Bodycote plc
Audited results for the year ended 31 December 2018

Financial highlights	**2018**	2017	***% change***	***% change at constant currency***
Revenue	**£728.6m**	£690.2m	*5.6%*	*6.7%*
Headline operating profit[1]	**£138.3m**	£123.9m	*12%*	*13%*
Return on sales[2]	**19.0%**	18.0%		
Headline profit before taxation	**£136.4m**	£121.5m	*12%*	*13%*
Free cash flow[3]	**£97.4m**	£83.0m	*17%*	
Basic headline earnings per share[4]	**55.9p**	49.2p	*14%*	
Ordinary dividend per share	**19.0p**	17.4p		
Special dividend per share	**20.0p**	25.0p		
Return on capital employed[5]	**20.5%**	19.3%		

Statutory results

Operating profit	**£134.1m**	£119.4m
Profit before taxation	**£132.2m**	£117.0m
Basic earnings per share	**54.2p**	51.0p

Highlights

- Revenue growth of 6.7% at constant currency
  - Specialist Technologies delivered double digit growth of 12%
  - Emerging Markets growth of 21%
  - Civil aviation revenues up 8%
- 12% growth in headline operating profit to £138.3m
- Return on sales improvement to 19.0% (2017: 18.0%)
- ROCE increased to 20.5% (2017: 19.3%)
- Free cash flow of £97.4m (2017: £83.0m), after expansionary capex of £44.1m
- Headline operating cash conversion at 93%[6]
- Full year ordinary dividend 19.0p, up 9%
- Special dividend of 20.0p

Commenting, Stephen Harris, Group Chief Executive said:

“2018 has once again demonstrated the strength of Bodycote’s strategy and business. We achieved double-digit growth in Specialist Technologies’ revenues, an excellent performance in our Emerging Markets and robust growth in civil aviation revenues.

“Combined with pricing discipline in the face of significant cost pressures, the Group was able to improve return on sales. Together with the revenue growth this delivered a healthy increase in headline earnings per share. Our performance is testament to the Group’s resilient operating model, with our focus on cashflow generation, operational efficiency and improving returns.

"While we are conscious of the global macro-economic backdrop, we have entered 2019 well positioned and at this early point in the year, our expectations for 2019 remain unchanged."

- END -

Definitions
[1] Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £3.7m (2017: £4.5m) and acquisition costs of £0.5m (2017: nil).
[2] Return on sales is defined as headline operating profit as a percentage of revenue.
[3] Free cash flow is defined as cash generated by operations of £197.8m (2017: £182.8m) less net capital expenditure of £74.0m (2017: £74.8m) and financing costs of £1.9m (2017: £2.1m) and taxation of £24.5m (2017: £22.9m).
[4] A detailed EPS reconciliation is provided in note 5 to this announcement.
[5] Return on capital employed (ROCE) is defined as headline operating profit of £138.3m (2017: £123.9m) divided by the average of opening and closing capital employed of £673.4m (2017: 642.5m). Capital employed is defined as net assets adjusted for net cash/(debt).
[6] Headline operating cash conversion is defined as headline operating cash flow divided by headline operating profit.

Analyst Meeting

A live webcast of the analysts' meeting will be available at 09.30am at www.bodycote.com with a recording of the event available shortly afterwards.

A dial in facility will also be available. Participant dial-in number from the UK 020 3936 2999 (all other locations + 44 20 3936 2999). Participant Access Code : 641752

Capital Markets Day

Bodycote will host an event for investors in London on the morning of Tuesday 30 April 2019.

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Overview

Bodycote reported revenue growth of 5.6% to £728.6m (2017: £690.2m). Constant currency revenues grew 6.7%. Headline operating profit increased 12% to £138.3m (£123.9m) and return on sales further improved to 19.0% (2017: 18.0%). Statutory operating profit also increased 12% to £134.1m.

The following reflects constant currency growth rates unless stated otherwise.

Our Specialist Technologies delivered double digit growth of 12%, reflecting continued adoption of these technologies supported by ongoing investment in new capacity and capability. We achieved strong growth of 21% in our rapid growth Emerging Markets. This was helped by solid contributions from recent greenfield start ups, in particular in Mexico and China. We continued to invest in the structural growth opportunity represented by the civil aviation market where our revenues grew 8%.

Our return on sales continues to expand, reflecting our multiyear programme of pricing and efficiency improvements in the AGI Classical Heat Treatment business aimed at improving the quality of this business to a similar level to the ADE business. The movement in revenue mix in favour of our higher margin Specialist Technologies also added to the improvement in return on sales and is part of our long term goal of improving Group margins to world class levels.

The cash generative nature of Bodycote's business was underlined by the 93% headline operating cash conversion, and ROCE further improved to 20.5% from 19.3% in 2017. We delivered £97m of free cash after investing £44m in capacity and capability expansion, which will enable us to continue our earnings growth in future years.

Our Technologies

The Classical Heat Treatment (CHT) business contributed 76% of total Group revenues, with growth of 5%, reflecting growth across all our key market sectors.

We achieved 12% growth across our Specialist Technologies, which constitute 24% of the Group's revenues. Low Pressure Carburising (LPC) and Corr-i-Dur® (CiD) both grew revenues over 20% and HIP Product Fabrication (HIP PF), grew over 30%. This reflects increased adoption of these differentiated technologies and is supported by investment in additional capacity across our network.

Emerging Markets

A key pillar of our strategy is targeted investments in rapidly growing Emerging Markets. Our revenues in these markets grew 21%. This growth was underpinned by buoyant performances in Mexico, as automotive exports to the USA increased, and from China where we are achieving increased penetration of the automotive market. Emerging Markets now represent 9% of Group revenues, up from 7% in 2016 (and up from 2% in 2009). Continued investment in these markets should sustain good growth into the future.

Market Sectors[1]

Civil aviation revenues grew 8% in the year, with 12% growth in the second half as industry supply chain problems eased. The UK operations performed strongly again, supported by additional capacity in the final quarter of the year with our new aerospace facility in Rotherham (UK) coming on line. North American revenues also continued to build as production of LEAP

[1] A review of the Company's Operating Segments is contained in the Business Review section on page 6.

engines ramped up and the supply chain bottle necks for titanium castings have started to ease.

General industrial markets represent 38% of Group revenues, serving a very broad range of industrial sectors. Revenues grew 6% in the year, representing further solid growth across our key geographies.

Revenues from the energy sector grew 13% in the year, notwithstanding the well publicised substantial fall in revenues from the large-frame industrial gas turbines' (IGT) original equipment manufacturers. Growth came predominantly from buoyant oil & gas revenues, much of it driven by demand in the Permian basin, although there was some evidence of customers de-stocking towards the end of the year. In the latter part of the year, revenues benefited from shipments on HIP PF subsea contracts that had been won earlier in the year. The order book in subsea work continues to grow at an increasing rate.

The automotive business grew 7%. This was another strong performance against the backdrop of flat markets in both Western Europe and North America, reflecting the excellent growth of Specialist Technologies in the sector.

Investment in growth

During the year, we invested £44m (more than 50% of overall gross capex) across our entire business to support future growth, adding new capacity into existing facilities, as well as developing new facilities. It takes some time to build a new facility and subsequently typically takes a further three to five years for revenues to fully mature. Since the beginning of 2016, we have opened nine new facilities, focused on market sectors with long term structural growth, expanded our footprint in rapid growth Emerging Markets, and grown our Specialist Technologies' businesses. These facilities, which are strongly underpinned by contracts from anchor customers, are contributing meaningfully to the Group's revenue growth as they ramp up.

We acquired a Classical Heat Treatment facility in the United States of America towards the end of the year, which will fit well with our existing business in the South East, enhancing growth and operating efficiency.

We also have an exciting pipeline of new investments, including new facilities being built in Illinois and New York (USA), a new facility in Italy and new facilities in the Emerging Markets of Hungary and Czech Republic. Furthermore, we are adding additional HIP capacity into the USA and European markets to meet civil aviation demand.

Profit and Earnings

As expected, we experienced higher input cost inflation in a number of our markets, with pressure coming from tighter labour markets, and cost increases in utilities and industrial gases that we use in our processes. We continue to proactively manage this to ensure that the value of our price increases at least offsets the cost increases incurred.

The Group's profit improvement, coupled with a headline tax rate of 21.7% (2017: 22.9%), increased basic headline earnings per share to 55.9p (2017: 49.2p). Basic earnings per share increased to 54.2p (2017: 51.0p).

Strategic Progress

The Group's strategy encompasses the drive for operational efficiency and delivering strong return on sales and good return on capital employed. The Group is committed to invest to support profitable growth. The priorities for growth are capacity and capability enhancement in Specialist Technologies, expansion of the Group's footprint in rapid growth Emerging Markets and investment in markets with long term structural growth such as civil aviation and growth through targeted acquisitions. The Group has a minimum 20% hurdle rate return when appraising investments.

During 2018, we made continued progress against our strategy, delivering both higher return on sales of 19.0% (2018: 18.0%) and an increase in ROCE to 20.5% (2018: 19.3%).

Civil aviation revenue grew 8%, Emerging Markets' revenues grew 21%, and Specialist Technologies' grew 12%, which all reflect the success of the investment focus of the Group in these businesses over a number of years.

We continue to look at acquisition and investment opportunities. These are traditionally bolt-on facilities that can provide us with infills to our existing network. Where the opportunities to buy such facilities with good prospects do not exist we will build new facilities. Newly constructed facilities have a ramp up period, but have the advantage of being designed exactly in line with the Group's technology and operational efficiency focus. Since 2014, we have invested over £210m in both acquisitions and investment for growth in new and existing facilities. The growth noted above in civil aviation revenues, Emerging Markets' revenues and Specialist Technologies' revenues, have all been boosted by these investments. In many cases, the revenues from these past investments are still ramping up and so will contribute to growth in revenue and profit in the coming years.

Organisation and people

Bodycote is a service business and our first-class service is delivered by committed individuals, who understand their customers' needs and meet their demanding and changing requirements on a continual basis. Our people are the cornerstone of the business and it is through their endeavours, day in and day out, that we create value and deliver our objectives. Developing our employees to ensure that our talented workforce remains one of our competitive advantages is a priority for the Group.

Summary and Outlook

2018 has once again demonstrated the strength of Bodycote's strategy and business. We achieved double-digit growth in Specialist Technologies' revenues, an excellent performance in our Emerging Markets and robust growth in civil aviation revenues.

Combined with pricing discipline in the face of significant cost pressures, the Group was able to improve return on sales. Together with the revenue growth this delivered a healthy increase in headline earnings per share. Our performance is testament to the Group's resilient operating model, with our focus on cashflow generation, operational efficiency and improving returns.

While we are conscious of the global macro-economic backdrop, we have entered 2019 well positioned and at this early point in the year, our expectations for 2019 remain unchanged.

BUSINESS REVIEW

The following review reflects constant currency growth rates unless stated otherwise.

Bodycote has more than 40,000 customers serviced by more than 180 facilities around the world. These facilities are organised into two customer focused businesses; the ADE business and the AGI business. Our ADE business is focused on aerospace, defence and energy customers, who tend to think and operate globally. Our AGI business is focused on automotive and general industrial customers. These include many multinational businesses which tend to operate on a regionally-focused basis, as well as numerous medium sized and smaller businesses, and all of which are important to Bodycote. Much of the AGI business is locally oriented.

Strategically we have focused on building customer relationships to enable our participation in long term programmes, in particular in the civil aviation market. Not only do we have a competitive advantage as a result of our scale and capabilities, but our global reach allows customers to work with us on multiple projects simultaneously, making us a valued business partner.

THE ADE BUSINESS

A large number of Bodycote's global customers fall within our ADE business and Bodycote intends to continue to leverage its unique market position to increase revenues in the aerospace, defence and energy sectors. We have more than 60 facilities around the world including hot isostatic pressing (HIP) and surface technology facilities, alongside our classical heat treatment plants.

Revenue in 2018 was £288.0m, an increase of 7% (5% at actual rates). Civil aviation registered good growth, particularly in the second half of the year as some of the supply chain issues that have been holding back industry growth appeared to ease, particularly in North America. Oil & gas revenues also registered strong growth, while revenues from Industrial Gas Turbines declined as the OEMs cut back on production.

Headline operating profit was £68.7m an increase of 8% (7% at actual rates). Consequently, return on sales improved to 23.9% (2017: 23.5%). Statutory operating profit grew to £67.8m (2017: £62.7m).

Net capital expenditure in 2018 was £25.3.m (2017: £32.1m), representing 1.1 times depreciation. We have invested in new HIP capacity in North America and Europe, as well as opening a new facility in Rotherham, UK to support the growth in the civil aviation business.

Return on capital employed increased to 21.7% (2017: 21.4%), with improved profitability and continued careful management of the balance sheet.

THE AGI BUSINESS

Our extensive network of more than 120 AGI facilities enables the business to offer the widest range of capability and security of supply. Bodycote has a long and successful history of servicing its wide-ranging customer base.

Revenue was £440.6m, 7% ahead of the prior year (6% at actual rates). Western Europe delivered solid growth, driven by a strong performance in the first half of the year. North America also registered robust growth through the year. Once again, Emerging Markets were the standout performer, registering growth above 20% and now representing 14% of total divisional revenues, driven by strong performances in Mexico and China.

Headline operating profit was £82.4m (2017: £74.2m) 12% ahead of the prior period (11% at actual rates). Return on sales expansion has been a focus for our AGI business over many years and we continued this trend, reporting further improvement to 18.8% (2017: 17.8%). Statutory operating profit grew to £79.6m (2017: £71.2m).

Net capital expenditure was £50.2m (2017: £37.8m) representing 1.3 times depreciation. We are continuing to invest in the rapid growth Emerging Markets, our Specialist Technologies and investing in new facilities alongside investment in new capacity in existing facilities.

Return on capital employed increased to 20.1% (2017: 17.8%), further augmenting last year's improvement and hitting the Group's hurdle return on capital employed for the first time since the AGI business structure was created.

Financial Overview

	2018 £m	2017 £m
Revenue	**728.6**	690.2
Headline operating profit	**138.3**	123.9
Amortisation of acquired intangible fixed assets	**(3.7)**	(4.5)
Acquisition costs	**(0.5)**	-
Operating profit	**134.1**	119.4
Net finance charge	**(1.9)**	(2.4)
Profit before taxation	**132.2**	117.0
Taxation	**(28.6)**	(19.7)
Profit for the year	**103.6**	97.3

Group revenue was £728.6m, an increase of 5.6% at actual exchange rates, and 6.7% at constant currency. New facilities contributed 1.6% to revenue growth.

Headline operating profit for the year increased by 12% to £138.3m (2017: £123.9m), and return on sales increased to 19.0% (2017: 18.0%). Price increases once again more than covered the increase in input costs. Statutory operating profit grew 12% to £134.1m (2017: £119.4m).

Finance charge

The net finance charge was £1.9m compared to £2.4m in 2017, analysed as follows:

	2018 £m	2017 £m
Interest received on bank overdrafts and loans	**0.2**	0.1
Net interest payable[1]	**0.1**	0.1
Financing and bank charges	**1.8**	2.0
Pension finance charge	**0.2**	0.4
Total finance charge	**2.1**	2.5
Net finance charge	**1.9**	2.4

[1] Amounts arising on financial liabilities measured at amortised cost.

As at 31 December 2018, the Group's £230m Revolving Credit Facility is totally undrawn and has a remaining life of 3.3 years.

Profit before Taxation

	2018 £m	2017 £m
Headline profit before taxation	**136.4**	121.5
Amortisation of intangibles	**(3.7)**	(4.5)
Acquisition costs	**(0.5)**	-
Profit before taxation	**132.2**	117.0

Statutory profit before tax increased to £132.2m (2017: £117.0m), while headline profit before tax increased 12% to £136.4m (2017: £121.5m).

Tax

The headline tax rate for the Group fell to 21.7% (2017:22.9%) as a result of the reduction in the US Federal corporate income tax rate.

However, the statutory tax rate of 21.6% increased from that of 16.8% in 2017, since the 2017 tax charge benefited from a one-off tax gain of £6.4m as a result of a revaluation of the Group's deferred tax liabilities, following the passing of the Tax Cuts and Jobs Act in the US in December 2017.

Some clarifications on implementation of the US Tax Cuts and Jobs Act were issued in December 2018. While these only apply from 2019, the impact will likely be a reduction in benefit to Bodycote from the financing activities into the US, as the ability to take tax deductions for interest is restricted. This is a trend common across tax legislation developments everywhere, including other jurisdictions where Bodycote operates.

The Group's statutory tax rate is impacted by a certain level of taxation risk related to the jurisdictions in which the Group operates. Provisions of £16.1m are carried in respect of potential future additional tax assessments related to 'open' historic tax years. Reference is made to note 4 of the financial statements for more information.

Earnings per Share

The improved Group business performance drove basic headline earnings per share up to 55.9p (2017: 49.2p) while basic earnings per share for the year increased to 54.2p (2017: 51.0p).

	2018 £m	2017 £m
Profit before taxation	132.2	117.0
Taxation	(28.6)	(19.7)
Profit for the year	103.6	97.3
Basic headline EPS	55.9p	49.2p
Basic EPS	54.2p	51.0p

Return on Capital Employed (ROCE)

The return on capital employed rose in the current year to 20.5% from 19.3% in 2017. This improvement was driven by the increase in the Group's operating profit. Moreover, since 2014, the Group has invested over £215m on acquisitions and expansionary investment projects, many of which are not yet fully mature and are not contributing as fully to Group returns as they will once they have all reached financial maturity. The Group continues to exert strong financial discipline in the area of capital expenditure, applying stringent financial returns hurdles to all of its projects.

Cash Flow

	2018 £m	2017 £m
Headline operating profit	**138.3**	123.9
Add back non-cash items:		
Depreciation and amortisation	**62.0**	59.8
Impairment of fixed assets	**1.8**	0.4
Share-based payments	**3.8**	7.8
Profit on disposal of property, plant and equipment	**(1.7)**	(0.7)
Loss on disposal of businesses	**0.6**	-
Headline EBITDA[1]	**204.8**	191.2
Net capital expenditure	**(74.0)**	(74.8)
Net working capital movement	**(2.1)**	(4.7)
Headline operating cash flow	**128.7**	111.7
Cash cost of restructuring	**(4.4)**	(3.7)
Acquisition costs	**(0.5)**	-
Operating cash flow	**123.8**	108.0
Interest paid	**(1.9)**	(2.1)
Taxation	**(24.5)**	(22.9)
Free cash flow	**97.4**	83.0
Acquisition spend	**(8.3)**	(14.2)
Disposals	**0.7**	-
Ordinary dividend	**(34.2)**	(30.6)
Special dividend	**(47.6)**	-
Own shares purchased	**(10.6)**	-
Other	**(0.1)**	0.3
(Decrease)/increase in net cash	**(2.7)**	38.5
Opening net cash	**39.6**	1.1
Loans acquired with subsidiaries	**(0.7)**	-
(Decrease)/increase in net cash	**(2.7)**	38.5
Closing net cash	**36.2**	39.6

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

The Group's headline operating cash flow increased 15% to £128.7m, mainly reflecting the improvement in the operating profit. Headline operating cash conversion was 93% as the Group continued to demonstrate an impressive record of converting profit into cash. Consequently, free cash flow increased 17% to £97.4m. The Group ended 2018 with £36.2m of net cash, only slightly lower than 2017 (£39.6m) despite paying ordinary and special dividends totalling £81.8m, and investing £44.1m in expansionary capital expenditure projects during the year.

Capital Expenditure

Net capital expenditure (capital expenditure less proceeds from asset disposals) for the year was £74.0m (2017: £74.8m). The multiple of net capital expenditure to depreciation was 1.2 times (2017: 1.3 times).

As noted above, £44.1m of capital expenditure was invested in expansionary projects, in line with our strategy to invest for profitable growth, particularly in new facilities and incremental capacity for Specialist Technologies, in several new facilities in Emerging Markets and to support the long-term structural growth opportunity in the civil aviation market. Alongside this, the Group continues to invest in maintaining its assets to a high quality, with repairs and maintenance costs also being expended directly in the Group's profit and loss account.

Acquisitions and Disposals

We acquired a small facility in the US towards the end of the year, which fits well with our existing business in the South East, enhancing growth opportunities and helping with operating efficiency. In addition, we disposed of two small non-core businesses in France and Germany. Net consideration totalled £8m.

New standards

A new IFRS standard on the accounting of leases (IFRS 16) will impact Bodycote's accounts in 2019. While it does not change the underlying nature of our business at all, from an accounting perspective, it recognises leased assets as 'right of use' assets held on the balance sheet and classifies future lease liabilities as a financial liability. This will have the impact of adding c£80m to the Group's financial liabilities (based on leases we held at the end of 2018). In the P&L, it will add c£2m to Headline Operating Profit, with a similar increase in finance charges, leaving Profit before Tax and Earnings per Share measures unchanged.

During 2018, IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers) were adopted, with an immaterial impact on the Group's accounts.

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.

In line with this policy, the Board has recommended a final ordinary dividend of 13.3p (2017: 12.1p), bringing the total ordinary dividend to 19.0p (2017: 17.4p). In addition, in light of the Group's strong balance sheet and year end net cash position, the Board has recommended a special dividend of 20.0p (2017: 25.0p). If approved by shareholders, both the final ordinary dividend and the special dividend will be paid on 7 June 2019 to shareholders on the register at the close of business on 23 April 2019.

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 2018 was £230.0m (2017: £230.0m). At 31 December 2018, the facility was undrawn.

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

Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

Alternative performance measures

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, headline profit before taxation, headline operating cash flow and free cash flow, together with current measures restated at constant currency. These assist users of the financial statements to gain a clearer understanding of the underlying performance of the business, allowing the impact of restructuring and reorganisation activities and acquisition costs to be identified separately. These alternative performance measures can be found in Note 1 to the accounts.

Going concern

In determining the basis of preparation for the Annual Report and the Group's viability statement, 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 2018 were as follows:

- £230m Revolving Credit Facility maturing 3 April 2022

The December 2018 weighted average life of the committed facilities was 3.3 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.

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

As the independent auditor of Bodycote PLC we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Bodycote PLC's preliminary announcement statement of annual results for the period ended 31 December 2018.

The preliminary statement of annual results for the period ended 31 December 2018 includes: disclosures required by the Listing Rules, financial highlights, trading overview, business review, finance overview, the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the consolidated financial statements. We are not required to agree to the publication of presentations to analysts, trading statements, or interim management statements.

The directors of Bodycote PLC are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Bodycote PLC is complete and we signed our auditor's report on 8 March 2019. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall 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 key audit matters and the key observations arising from our work:

TAXATION – VALUATION OF SPECIFIC UNCERTAIN TAX PROVISIONS

Key audit matter description

As described in note 6 and the Group's accounting policies in the full Financial Statements, the Group recognises a number of tax provisions in respect of ongoing tax inquiries and reflecting the multinational tax environment in which the Group operates. These provisions total £16.1 million (2017: £17.5 million).

The tax risk concerns the judgements and estimates applied in the determination of provisions for liabilities attributed to specific uncertain tax provisions linked to the Group's corporate arrangements.

This is described as an area of focus in the Report of the Audit Committee in the full Financial Statements.

How the scope of our audit responded to the key audit matter

In conjunction with our taxation audit specialists, we performed the following audit procedures in order to address this risk:

- Assessed the design and implementation of the controls in place to address the key audit matter;
- Assessed the assumptions and judgements concerning the adequacy of specific uncertain tax provisions by challenging management's assumptions; and
- Reviewed the available correspondence from the various tax authorities and drawing on the experience of our taxation specialists in respect of similar situations.

Key observations

From the work performed above we are satisfied that the provisions held on the balance sheet for specific uncertain tax provisions are reasonable.

REVENUE RECOGNITION – MANUAL ADJUSTMENTS TO REVENUE

Key audit matter description
When assessing the potential risk of fraud in relation to revenue recognition, we have considered the nature of the automated and manual transactions recorded across the Group, considering the typical sales cycle for the services provided by the Group as described in the Group's accounting policies. Following which we have determined that a key audit matter in relation to fraud exists relating to the risk of inappropriate manual adjustments being recorded in revenue. This is because the value of manual journals is material in total, and due to the risk of management override in this area.

How the scope of our audit responded to the key audit matter
We performed the following audit procedures in order to address this risk:

- Assessed the design and implementation of the controls in place to address the key audit matter;
- Tested the completeness and accuracy of the transactions listings split between automated and manual journal types;
- Performed procedures to understand the nature of the manual adjustments arising; and
- Selected a sample of manual entries posted throughout the year and obtained the relevant supporting documentation in order to validate that journal postings were accurate and had commercial substance.

Key observations
From the work performed we have not noted any manual adjustments to revenue that we would not expect in the usual course of business, or that cannot be supported.

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.

Procedures performed to agree to the preliminary announcement of annual results
In order to agree to the publication of the preliminary announcement of annual results of Bodycote PLC we carried out the following procedures:

(a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) considered whether the financial information in the preliminary announcement is misstated;

(d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:

- the use, relevance and reliability of APMs has been explained;
- the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
- the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
- comparatives have been included, and where the basis of calculation has changed over time this is explained.

(f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

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.

Mark Mullins, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
8 March 2019

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m	Note
Revenue	**728.6**	690.2	2
Cost of sales and overheads	**(594.5)**	(570.8)	
Operating profit	**134.1**	119.4	2,3
Investment revenue	**0.2**	0.1	
Finance costs	**(2.1)**	(2.5)	
Profit before taxation	**132.2**	117.0	
Tax impact in relation to change in US tax rate	**-**	6.4	
Taxation	**(28.6)**	(26.1)	4
Taxation charge	**(28.6)**	(19.7)	
Profit for the year	**103.6**	97.3	
Attributable to:			
Equity holders of the parent	**103.2**	97.1	
Non-controlling interests	**0.4**	0.2	
	103.6	97.3	
Earnings per share			
	Pence	Pence	5
Basic	**54.2**	51.0	
Diluted	**54.2**	51.0	

All activities have arisen from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m
Profit for the year	**103.6**	97.3
Items that will not be reclassified to profit or loss:		
Actuarial (loss)/gain on defined benefit pension schemes	**(0.8)**	6.7
Tax on items not reclassified	**(0.5)**	(1.0)
Total items that will not be reclassified to profit or loss	**(1.3)**	5.7
Items that may be reclassified subsequently to profit or loss:		
Exchange gains/(losses) on translation of foreign operations	**15.8**	(11.7)
Total items that may be reclassified subsequently to profit or loss	**15.8**	(11.7)
Other comprehensive income/(expense) for the year	**14.5**	(6.0)
Total comprehensive income for the year	**118.1**	91.3
Attributable to:		
Equity holders of the parent	**117.9**	91.2
Non-controlling interests	**0.2**	0.1
	118.1	91.3

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2018

	2018 £m	2017 £m	Note
Non-current assets			
Goodwill	**163.9**	157.6	
Other intangible assets	**43.0**	43.4	
Property, plant and equipment	**546.6**	520.5	
Investment in associate	**4.1**	-	
Deferred tax assets	**23.6**	24.5	
Trade and other receivables	**1.4**	1.0	
	782.6	747.0	
Current assets			
Inventories	**13.9**	16.4	
Current tax assets	**7.0**	12.8	
Trade and other receivables	**146.3**	140.4	
Cash and bank balances	**38.5**	41.0	
Assets held for sale	**1.8**	2.1	
	207.5	212.7	
Total assets	**990.1**	959.7	
Current liabilities			
Trade and other payables	**140.4**	138.4	
Current tax liabilities	**26.6**	29.2	
Borrowings	**2.3**	1.4	
Provisions	**4.7**	8.7	6
	174.0	177.7	
Net current assets	**33.5**	35.0	
Non-current liabilities			
Retirement benefit obligations	**16.8**	15.2	
Deferred tax liabilities	**60.9**	57.2	
Provisions	**9.6**	8.7	6
Other payables	**2.2**	3.4	
	89.5	84.5	
Total liabilities	**263.5**	262.2	
Net assets	**726.6**	697.5	
Equity			
Share capital	**33.1**	33.1	
Share premium account	**177.1**	177.1	
Own shares	**(14.8)**	(7.2)	
Other reserves	**141.4**	141.0	
Translation reserves	**61.9**	45.9	
Retained earnings	**327.2**	307.1	
Equity attributable to equity holders of the parent	**725.9**	697.0	
Non-controlling interests	**0.7**	0.5	
Total equity	**726.6**	697.5	

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m	Note
Net cash from operating activities	**173.3**	159.9	7
Investing activities			
Purchases of property, plant and equipment	**(82.4)**	(73.3)	
Proceeds on disposal of property, plant and equipment and intangible assets	**10.2**	3.7	
Purchases of intangible fixed assets	**(1.8)**	(5.2)	
Acquisition of businesses	**(8.3)**	(14.2)	
Disposal of businesses	**0.7**	-	
Net cash used in investing activities	**(81.6)**	(89.0)	
Financing activities			
Interest received	**0.2**	0.1	
Interest paid	**(1.9)**	(2.1)	
Dividends paid	**(81.8)**	(30.6)	
Repayments of bank loans	**(40.7)**	(5.0)	
Payments of obligations under finance leases	**-**	(0.1)	
New bank loans raised	**40.0**	-	
Own shares purchased/settlement of share options	**(10.6)**	-	
Net cash used in financing activities	**(94.8)**	(37.7)	
Net (decrease)/increase in cash and cash equivalents	**(3.1)**	33.2	
Cash and cash equivalents at beginning of year	**39.6**	6.2	
Effect of foreign exchange rate changes	**(0.3)**	0.2	
Cash and cash equivalents at end of year	**36.2**	39.6	7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	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 2017	33.1	177.1	(8.0)	133.9	57.5	234.3	627.9	0.4	628.3
Net profit for the year	-	-	-	-	-	97.1	97.1	0.2	97.3
Exchange differences on translation of overseas operations	-	-	-	-	(11.6)	-	(11.6)	(0.1)	(11.7)
Cumulative exchange differences recycled to profit or loss on disposal of businesses	-	-	-	-	-	-	(2.2)	-	-
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	5.7	5.7	-	5.7
Total comprehensive income for the year	-	-	-	-	(11.6)	102.8	91.2	0.1	91.3
Acquired in the year/settlement of share options	-	-	0.8	(0.7)	-		0.1	-	0.1
Share-based payments	-	-	-	7.8	-	-	7.8	-	7.8
Deferred tax on share-based payment transactions	-	-	-	-	-	0.6	0.6	-	0.6
Dividends paid	-	-	-	-	-	(30.6)	(30.6)	-	(30.6)
31 December 2017	**33.1**	**177.1**	**(7.2)**	**141.0**	**45.9**	**307.1**	**697.0**	**0.5**	**697.5**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**103.2**	**103.2**	**0.4**	**103.6**
Exchange differences on translation of overseas operations	**-**	**-**	**-**	**-**	**16.0**	**-**	**16.0**	**(0.2)**	**15.8**
Actuarial losses on defined benefit pension schemes net of deferred tax	**-**	**-**	**-**	**-**	**-**	**(1.3)**	**(1.3)**	**-**	**(1.3)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**16.0**	**101.9**	**117.9**	**0.2**	**118.1**
Return of capital to shareholders and redemption of B shares	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**	**-**	**(0.2)**
Acquired in the year/settlement of share options	**-**	**-**	**(7.6)**	**(3.4)**	**-**	**0.4**	**(10.6)**	**-**	**(10.6)**
Share-based payments	**-**	**-**	**-**	**3.8**	**-**	**-**	**3.8**	**-**	**3.8**
Deferred tax on share-based payment transactions	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**	**-**	**(0.2)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(81.8)**	**(81.8)**	**-**	**(81.8)**
31 December 2018	**33.1**	**177.1**	**(14.8)**	**141.4**	**61.9**	**327.2**	**725.9**	**0.7**	**726.6**

Included in other reserves is the capital redemption reserve of £129.8m (2017: £129.8m) and the share-based payments reserve of £10.8m (2017: £10.4m).

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2018 1,839,860 (2017: 1,171,190) 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.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2018

A full set of notes to our accounts will be available on our website at www.bodycote.com shortly.

1 Alternative performance measures (APMs)

Bodycote uses various APMs, in addition to those reported under IFRS, as management believe these measures enable users of the financial statements to assess the underlying trading performance of the business. The APMs used include headline operating profit, return on sales, headline profit before taxation, EBITDA, headline EBITDA, headline tax rate, headline earnings per share (EPS), headline operating cash flow, free cash flow, headline operating cash conversion, net cash and return on capital employed (ROCE). These measures reflect the underlying trading performance of the business as they exclude certain non-operational items, acquisition costs and amortisation of acquired intangible assets. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, also to better represent the underlying performance of the business. The measures described above are also used in the targeting process for executive and management annual bonuses (headline operating profit, operating cash-flow) and share schemes (headline operating profit, headline operating cash flow, headline EPS).

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

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

Headline operating profit

	2018 £m	2017 £m
Statutory operating profit	**134.1**	119.4
Add back:		
Amortisation of acquired intangibles	**3.7**	4.5
Acquisition costs	**0.5**	-
Headline operating profit	**138.3**	123.9

Return on sales

	2018 £m	2017 £m
Headline operating profit	**138.3**	123.9
Revenue	**728.6**	690.2
Return on sales	**19.0%**	18.0%

Headline profit before taxation

	2018 £m	2017 £m
Profit before taxation	**132.2**	117.0
Add back:		
Amortisation of acquired intangibles	**3.7**	4.5
Acquisition costs	**0.5**	-
Headline profit before taxation	**136.4**	121.5

1 Alternative performance measures (APMs) (continued)

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

	2018 £m	2017 £m
Operating profit	**134.1**	119.4
Depreciation and amortisation	**65.7**	64.3
Impairment of fixed assets	**1.8**	0.4
Profit on disposal of property, plant and equipment	**(1.7)**	(0.7)
Loss on disposal of businesses	**0.6**	-
Share-based payments	**3.8**	7.8
EBITDA	**204.3**	191.2
Acquisition costs	**0.5**	-
Headline EBITDA	**204.8**	191.2

Headline tax rate

	2018 £m	2017 £m
Headline tax charge	**29.5**	27.8
Headline profit before taxation	**136.4**	121.5
Headline tax rate	**21.7%**	22.9%

Headline tax charge excludes tax on amortisation of acquired intangibles and US tax reform impact in 2017: £0.9m (2017: £8.1m)

Headline earnings per share
A detailed reconciliation is provided in note 5 to this announcement

Headline operating cash flow

	2018 £m	2017 £m
Cash generated by operations	**197.8**	182.8
Less:		
Net capital expenditure	**(74.0)**	(74.8)
Add:		
Restructuring cash flows	**4.4**	3.7
Acquisition costs	**0.5**	**-**
Headline operating cash flow	**128.7**	111.7

Free cash flow

	2018 £m	2017 £m
Cash generated by operations	**197.8**	182.8
Less:		
Net capital expenditure	**(74.0)**	(74.8)
Financing costs	**(1.9)**	(2.1)
Taxation	**(24.5)**	(22.9)
Free cash flow	**97.4**	83.0

Headline operating cash conversion

	2018 £m	2017 £m
Headline operating cashflow	**128.7**	111.7
Headline operating profit	**138.3**	123.9

	2018	2017
Headline operating cash conversion	**93.0%**	90.2%

1 Alternative performance measures (APMs) (continued)

Net Cash

	2018 £m	2017 £m
Cash and bank balances	**38.5**	41.0
Bank overdrafts (included in borrowings)	**(2.3)**	(1.4)
Net cash	**36.2**	39.6

Return on capital employed

	2018 £m	2017 £m
Headline operating profit	**138.3**	123.9
Average capital employed[1]	**673.4**	642.5
Return on capital employed	**20.5%**	19.3%

[1] Capital employed is defined as net assets adjusted for net cash/(debt)

Revenue and headline operating profit at constant exchange rates
Reconciled to revenue and headline operating profit in the table below.

	Year to 31 December 2018			
	ADE £m	**AGI £m**	**Costs and eliminations £m**	**Consolidated £m**
Revenue	**288.0**	**440.6**	**-**	**728.6**
Constant exchange rates adjustment	**4.0**	**3.7**	**-**	**7.7**
Revenue at constant exchange rates	**292.0**	**444.3**	**-**	**736.3**
Headline operating profit	**68.7**	**82.4**	**(12.8)**	**138.3**
Constant exchange rates adjustment	**1.0**	**0.4**	**-**	**1.4**
Headline operating profit at constant exchange rates	**69.7**	**82.8**	**(12.8)**	**139.7**

2 Business and geographical segments

The Group has more than 180 facilities across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

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

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

The split of operating segments by geography reflects the 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.

2 Business and geographical segments (continued)

Group	ADE 2018 £m	AGI 2018 £m	Central costs and eliminations 2018 £m	Consolidated 2018 £m
Revenue				
Total revenue	**288.0**	**440.6**	**-**	**728.6**
Result				
Headline operating profit prior to share-based payments and unallocated central costs	**69.0**	**85.7**	**-**	**154.7**
Share-based payments (including social charges)	**(0.3)**	**(3.3)**	**(1.8)**	**(5.4)**
Unallocated central costs	**-**	**-**	**(11.0)**	**(11.0)**
Headline operating profit/(loss)	**68.7**	**82.4**	**(12.8)**	**138.3**
Amortisation of acquired intangible fixed assets	**(0.9)**	**(2.8)**	**-**	**(3.7)**
Acquisition costs	**-**	**-**	**(0.5)**	**(0.5)**
Segment result	**67.8**	**79.6**	**(13.3)**	**134.1**
Investment revenue				**0.2**
Finance costs				**(2.1)**
Profit before taxation				**132.2**
Taxation				**(28.6)**
Profit for the year				**103.6**

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

Aerospace, Defence & Energy	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	Total ADE 2018 £m
Revenue				
Total revenue	**137.7**	**149.1**	**1.2**	**288.0**
Result				
Headline operating profit/(loss) prior to share-based payments	**33.6**	**35.9**	**(0.5)**	**69.0**
Share-based payments (including social charges)	**0.1**	**(0.4)**	**-**	**(0.3)**
Headline operating profit/(loss)	**33.7**	**35.5**	**(0.5)**	**68.7**
Amortisation of acquired intangible fixed assets	**0.2**	**(1.1)**	**-**	**(0.9)**
Segment result	**33.9**	**34.4**	**(0.5)**	**67.8**

2 Business and geographical segments (continued)

Automotive & General Industrial	**Western Europe 2018 £m**	**North America 2018 £m**	**Emerging markets 2018 £m**	**Total AGI 2018 £m**
Revenue				
Total revenue	**272.0**	**106.5**	**62.1**	**440.6**
Result				
Headline operating profit prior to share-based payments	**57.9**	**11.8**	**16.0**	**85.7**
Share-based payments (including social charges)	**(2.5)**	**(0.6)**	**(0.2)**	**(3.3)**
Headline operating profit	**55.4**	**11.2**	**15.8**	**82.4**
Amortisation of acquired intangible fixed assets	**(0.3)**	**(2.5)**	**-**	**(2.8)**
Segment result	**55.1**	**8.7**	**15.8**	**79.6**

Group	ADE 2017 £m	AGI 2017 £m	Central costs and eliminations 2017 £m	Consolidated 2017 £m
Revenue				
Total revenue	273.1	417.1	-	690.2
Result				
Headline operating profit prior to share-based payments and unallocated central costs	65.6	77.3	-	142.9
Share-based payments (including social charges)	(1.4)	(3.1)	(4.6)	(9.1)
Unallocated central costs	-	-	(9.9)	(9.9)
Headline operating profit/(loss)	64.2	74.2	(14.5)	123.9
Amortisation of acquired intangible fixed assets	(1.5)	(3.0)	-	(4.5)
Segment result	62.7	71.2	(14.5)	119.4
Investment revenue				0.1
Finance costs				(2.5)
Profit before taxation				117.0
Taxation				(19.7)
Profit for the year				97.3

2 Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2017 £m	North America 2017 £m	Emerging markets 2017 £m	Total ADE 2017 £m
Revenue				
Total revenue	126.0	145.7	1.4	273.1
Result				
Headline operating profit prior to share-based payments	30.7	34.7	0.2	65.6
Share-based payments (including social charges)	(0.5)	(0.9)	-	(1.4)
Headline operating profit	30.2	33.8	0.2	64.2
Amortisation of acquired intangible fixed assets	(0.3)	(1.2)	-	(1.5)
Segment result	29.9	32.6	0.2	62.7

Automotive & General Industrial	Western Europe 2017 £m	North America 2017 £m	Emerging markets 2017 £m	Total AGI 2017 £m
Revenue				
Total revenue	258.9	105.5	52.7	417.1
Result				
Headline operating profit prior to share-based payments	51.2	11.6	14.5	77.3
Share-based payments (including social charges)	(2.4)	(0.4)	(0.3)	(3.1)
Headline operating profit	48.8	11.2	14.2	74.2
Amortisation of acquired intangible fixed assets	(0.4)	(2.6)	-	(3.0)
Segment result	48.4	8.6	14.2	71.2

Other information

Group	**ADE 2018 £m**	**AGI 2018 £m**	**Central costs and eliminations 2018 £m**	**Consolidated 2018 £m**
Gross capital additions	**26.1**	**56.2**	**1.9**	**84.2**
Depreciation and amortisation	**23.6**	**40.1**	**2.0**	**65.7**
Balance sheet				
Assets:				
Segment assets	**366.2**	**557.8**	**66.1**	**990.1**
Liabilities:				
Segment liabilities	**(56.7)**	**(133.5)**	**(73.3)**	**(263.5)**
	309.5	**424.3**	**(7.2)**	**726.6**
Allocation of head office net liabilities	**(3.0)**	**(4.2)**	**7.2**	**-**
Adjusted segment net assets	**306.5**	**420.1**	**-**	**726.6**

2 Business and geographical segments (continued)

Aerospace, Defence & Energy	**Western Europe 2018 £m**	**North America 2018 £m**	**Emerging markets 2018 £m**	**Total ADE 2018 £m**
Gross capital additions	**14.5**	**11.2**	**0.4**	**26.1**
Depreciation and amortisation	**10.3**	**13.1**	**0.2**	**23.6**
Balance sheet				
Assets:				
Segment assets	**175.4**	**185.9**	**4.9**	**366.2**
Liabilities:				
Segment liabilities	**(29.8)**	**(26.2)**	**(0.7)**	**(56.7)**
Segment net assets	**145.6**	**159.7**	**4.2**	**309.5**

Automotive & General Industrial	**Western Europe 2018 £m**	**North America 2018 £m**	**Emerging markets 2018 £m**	**Total AGI 2018 £m**
Gross capital additions	**24.7**	**18.3**	**13.2**	**56.2**
Depreciation and amortisation	**23.6**	**10.7**	**5.8**	**40.1**
Balance sheet				
Assets:				
Segment assets	**285.4**	**178.1**	**94.3**	**557.8**
Liabilities:				
Segment liabilities	**(97.8)**	**(23.3)**	**(12.4)**	**(133.5)**
Segment net assets	**187.6**	**154.8**	**81.9**	**424.3**

Group	ADE 2017 £m	AGI 2017 £m	Central costs and eliminations 2017 £m	Consolidated 2017 £m
Gross capital additions	33.6	39.7	5.2	78.5
Depreciation and amortisation	23.5	39.3	1.5	64.3
Balance sheet				
Assets:				
Segment assets	352.6	530.2	76.9	959.7
Liabilities:				
Segment liabilities	(60.2)	(133.2)	(68.8)	(262.2)
	292.4	397.0	8.1	697.5
Allocation of head office net assets	3.4	4.7	(8.1)	-
Adjusted segment net assets	295.8	401.7	-	697.5

2 Business and geographical segments (continued)

Aerospace, Defence & Energy	Western Europe 2017 £m	North America 2017 £m	Emerging markets 2017 £m	Total ADE 2017 £m
Gross capital additions	23.4	9.3	0.9	33.6
Depreciation and amortisation	10.0	13.4	0.1	23.5
Balance sheet				
Assets:				
Segment assets	168.0	179.9	4.7	352.6
Liabilities:				
Segment liabilities	(30.8)	(28.4)	(1.0)	(60.2)
Segment net assets	137.2	151.5	3.7	292.4

Automotive & General Industrial	Western Europe 2017 £m	North America 2017 £m	Emerging markets 2017 £m	Total AGI 2017 £m
Gross capital additions	20.1	12.6	7.0	39.7
Depreciation and amortisation	23.6	10.5	5.2	39.3
Balance sheet				
Assets:				
Segment assets	292.3	153.2	84.7	530.2
Liabilities:				
Segment liabilities	(96.7)	(20.6)	(15.9)	(133.2)
Segment net assets	195.6	132.6	68.8	397.0

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**	
	2018 £m	2017 £m	**2018 £m**	2017 £m
USA	**243.6**	236.8	**298.2**	272.1
France	**111.3**	111.9	**75.3**	78.1
Germany	**101.0**	91.4	**84.2**	86.5
UK	**58.7**	51.9	**91.9**	91.0
Sweden	**44.4**	38.9	**34.8**	36.8
Netherlands	**29.6**	29.4	**22.8**	22.7
Others	**140.0**	129.9	**147.7**	134.3
	728.6	690.2	**754.9**	721.5

3 Operating profit

	2018 £m	2017 £m
Revenue	**728.6**	690.2
Cost of sales	**(451.0)**	(429.9)
Gross profit	**277.6**	260.3
Other operating income	**11.6**	4.5
Distribution costs	**(20.2)**	(21.3)
Administration expenses	**(128.4)**	(118.6)
Other operating expenses	**(2.3)**	(1.0)
Headline operating profit	**138.3**	123.9
Amortisation of acquired intangible fixed assets	**(3.7)**	(4.5)
Acquisition costs	**(0.5)**	-
Operating profit	**134.1**	119.4

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

	2018 £m	2017 £m
Net foreign exchange gain	**(0.1)**	**-**
Inventory expensed	**55.6**	53.0
Depreciation of property, plant and equipment	**60.1**	58.1
Amortisation of intangible fixed assets	**5.6**	6.2
Gain on disposal of property, plant and equipment	**(1.7)**	(0.7)
Staff costs	**291.1**	283.8
Acquisition costs	**0.5**	-
Impairment (gain)/loss on trade receivables	**(0.2)**	0.8
Impairment of fixed assets - recognised in operating profit	**1.8**	0.4

4 Taxation

	2018 £m	2017 £m
Current taxation – charge for the year	**27.4**	28.1
Current taxation – adjustments in respect of previous years	**(0.4)**	(6.3)
Deferred tax	**1.6**	(2.1)
	28.6	19.7

The Group uses 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 26.5% (2016: 30.1%). The reduction in the weighted average country tax rate is mainly a result of the reduction in the US tax rate following the passing of the Tax Cuts and jobs Act in December 2017.

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

	2018 £m	2017 £m
Profit before taxation	**132.2**	117.0
Tax at the weighted average country tax rate of 26.5% (2017: 30.1%)	**35.0**	35.2
Tax effect of expenses not deductible in determining taxable profit[1]	**0.6**	0.4
Impact of recognition or derecognition of deferred tax balances	**(0.9)**	(1.4)
Tax effect of other adjustments in respect of previous years:		
Current tax[2]	**(0.4)**	(7.0)
Deferred tax[2]	**0.2**	4.3
Effect of financing activities between jurisdictions[3]	**(7.9)**	(8.5)
Impact of trade and minimum corporate taxes	**1.5**	1.3
Impact of US Tax Cuts and Jobs Act treated as an exceptional item[4]	**-**	(6.4)
Effect of changes in statutory tax rates on deferred tax assets and liabilities	**(0.1)**	(0.1)
Other tax risk provision movements[5]	**0.6**	1.9
Tax expense for the year	**28.6**	19.7

Tax on items taken directly to equity is a credit of £0.7m (2017: £0.5m).

[1] Those costs in various jurisdictions not deductible in calculating taxable profits.
[2] 2018 prior year adjustments in current and deferred tax relate to changes in assumptions and outcomes in the UK and overseas tax positions, whilst the 2017 adjustments mainly related to changes in assumptions and outcomes in relation to overseas tax credits and other claims.
[3] The Group is externally financed by a mix of cash flows from operations and short-term borrowings. Internally, operating subsidiaries are predominantly financed via intercompany loans. The effect is net of provisions based on management's estimation of tax risk relating to the potential disallowance of interest. £2.2m of interest deductions were restricted in the US in 2018 following the passing of the Tax Cuts and Jobs Act in December 2017.
[4] Prior year net exceptional impact of the passing of the Tax Cuts and Jobs Act in the US in December 2017, made up of (i) £6.8m one-off tax gain resulting from a revaluation of the Group's US deferred tax liabilities, (ii) £0.4m tax charge on accumulated overseas profits of US entities.
[5] Includes provisions for local taxes and non-financing cross border transactions.

As part of the calculation of the tax charge, the Group recognises a number of tax risk provisions in respect of ongoing tax enquiries and in recognition of the multinational tax environment that Bodycote operates in where the nature of the tax positions that are taken is often complex and subject to change. Tax provisions totalling £16.1m were recognised at 31 December 2018 (2017: £17.5m). The provisions included are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. Management judgement is exercised to determine the quantum of the tax risk provisions based on an understanding of the appropriate local tax legislation, taking into consideration the differences of interpretation that can arise on a wide variety of issues including the nature of ongoing tax audits and the experience from earlier enquires.

5 Earnings per share

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

Earnings	**2018 £m**	2017 £m
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**103.2**	97.1

Number of shares	**Number**	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**190,289,981**	190,250,855
Effect of dilutive potential ordinary shares:		
Share options	**-**	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**190,289,981**	**190,250,855**

	Pence	Pence
Earnings per share:		
Basic	**54.2**	51.0
Diluted	**54.2**	51.0

Headline earnings	**£m**	£m
Net profit attributable to equity holders of the parent	**103.2**	97.1
Add back:		
Amortisation of acquired intangible fixed assets (net of tax)	**2.8**	2.9
Acquisition costs (net of tax)	**0.5**	-
Less impact of US Tax Cuts and Jobs Act treated as an exceptional item	**-**	(6.4)
Headline earnings	**106.5**	93.6

Headline earnings per share:	**Pence**	Pence
Basic	**55.9**	49.2
Diluted	**55.9**	49.2

6 Provisions

	Restructuring £m	**Restructuring environmental £m**	**Environmental £m**	**Total £m**
At 1 January 2018	4.1	4.7	8.6	**17.4**
Increase in provision	2.0	-	0.6	**2.6**
Release of provision	(0.9)	-	(0.5)	**(1.4)**
Utilisation of provision	(2.7)	(1.7)	(0.5)	**(4.9)**
Exchange difference	(0.1)	0.2	0.5	**0.6**
At 31 December 2018	**2.4**	**3.2**	**8.7**	**14.3**
Included in current liabilities				**4.7**
Included in non-current liabilities				**9.6**
				14.3

The restructuring provision materially relates to the costs associated with the closure of a number of Heat Treatment sites over the last few years.

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.

7 Notes to the cash flow statement

	2018 £m	2017 £m
Profit for the year	**103.6**	97.3
Adjustments for:		
Investment revenue	**(0.2)**	(0.1)
Finance costs	**2.1**	2.5
Taxation	**28.6**	19.7
Depreciation of property, plant and equipment	**60.1**	58.1
Amortisation of intangible assets	**5.6**	6.2
Profit on disposal of property, plant and equipment	**(1.7)**	(0.7)
Share-based payments	**3.8**	7.8
Impairment of fixed assets	**1.8**	0.4
Loss on disposal of businesses	**0.6**	-
EBITDA[1]	**204.3**	191.2
(Increase)/decrease in inventories	(3.9)	0.5
Increase in receivables	(4.0)	(17.0)
Increase in payables	5.1	10.2
Decrease in provisions	(3.7)	(2.1)
Cash generated by operations	**197.8**	182.8
Income taxes paid	**(24.5)**	(22.9)
Net cash from operating activities	**173.3**	159.9

[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 businesses and share-based payments.

	2018 £m	2017 £m
Cash and cash equivalents comprise:		
Cash and bank balances	**38.5**	41.0
Bank overdrafts (included in borrowings)	**(2.3)**	(1.4)
	36.2	39.6

9 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 2018. The financial information has been prepared under the same accounting policies as the 2017 financial statements.

10 Non-statutory financial statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 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.