Net assets as at 31 December 2015	**805.5**	**(255.9)**	**549.6**
Net assets as at 31 December 2014	825.1	(254.2)	570.9

Net assets decreased by £21.3m (3.7%) to £549.6m (2014: £570.9m). At constant exchange rates, net assets decreased by £10.9m (1.9%). The major movements compared to 31 December 2014 were a decrease in net cash of £23.4m, an increase in goodwill and intangible assets of £3.1m and a decrease in property, plant and equipment of £5.0m.

The decrease in property, plant and equipment was predominantly due to additions of £61.1m offset by depreciation of £48.8m, asset impairments of £9.0m, foreign exchange movements of £3.8m, disposals of subsidiaries of £1.0m, transfer of assets to assets held for sale of £0.3m and other asset disposals of £3.2m.

The increase in goodwill and intangible assets was due to continuing investment of £5.6m in Group IT systems, amortisation charge of £5.0m and foreign exchange movements of £2.6m.

NET CASH

Group net cash at 31 December 2015 was £12.3m (2014: £35.7m). 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 £23.6m (2014: £21.3m increase), made up of net cash from operating activities of £111.3m (2014: £131.6m), less investing activities of £59.9m (2014: £54.8m) and less cash used in financing activities of £75.0m (2014: £55.5m).

The decrease in net cash flow from operating activities from £131.6m to £111.3m was driven primarily by the decrease in headline EBITDA[1] from £165.5m to £149.2m and a £6.3m decrease in payables.

Net cash outflows from investing activities increased from £54.8m to £59.9m, primarily as a result of greater investment in property, plant and equipment in 2015 compared to the prior year. The level of net capital expenditure in 2015 was £61.3m (2014: £53.8m), consistent with plans to increase the Group's capacity in Specialist Technologies and in high growth markets.

Net cash outflows used in financing activities increased from £55.5m to £75.0m, due primarily to the increase in dividend payments, from £45.2m in 2014 to £66.0m in 2015.

There has been a continued focus on cash collection, although receivable days at 31 December 2015 increased by two to 62 days (2014: 60 days).

Net interest payments for the year were £2.6m (2014: £2.7m). Tax payments were £23.2m (2014: £19.0m).

[1] Headline EBITDA is reconciled in the Business Performance section of this announcement.

CAPITAL EXPENDITURE

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £61.3m (2014: £53.8m). The multiple of net capital expenditure to depreciation was 1.2 times (2014: 1.0 times). Major capital projects which were in progress during 2015 include a new high pressure HIP in the USA, the creation of a new S^3P facility in France, a new LPC facility in Mexico, the establishment of an aerospace focused facility in South East Poland, and the creation of Classical Heat Treatment facilities in Poland and China. The Group also continued to invest in the implementation of a new ERP system. As a consequence of the timing of these key projects, the value of assets under construction has increased by £9.6m, from £42.0m in 2014 to £51.6m in 2015.

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 2015 was £230.0m (2014: £230.0m). The Group also has access to a US$10m committed letter of credit facility maturing in August 2016.

At 31 December 2015, the Group had the following committed facilities:

Facility	Expiry Date	Facility £m	Loan and Letter of Credit Utilisation £m	Facility Headroom £m
£230m Revolving Credit	3 July 2019	230.0	-	230.0
$10m Letter of Credit	31 August 2016	6.8	1.8	5.0

236.8	1.8	235.0

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 2015 the gearing ratio is 0% (2014: 0%).

GOING CONCERN

In determining the basis of preparation for the Annual Report and the Group's long term viability, 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 2015 were as follows:

- £230m Revolving Credit Facility maturing 3 July 2019
- $10m Letter of Credit Facility maturing 31 August 2016

The December 2015 weighted average life of the committed facilities was 3.4 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.

CAUTIONARY STATEMENT

This review has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed.

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:

IMPAIRMENT OF NON-CURRENT ASSETS

Risk description

The Group has a significant non-current asset base including tangible fixed assets of £429.6m and intangible assets (including goodwill) of £175.2m as shown in notes 11, 12 and 13 in the full financial statements respectively. 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 significant judgement regarding future growth rates, discount rates and sensitivity assumptions, as described in note 11 to the full financial statements and the key sources of estimation uncertainty within the accounting policies in the full financial statements.

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;
- 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 12.4% and 13.4% applied as described in note 11 in the full financial statements; 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.

ENVIRONMENTAL REMEDIATION PROVISION

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 £13.2m environmental remediation provisions. The risk specifically applies to the level of judgement involved in calculating the provisions required and to the likely period of utilisation, as described in the Critical judgments within the accounting policies in the full financial statements.

How the scope of our audit responded to the risk
We evaluated the environmental provisions by undertaking the following testing:

- comparing the basis for the recognition of provisions against the regulatory and legal requirements;
- assessing the value 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 results of work carried out we concur that the provision recognised by management is in accordance with IAS 37. We also concur with management's assessment that the impact of discounting the provision is not material.

TAXATION – DEFERRED TAX ASSETS AND TAX PROVISIONS
Risk description
The tax risk concerns the judgements and estimates applied in the determination of tax balances, in particular in relation to the recognition of the £31.2m deferred tax asset balance for which an amount of £3.1m is recognised in relation to £14.1m of tax losses across the Group based on future profitability, as disclosed in note 20 in the full financial statements and provisions for liabilities attributed to specific uncertain tax positions linked to the Group's corporate arrangements.

How the scope of our audit responded to the risk
We have assessed and challenged the appropriateness of management's assumptions and estimates in relation to the likelihood of generating future taxable, as opposed to accounting, profits to support the recognition of deferred tax assets by comparing to forecast information and historical trends in loss utilisation. In conjunction with our taxation audit specialists, we have also 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 regarding current and deferred tax balances are appropriate.

PENSIONS – LIABILITY ASSUMPTIONS FOR DEFINED BENEFIT SCHEMES

Risk description

This risk concerns the appropriateness of the actuarial assumptions applied in calculating the Group's defined benefit liability of £99.9m (2014: £103.3m) within the net defined benefit liability of £2.7m (2014: £1.0m) as shown in note 30 in the full financial statements. The valuation of the Group's IAS 19 liability involves significant judgement as described in note 30 in the full financial statements and in the key sources of estimation uncertainty in the accounting policies, in particular in relation to the discount rate, inflation and mortality assumptions.

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 materially correct and are considered to be towards the prudent end of our benchmarked range.

RESTRUCTURING PROVISIONS

Risk description

During 2015 the Group has implemented a significant global restructuring programme driven by the fall in global oil prices along with widespread softer economic conditions, both of which have combined to cause a notable fall in demand for many types of industrial equipment and machinery. This restructuring has led to management recognising a net exceptional charge of £20.0m in the Income Statement.

A risk exists regarding the completeness, utilisation and validity of the provision as shown in note 5 to this announcement (note 23 in the full financial statements). There is also a risk relating to ensuring the appropriate classification of these costs in the Income Statement as exceptional items in accordance with the Group's policy.

How the scope of our audit responded to the risk

We evaluated the restructuring provisions by comparing the basis for the recognition of provisions to assess whether the recognition criteria of a constructive obligation arising from a past event are satisfied, assessing the value of the provision recognised and challenging the status and utilisation of provisions.

Additionally we have assessed the disclosure of the costs incurred within the Income Statement to assess whether those costs described as exceptional are in accordance with the Group's policy for exceptional costs as per note 5 in the full financial statements.

Key observations
From the work performed we are satisfied that the provisions recognised were complete, valid and appropriately utilised and appropriately presented as exceptional costs.

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 2015

	2015 **£m**	2014 £m	Note
Revenue	**567.2**	609.1	
Cost of sales and overheads	**(469.3)**	(501.9)	
Operating profit prior to exceptional items	**97.9**	107.2	
Acquisition costs	**-**	(0.2)	
Reorganisation costs	**(20.0)**	-	
Operating profit	**77.9**	107.0	2
Investment revenue	**0.1**	0.1	
Finance costs	**(3.0)**	(3.4)	
Profit before taxation	**75.0**	103.7	
Taxation	**(18.8)**	(24.4)	3
Profit for the year	**56.2**	79.3	
Attributable to:			
Equity holders of the parent	**56.2**	79.4	
Non-controlling interests	**-**	(0.1)	
	56.2	79.3	
Earnings per share			4
	Pence	Pence	

Basic	**29.6**	41.7
Diluted	**29.6**	41.7

All activities have arisen from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 £m	2014 £m
Profit for the year	**56.2**	79.3
Items that will not be reclassified to profit or loss:		
Actuarial (losses) / gains on defined benefit pension schemes	**(1.7)**	0.5
Tax on items not reclassified	**0.2**	1.0
Total items that will not be reclassified to profit or loss	**(1.5)**	1.5
Items that may be reclassified subsequently to profit or loss:		
Exchange gains / (losses) on translation of foreign operations	**0.4**	(7.0)
Cumulative exchange differences recycled to profit or loss on disposal of subsidiaries	**(3.3)**	-
Total items that may be reclassified subsequently to profit or loss	**(2.9)**	(7.0)
Other comprehensive expense for the year	**(4.4)**	(5.5)
Total comprehensive income for the year	**51.8**	73.8
Attributable to:		
Equity holders of the parent	**51.9**	73.9
Non-controlling interests	**(0.1)**	(0.1)
	51.8	73.8

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2015

	2015 £m	2014 £m	Note
Non-current assets			
Goodwill	**140.0**	138.4	
Other intangible assets	**35.2**	33.7	
Property, plant and equipment	**429.6**	434.6	
Other investments	**0.2**	-	
Deferred tax assets	**31.2**	27.2	
Trade and other receivables	**0.4**	1.6	
	636.6	635.5	
Current assets			
Inventories	**19.5**	20.9	
Current tax assets	**26.3**	20.3	
Trade and other receivables	**105.7**	109.0	
Cash and bank balances	**16.2**	38.5	
Assets held for sale	**1.2**	0.9	
	168.9	189.6	
Total assets	**805.5**	825.1	
Current liabilities			
Trade and other payables	**111.1**	119.3	
Current tax liabilities	**37.3**	33.4	
Obligations under finance leases	**0.1**	0.1	
Borrowings	**3.8**	2.5	

Provisions	**12.5**	6.9	5
	164.8	162.2	
Net current assets	**4.1**	27.4	
Non-current liabilities			
Retirement benefit obligations	**17.9**	17.0	
Deferred tax liabilities	**61.9**	60.7	
Obligations under finance leases	**-**	0.2	
Provisions	**8.8**	10.4	5
Other payables	**2.5**	3.7	
	91.1	92.0	
Total liabilities	**255.9**	254.2	
Net assets	**549.6**	570.9	
Equity			
Share capital	**33.1**	33.1	
Share premium account	**177.1**	177.1	
Own shares	**(9.3)**	(7.1)	
Other reserves	**134.1**	136.6	
Translation reserves	**(5.8)**	(3.0)	
Retained earnings	**220.0**	233.7	
Equity attributable to equity holders of the parent	**549.2**	570.4	
Non-controlling interests	**0.4**	0.5	
Total equity	**549.6**	570.9	

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 £m	2014 £m	Note
Net cash from operating activities	**111.3**	131.6	6
Investing activities			
Purchases of property, plant and equipment	**(61.1)**	(55.3)	
Proceeds on disposal of property, plant and equipment and intangible assets	**5.4**	5.6	
Purchases of intangible fixed assets	**(5.6)**	(4.1)	
Acquisition of businesses	**-**	(2.7)	
Purchase of sundry investments	**(0.2)**	(0.1)	
Disposal of sundry investments	**-**	1.8	
Disposal of subsidiary undertakings	**1.6**	-	
Net cash used in investing activities	**(59.9)**	(54.8)	
Financing activities			
Interest received	**0.1**	0.1	
Interest paid	**(2.7)**	(2.8)	
Dividends paid	**(66.0)**	(45.2)	
Repayments of bank loans	**-**	(0.5)	
Payments of obligations under finance leases	**(0.2)**	(0.1)	
New bank loans raised	**0.5**	-	
Own shares purchased / settlement of share options	**(6.7)**	(7.0)	
Net cash used in financing activities	**(75.0)**	(55.5)	
Net (decrease) / increase in cash and cash equivalents	**(23.6)**	21.3	
Cash and cash equivalents at beginning of year	**36.0**	15.3	
Effect of foreign exchange rate changes	**-**	(0.6)	
Cash and cash equivalents at end of year	**12.4**	36.0	6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	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 2014	33.1	177.1	(5.5)	140.1	4.7	197.3	546.8	0.6	547.4
Net profit for the year	-	-	-	-	-	79.4	79.4	(0.1)	79.3
Exchange differences on translation of overseas operations	-	-	-	-	(7.0)	-	(7.0)	-	(7.0)
Actuarial gains on defined benefit pension schemes net of deferred tax	-	-	-	-	-	1.5	1.5	-	1.5
Total comprehensive income for the year	-	-	-	-	(7.0)	80.9	73.9	(0.1)	73.8
Acquired in the year / settlement of share options	-	-	(1.6)	(5.4)	-	-	(7.0)	-	(7.0)
Share-based payments	-	-	-	1.9	-	-	1.9	-	1.9
Dividends paid	-	-	-	-	-	(45.2)	(45.2)	-	(45.2)
Disposal/ dissolution of subsidiary	-	-	-	-	(0.7)	0.7	-	-	-
31 December 2014	**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**

Included in other reserves is the capital redemption reserve of £129.8m (2014: £129.8m) and the share-based payments reserve of £3.5m (2014: £5.9m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2015 1,464,515 (2014: 1,212,547) 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 2015

1 Business and geographical segments

The Group has 178 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 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**

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 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**

Group	ADE 2014 £m	AGI 2014 £m	Central costs and eliminations 2014 £m	Consolidated 2014 £m
Revenue				
Total revenue	263.0	346.1	-	609.1
Result				
Headline operating profit prior to share-based payments and unallocated central costs	70.7	55.1	-	125.8
Share-based payments (including social charges)	(0.1)	(1.0)	(1.1)	(2.2)
Unallocated central costs	-	-	(12.5)	(12.5)
Headline operating profit / (loss)	70.6	54.1	(13.6)	111.1
Amortisation of acquired intangible fixed assets	(1.3)	(2.6)	-	(3.9)
Operating profit / (loss) prior to exceptional items	69.3	51.5	(13.6)	107.2
Acquisition costs	-	(0.2)	-	(0.2)
Segment result	69.3	51.3	(13.6)	107.0
Investment revenue				0.1
Finance costs				(3.4)
Profit before taxation				103.7
Taxation				(24.4)
Profit for the year				79.3

1 Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total ADE 2014 £m
Revenue				
Total revenue	129.7	130.8	2.5	263.0
Result				
Headline operating profit prior to share-based payments	30.4	39.8	0.5	70.7
Share-based payments (including social charges)	(0.1)	-	-	(0.1)
Headline operating profit	30.3	39.8	0.5	70.6
Amortisation of acquired intangible fixed assets	(0.3)	(1.0)	-	(1.3)

Segment result	30.0	38.8	0.5	69.3

Automotive & General Industrial	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total AGI 2014 £m
Revenue				
Total revenue	220.1	84.6	41.4	346.1
Result				
Headline operating profit prior to share-based payments	37.6	15.5	2.0	55.1
Share-based payments (including social charges)	(1.0)	-	-	(1.0)
Headline operating profit	36.6	15.5	2.0	54.1
Amortisation of acquired intangible fixed assets	(0.2)	(2.2)	(0.2)	(2.6)
Operating profit prior to exceptional items	36.4	13.3	1.8	51.5
Acquisition costs	(0.2)	-	-	(0.2)
Segment result	36.2	13.3	1.8	51.3

Other information

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 assets	**(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**

Group	ADE 2014 £m	AGI 2014 £m	Central costs and eliminations 2014 £m	Consolidated 2014 £m
Gross capital additions	18.9	36.2	4.3	59.4
Depreciation and amortisation	20.1	34.0	1.0	55.1
Balance sheet				
Assets:				
Segment assets	308.1	434.7	82.3	825.1
Liabilities:				
Segment liabilities	(68.2)	(122.8)	(63.2)	(254.2)
	239.9	311.9	19.1	570.9
Allocation of head office net liabilities	8.3	10.8	(19.1)	-
Adjusted segment net assets	248.2	322.7	-	570.9

1 Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total ADE 2014 £m
Gross capital additions	9.2	9.5	0.2	18.9
Depreciation and amortisation	9.5	10.3	0.3	20.1
Balance sheet				
Assets:				
Segment assets	140.3	164.7	3.1	308.1
Liabilities:				
Segment liabilities	(35.5)	(31.0)	(1.7)	(68.2)
Segment net assets	104.8	133.7	1.4	239.9

Automotive & General Industrial	Western Europe 2014 £m	North America 2014 £m	Emerging markets 2014 £m	Total AGI 2014 £m

Gross capital additions	18.8	6.9	10.5	36.2
Depreciation and amortisation	21.6	7.9	4.5	34.0
Balance sheet				
Assets:				
Segment assets	248.2	118.9	67.6	434.7
Liabilities:				
Segment liabilities	(93.1)	(15.6)	(14.1)	(122.8)
Segment net assets	155.1	103.3	53.5	311.9

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	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
USA	**211.5**	206.7	**257.3**	244.9
France	**82.2**	91.4	**60.4**	63.1
UK	**50.9**	59.5	**74.6**	71.2
Germany	**59.8**	65.5	**58.5**	59.9
Sweden	**41.9**	51.4	**35.8**	37.6
Netherlands	**23.2**	26.1	**20.9**	22.9
Others	**97.7**	108.5	**97.5**	107.1
	567.2	609.1	**605.0**	606.7

2 Operating profit

	2015	2014
	£m	£m
Revenue	**567.2**	609.1
Cost of sales	**(359.0)**	(382.0)
Gross profit	**208.2**	227.1
Other operating income	**4.1**	5.4
Distribution costs	**(18.5)**	(17.9)
Administration expenses[1]	**(93.8)**	(102.1)
Other operating income / (expenses)	**2.1**	(1.4)
Headline operating profit	**102.1**	111.1
Amortisation of acquired intangible fixed assets[1]	**(4.2)**	(3.9)
Operating profit prior to exceptional items	**97.9**	107.2
Exceptional items[1]	**(20.0)**	(0.2)
Operating profit	**77.9**	107.0

[1] Administration and exceptional expenses total £118.0m (2014: £106.2m).

Exceptional items comprise:

	2015	2014
	£m	£m
Acquisition costs	**-**	0.2
Reorganisation costs	**20.0**	-

	20.0	0.2

3 Taxation

	2015 **£m**	2014 £m
Current taxation – charge for the year	**22.3**	30.4
Current taxation – adjustments in respect of previous years	**(0.1)**	(7.1)
Deferred tax	**(3.4)**	1.1
	18.8	24.4

UK corporation tax is calculated at 20.25% (2014: 21.50%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2015 **£m**	2014 £m
Profit before taxation	**75.0**	103.7
Tax at the UK corporation tax rate of 20.25% (2014: 21.50%)	**15.2**	22.3
Tax effect of income that is not taxable in determining taxable profit	**(6.0)**	(2.1)
Deferred tax (assets) / liabilities recognised	**(1.5)**	0.9
Tax effect of other adjustments in respect of previous years:		
Current tax	**0.1**	(7.1)
Deferred tax	**0.2**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**10.8**	10.4
Tax expense for the year	**18.8**	24.4

Tax on items taken directly to equity is a credit of £0.2m (2014: credit of £1.0m).

Tax on exceptional items and amortisation of acquired intangible fixed assets is £5.4m (2014: £0.1m).

4 Earnings per share

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

Earnings	**2015** **£m**	2014 £m
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**56.2**	79.4

Number of shares	**Number**	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**189,991,657**	190,243,625
Effect of dilutive potential ordinary shares:		
Share options	**-**	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**189,991,657**	190,243,625

	Pence	Pence
Earnings per share:		
Basic	**29.6**	41.7
Diluted	**29.6**	41.7

Headline earnings	**£m**	£m
Net profit attributable to equity holders of the parent	**56.2**	79.4
Add back:		
Amortisation of acquired intangible fixed assets (net of tax)	**3.2**	3.8
Acquisition costs (net of tax)	**-**	0.2
Reorganisation costs (net of tax)	**15.6**	-
Headline earnings	**75.0**	83.4

Earnings per share from headline earnings:	**Pence**	Pence
Basic	**39.5**	43.8
Diluted	**39.5**	43.8

5 Provisions

	Restructuring £m	Restructuring Environmental £m	Environmental £m	Total £m
At 1 January 2015	3.3	6.1	7.9	**17.3**
Increase in provision	15.6	2.7	-	**18.3**
Release of provision	(3.7)	(0.3)	(1.2)	**(5.2)**
Utilisation of provision	(6.3)	(2.1)	(0.4)	**(8.8)**
Exchange difference	(0.8)	0.2	0.3	**(0.3)**
At 31 December 2015	**8.1**	**6.6**	**6.6**	**21.3**

Included in current liabilities	**12.5**
Included in non-current liabilities	**8.8**
	21.3

The restructuring provision relates to the costs associated with the closure of a number of Heat Treatment sites. The net increase in restructuring and restructuring environmental provisions of £14.3m relates to costs associated with the Group's withdrawal from Brazil, together with new restructuring initiatives announced, primarily in Europe. Asset impairments of £9.5m have also been recognised.

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 separately identify 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

	2015 **£m**	2014 £m
Profit for the year	**56.2**	79.3
Adjustments for:		
Investment revenue	**(0.1)**	(0.1)
Finance costs	**3.0**	3.4
Taxation	**18.8**	24.4
Depreciation of property, plant and equipment	**48.8**	50.3
Amortisation of intangible assets	**5.0**	4.8
Profit on disposal of property, plant and equipment	**(2.1)**	(1.4)
Share-based payments	**(0.4)**	1.9
Impairment of fixed assets	**9.0**	2.7
Impairment of other assets	**0.5**	-
Profit on sale of subsidiaries	**(3.8)**	-
EBITDA[1]	**134.9**	165.3
Decrease / (increase) in inventories	**0.7**	(3.4)
Decrease / (increase) in receivables	**0.9**	(2.2)
Decrease in payables	**(6.3)**	(9.6)
Increase in provisions	**4.3**	0.5
Cash generated by operations	**134.5**	150.6
Income taxes paid	**(23.2)**	(19.0)
Net cash from operating activities	**111.3**	131.6

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.

	2015 **£m**	2014 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**16.2**	38.5
Bank overdrafts (included in borrowings)	**(3.8)**	(2.5)
	12.4	36.0

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 International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRS in April 2016. The financial information has been prepared under the same accounting policies as the 2014 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 2015 or 2014, but is derived from those accounts. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered following the Company's Annual General

Meeting. The auditors have reported on those accounts; their 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.