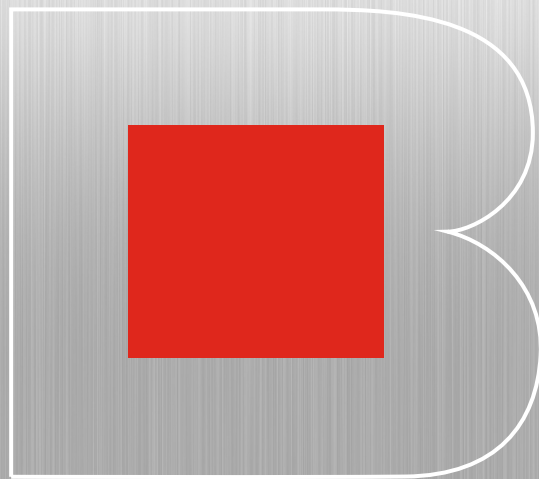


The vital link

interim report 2020



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Financial highlights

	Half year to 30 June 2020	Half year to 30 June 2019
Revenue	£306.7m	£366.5m
Headline operating profit ¹	£37.8m	£66.9m
Return on sales ²	12.3%	18.3%
Headline profit before taxation ¹	£35.0m	£64.7m
Exceptional restructuring costs ³	£(32.1)m	–
Free cash flow ²	£69.7m	£44.6m
Basic headline earnings per share ⁴	14.2p	25.6p

Statutory results

	Half year to 30 June 2020	Half year to 30 June 2019
Operating (loss)/profit	£(1.0)m	£64.4m
(Loss)/profit before taxation	£(3.8)m	£62.2m
Basic (loss)/earnings per share	(1.3)p	24.7p

1 The headline performance measures represent the statutory results excluding certain non-operational items. These are deemed alternative performance measures under the European Securities and Markets Authority guidelines. Please refer to note 2 for a reconciliation to the IFRS equivalent.

2 A detailed reconciliation of return on sales and free cash flow is provided in note 2.

3 Detail is provided in note 4.

4 A detailed reconciliation is provided in note 7.

Interim management report

Overview

Bodycote reported a decline in revenue of 16.3% to £306.7m (H1 2019: £366.5m). At constant currency, revenue declined 16.6%. Headline operating profit of £37.8m was achieved, compared to £66.9m in the same period last year.

Bodycote's performance in the first half was dominated by the sharp impact of the pandemic related demand reductions which started in the third week of March. Until this point activity levels had been unaffected.

Second quarter revenues on a like-for-like basis were 33% below those in the prior year, reflecting the impact of shutdowns at our customers' locations.

On the balance sheet, we ended the half year with net debt (excluding lease liabilities) of £23.6m, which is actually lower than net debt at the equivalent interim stage last year. This reflects excellent free cash flow generation in the half of £69.7m (H1 2019: £44.6m), once again demonstrating the Group's cash generative qualities.

Matching resources to demand is a core skill in Bodycote, and to this end the annual planning cycle always includes contingency plans to cater for demand shocks. In addition, a comprehensive site and capacity review was completed in late 2019 as part of the strategic planning process and a restructuring programme initiated in Q1. These factors meant that Bodycote was well placed to move quickly to adjust to the significant fall in demand in Q2.

Immediate cost savings have been achieved amounting to c.£7m per month. In part, these savings are the result of the lay-off of 797 FTEs (14% of the workforce), with a further 619 on short term lay-off (11% of the workforce). Some £2.3m in government subsidies have been received around the world to support the temporary lay-offs, although UK Government support is being repaid. In addition to these actions, work has been temporarily consolidated into fewer sites to optimise equipment utilisation and efficiency and discretionary spending has been significantly reduced.

The organisational restructuring that was announced in March has been accelerated and expanded. The closure of eighteen plants is underway, thirteen in Europe (ten Automotive and three Aerospace), four plants in the USA (three Automotive and one Aerospace) and one General Industrial plant in Eastern Europe. In contrast, three new greenfield facilities will open in H2, replacing outdated facilities that are part of the closures. The programme, once completed, will result in the permanent reduction of 1,008 FTEs representing 17% of the workforce and yield annualised savings of £58m from the beginning of 2021.

The cost reduction actions achieved in the first half have resulted in operational gearing¹ to be restricted to 42%. The operating margin for the period was a resilient 12.3%.

The exceptional income statement charge for restructuring in the first half was £32.1m, including the provision of £20.1m of cash costs, most of which will be paid during the second half. Statutory operating profit declined to a loss of £1.0m (H1 2019: statutory operating profit was £64.4m).

Market sectors, Specialist Technologies and Emerging Markets

The following reflects constant currency growth rates versus the comparable period last year unless stated otherwise. The focus of the commentary for the market sectors is on the recent development of business post the start of the pandemic, using second quarter performance as a proxy.

All parts of Bodycote's business have been impacted significantly by the downturn.

Many automotive OEMs announced demand related plant shutdowns in Q2 and sales volumes of new vehicles fell sharply. There are signs that inventory throughout the automotive supply chain has been run down to low levels. Bodycote automotive revenues were down 53% in the second quarter. As time has progressed, demand for new vehicles is recovering from this very low base. This is particularly true for SUVs and Light trucks in North America where production rebounds are being helped by low fuel prices. European recovery is lagging that in North America with the Asia focused supply chains being the first areas of growth.

Our civil aerospace business also saw significant declines, with organic revenues in the first half down 20% (down 36% in the second quarter). Civil air traffic levels are currently at a fraction of the levels prior to the downturn, leading to lower demand for aftermarket parts. In addition, Boeing and Airbus have both announced significant reductions in the production of new planes, leading to similar levels of reductions in aircraft engine production, where Bodycote's business is primarily concentrated. All of this is taking some time to work its way through the supply chain, so that the prospects for civil aerospace revenues are likely to deteriorate further in the short term. As demand for air travel recovers over time, a mix change away from wide-body aircraft production and towards narrow-body aircraft is expected, playing to Bodycote's strengths. Bodycote has a much larger amount of revenue per narrow-body LEAP engine than it did of the predecessor CFM56 engine, and now achieves approximately the same amount of value per engine, irrespective of whether it is a smaller engine destined for a narrow-body or a larger engine for a wide-body platform. The number of engines produced for both wide-body and narrow-body platforms in total is expected to overtake 2019 levels some time in 2023/24. Preliminary estimates of revenue passenger kilometres (RPKs) suggest 2019 levels will be surpassed in 2023/24 as well. We remain confident, therefore, that the mid-term market dynamics for civil aerospace are positive for Bodycote.

The General Industrial (GI) market that Bodycote serves is highly diversified, which offers some protection to revenues in a downturn. Some segments declined strongly (for example tooling declined 20%) while others fared much better such as medical, which grew 2%. Overall, the first half revenues in GI were down 12% with Q2 revenues declining 19%. GI revenues are now starting to recover.

Exacerbated by the significant drop in oil prices and the associated declining rig count, revenues in our onshore oil and gas business in North America were weak. Industrial Gas Turbine (IGT) revenues also declined, while subsea revenues fared better, as they typically relate to much longer investment lead times. Overall, energy revenues were down 16% in the first half, with a 26% decline in the second quarter.

¹ Operational gearing is the differential in headline operating profit divided into the differential in revenue on a like-for-like constant currency basis.

Specialist Technologies' revenues continue to grow in prominence in the Group and accounted for 27% of revenues during the first half, declining 8% over this period last year. Excluding the positive impact of Ellison revenues, total Specialist Technologies' revenues declined 16%, outperforming the equivalent Classical Heat Treatment revenue decline of 21%. Indeed, this outperformance was achieved despite the considerable impact on our automotive focused Low Pressure Carburising (LPC) business due to production stops from automotive OEM customers.

Following the completion of the acquisition of Ellison Surface Technologies on 3 April, integration of this business is progressing smoothly. Nonetheless, revenues have been impacted by production cuts on a number of key aerospace engine platforms.

Emerging markets' revenues declined 7% during the first half, outperforming the rest of the business. Our business in China was impacted earlier than other countries by the pandemic but has since recovered well, actually registering 8% revenue growth in the second quarter. Elsewhere, our Mexican and Eastern European businesses were hit hard by automotive OEM production shutdowns.

Profits and earnings

Profitability and margins were significantly impacted by the revenue downturn that we experienced from the third week of March onwards. As a result, headline operating profit fell to £37.8m (H1 2019: £66.9m).

This headline operating profit was achieved despite the immediate, unpredictable and volatile nature of the revenue decline in Q2. Moreover, included within the business' cost base is c.£1.7m of additional net costs related to the pandemic such as personal protective equipment, costs incurred as a result of people working remotely, costs associated with excess sickness rates, and net costs to the business from employees on temporary lay-off. In some jurisdictions parents who could not work because their children were kept home from school were obliged to claim sickness benefits.

At 22.5%, the Group's headline tax rate is in line with guidance given at the time of our full year results back in March (H1 2019: 24.4%). Basic headline earnings per share were 14.2p (H1 2019: 25.6p).

In terms of statutory measures, after the restructuring costs, acquisition costs and amortisation of acquired intangible assets, there was a statutory operating loss of £1.0m (H1 2019: operating profit of £64.4m). Basic loss per share was 1.3p (H1 2019: earnings of 24.7p).

Dividend

In April, amidst the uncertainty of the depth and duration of the impact of COVID-19 and the associated restrictions, the Board announced that it would be keeping the 2019 final dividend payment under review. In light of management's strong reaction to the downturn, which has allowed the business to remain profitable and cash generative throughout this period, the Board has decided that a deferred dividend for 2019 of 13.3p will now be paid on 25 September 2020 to all shareholders on the register at close of business on 28 August 2020.

The decision on an interim dividend for 2020 will be made in due course.

Summary and outlook

Bodycote reacted swiftly to the sharp revenue declines arising from the pandemic related downturn. Most cost elements have been reduced in line with sales which has yielded a resilient operating margin of 12.3%. Moreover, the excellent free cash flow performance is testament to the cash generative nature of our business. The organisational restructuring programme announced in March has been expanded and accelerated and will permanently reduce operating expenses by around 10%. This allows good profits to be achieved at lower volumes and should enable margins to exceed historical levels when revenues recover.

The immediate outlook varies by sector and is difficult to predict for obvious reasons. Bodycote benefits from its geographic and sector diversification, and its strong business model. We remain focused on strong cash and cost discipline and expect to continue to generate sustainably attractive returns for our shareholders.

Business review

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

The ADE divisions

Revenue for the first half of the year was £135.8m, a decrease of 11% compared to last year (10% at actual rates). Excluding the £7.2m revenue contribution from Ellison in the second quarter post completion of its acquisition, organic ADE revenues fell 16% in the first half and 28% in the second quarter, reflecting the revenue declines in the civil aerospace and energy sectors. Headline operating profit was £27.1m, (H1 2019: £37.9m), declining as a result of the lower revenues. Statutory operating profit fell to £16.2m (H1 2019: £37.4m), including £6.1m of restructuring charges.

Net capital expenditure in the period was £8.5m (H1 2019: £11.1m). Investment for growth will continue where there is a compelling business case, particularly in support of our Specialist Technologies.

The AGI divisions

Revenue for the first half of the year was £170.9m, 20% lower than last year (21% at actual rates). Revenues in the second quarter were 35% lower than last year, reflecting the sharp downturn in the automotive sector, while general industrial revenues held up somewhat better.

Headline operating profit was £14.4m (H1 2019: £35.4m), lower as a result of the declining revenues. Statutory operating profit fell to a loss of £13.5m (H1 2019: £33.8m), reflecting £26.0m of restructuring charges.

Net capital expenditure was £15.3m (H1 2019: £16.4m). We will continue to invest in profitable programmes which will deliver growth and margin improvements.

Interim management report continued

Financial overview

	Half year to 30 June	
	2020 £m	2019 £m
Revenue	306.7	366.5
Headline operating profit	37.8	66.9
Exceptional items	(32.1)	–
Amortisation of acquired intangible assets	(4.7)	(2.1)
Acquisition costs	(2.0)	(0.4)
Operating (loss)/profit	(1.0)	64.4
Net finance charge	(2.8)	(2.2)
(Loss)/profit before taxation	(3.8)	62.2
Taxation	1.5	(15.2)
(Loss)/profit for the period	(2.3)	47.0

Group revenue in the first half of 2020 was £306.7m, a decrease of 16.3% at actual rates (16.6% at constant currency). Headline operating profit for the six months decreased by 43.5% to £37.8m (H1 2019: £66.9m), with return on sales declining to 12.3% (H1 2019: 18.3%). The Group incurred a £32.1m restructuring charge (helping to reduce the Group's annualised cost base by £58m) in light of the reduced revenue outlook. There were also acquisition costs associated with the completion of Ellison Surface Technologies and increased amortisation of intangible assets, as we began to amortise the Ellison intangible assets in the second quarter. Consequently, statutory operating profit fell to a loss of £1.0m (H1 2019: £64.4m).

Finance charge

The net finance charge was £2.8m (H1 2019: £2.2m), with the increase reflecting higher net debt following completion of the Ellison transaction on 3 April.

During the second quarter, the Group negotiated an 'amend and extend' to its previous Revolving Credit Facility, which was concluded on 27 May. As a result, the Group now has a £250m Revolving Credit Facility, which expires in May 2025. As at 30 June, the facility was drawn by £46.1m (30 June 2019: £30m).

Taxation

As a result of the statutory loss, there was a tax credit in the first half of 2020 of £1.5m (H1 2019: tax charge of £15.2m). In line with previous guidance, the headline tax rate, being stated before accounting for amortisation of acquired intangibles, acquisition costs, and exceptional restructuring costs, was 22.5% (H1 2019: 24.4%).

Earnings per share

Basic headline earnings per share for the half year were 14.2p (H1 2019: 25.6p). Basic statutory loss per share was 1.3p (H1 2019: earnings of 24.7p).

Cash flow

£m	Half year to 30 June 2020		Half year to 30 June 2019		Year end 31 December 2019	
	Post IFRS 16	Pre IFRS 16	Post IFRS 16	Pre IFRS 16	Post IFRS 16	Pre IFRS 16
	Headline operating profit	37.8	36.6	66.9	65.7	134.9
Depreciation and amortisation	41.0	33.7	39.0	31.7	79.6	65.1
Impairment of property, plant & equipment	0.4	0.4	–	–	–	–
Income from associates	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Profit on disposal of property, plant & equipment	0.1	0.1	–	–	(4.4)	(4.4)
Headline EBITDA	79.1	70.6	105.7	97.2	209.9	193.1
Net maintenance capital expenditure	(22.3)	(19.5)	(32.7)	(25.1)	(50.2)	(39.1)
Net working capital movement	24.7	24.7	(13.3)	(13.3)	(4.2)	(4.2)
Headline operating cash flow	81.5	75.8	59.7	58.8	155.5	149.8
Restructuring	(3.0)	(3.0)	(1.2)	(1.2)	(3.2)	(3.2)
Financing costs	(2.2)	(1.1)	(2.1)	(0.9)	(4.5)	(2.1)
Tax	(6.6)	(6.6)	(11.8)	(11.8)	(24.7)	(24.7)
Free cash flow	69.7	65.1	44.6	44.9	123.1	119.8
Expansionary capital expenditure	(12.9)	(12.4)	(15.6)	(15.6)	(32.2)	(32.2)
Ordinary dividend	–	–	(25.2)	(25.2)	(36.8)	(36.8)
Acquisition spend	(97.2)	(94.1)	(28.6)	(22.7)	(29.0)	(22.9)
Special dividend	–	–	(38.1)	(38.1)	(38.1)	(38.1)
Own shares purchased less SBP and others	(0.9)	(0.9)	(4.8)	(5.0)	(4.9)	(4.9)
(Reduction) in net cash	(41.3)	(42.3)	(67.7)	(61.7)	(17.9)	(15.1)
Opening net (debt)/cash	(58.5)	20.9	(44.1)	36.2	(44.1)	36.2
Foreign exchange movements	(6.8)	(2.2)	–	–	3.5	(0.2)
Closing net (debt)/cash	(106.6)	(23.6)	(111.8)	(25.5)	(58.5)	20.9

The Group's cash flow generation in the first half was again strong. This was a result of careful cash management, coupled with the benefit of a significant working capital inflow, mainly resulting from lower trade receivables associated with the lower revenues. Consequently, free cash flow in the first half of £69.7m actually exceeded free cash flow in the equivalent period last year.

Net debt

Group net debt excluding lease liabilities was £23.6m, lower than the equivalent number last year (30 June 2019: £25.5m), while Group net debt (including lease liabilities) at 30 June 2020 was also lower at £106.6m (30 June 2019: £111.8m), after having spent £94m on the acquisition of Ellison Surface Technologies in April.

Principal risks and uncertainties

The directors have reconsidered the principal risks and uncertainties of the Group, particularly in relation to COVID-19. The directors consider that the principal risks and uncertainties of the Group published in the Annual Report for the year ended 31 December 2019 remain appropriate, however, the majority have been impacted to a certain extent by COVID-19. The risks and associated risk management processes, including financial risks, can be found on pages 27-30 and 118-121 of the 2019 Annual Report, which is available at www.bodycote.com. The risks referred to and which could have a material impact on the Group's performance for the remainder of the current financial year relate to:

- Markets;
- Loss of key customers;
- Competitor action;
- Safety and health;
- Environment;
- Service quality;
- Major disruption at a facility;
- Capital projects;
- Information Technology projects; and
- Regulatory and legislative compliance.

COVID-19

The COVID-19 pandemic has brought considerable change to the risk landscape in the first half of the year, increasing the impact of many of the Group's principal risks and creating uncertainty in how the future risk landscape will unfold. The Group has re-assessed all of its principal risks and, where necessary, management have implemented further mitigation activities as highlighted in the 'Market sectors, Specialist Technologies, and Emerging Markets' section above. COVID-19 has significantly impacted Bodycote customers in many sectors with Automotive revenues down in the second quarter while Aerospace customers, Boeing and Airbus, announced significant reductions in the production of new planes, where Bodycote's civil aerospace business is primarily concentrated.

COVID-19 has resulted in limited direct disruption to most of our facilities in terms of inability to operate, as they provide essential services and continued to operate. In the small number of cases where there has been an impact, the Group's existing business continuity framework has helped minimise the impact on customers. COVID-19 also had the potential to be a significant health and safety risk to our employees. To help safeguard our employees, the Group responded proactively in closing office facilities ahead of any local requirements to do so, supporting remote working where possible.

Additional precautions have also been adopted in our facilities, with new SHE guidance including temperature checks, appropriate PPE, and social distancing measures. The Group will continue to monitor the changing risk landscape and to respond as required.

Going concern

As described in note 1 to the condensed consolidated financial statements, the directors have formed a judgement, at the time of approving the condensed consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In making this judgement, they have considered the impacts of current and severe but plausible consequences arising from COVID-19 to the Group's activities. For this reason, the directors continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Responsibility statement

We confirm to the best of our knowledge that:

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

By order of the Board,

S.C. Harris
Group Chief Executive
23 July 2020

D. Yates
Chief Financial Officer
23 July 2020

Cautionary statement

This Interim management report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The Interim management report should not be relied on by any other party or for any other purpose.

The Interim management report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Unaudited condensed consolidated income statement

Year ended 31 Dec 2019 £m		Note	Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
719.7	Revenue	3	306.7	366.5
(590.5)	Cost of sales and overheads		(275.5)	(301.8)
(0.6)	Net impairment losses on financial assets		(0.1)	(0.3)
128.6	Operating profit prior to exceptional items		31.1	64.4
–	Exceptional items	4	(32.1)	–
128.6	Operating (loss)/profit	3	(1.0)	64.4
0.2	Finance income		0.1	0.2
(4.9)	Finance costs		(2.9)	(2.4)
123.9	(Loss)/profit before taxation		(3.8)	62.2
(29.9)	Taxation credit/(charge)	5	1.5	(15.2)
94.0	(Loss)/profit for the period		(2.3)	47.0
	Attributable to:			
93.8	Equity holders of the parent		(2.4)	46.9
0.2	Non-controlling interests		0.1	0.1
94.0			(2.3)	47.0
	(Loss)/earnings per share	7		
Pence			Pence	Pence
49.4	Basic		(1.3)	24.7
49.2	Diluted		(1.3)	24.7

All activities have arisen from continuing operations.

Unaudited condensed consolidated statement of comprehensive income

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
94.0	(Loss)/profit for the period	(2.3)	47.0
	Items that will not be reclassified to profit or loss:		
(2.0)	Actuarial (losses)/gains on defined benefit pension schemes	(0.3)	0.3
0.9	Tax on items that will not be reclassified	–	–
(1.1)	Total items that will not be reclassified to profit or loss	(0.3)	0.3
	Items that may be reclassified subsequently to profit or loss:		
(26.4)	Exchange gains/(losses) on translation of overseas operations	30.6	0.4
–	Movements on hedges of net investments	(1.2)	–
(26.4)	Total items that may be reclassified subsequently to profit or loss	29.4	0.4
(27.5)	Other comprehensive income/(expense) for the period	29.1	0.7
66.5	Total comprehensive income for the period	26.8	47.7
	Attributable to:		
66.4	Equity holders of the parent	26.8	47.6
0.1	Non-controlling interests	–	0.1
66.5		26.8	47.7

Unaudited condensed consolidated balance sheet

As at 31 Dec 2019 £m		Note	As at 30 June 2020 £m	Restated ¹ As at 30 June 2019 £m
	Non-current assets			
169.8	Goodwill	8	225.0	174.5
42.6	Other intangible assets		127.2	46.5
534.5	Property, plant and equipment		557.7	550.0
73.3	Right-of-use assets		75.5	79.8
4.2	Investment in associate		4.2	4.3
6.1	Deferred tax assets		6.4	8.2
1.2	Trade and other receivables		2.4	1.3
831.7			998.4	864.6
	Current assets			
14.8	Inventories		18.3	16.2
–	Derivative financial instruments		0.1	–
15.7	Current tax assets		16.7	8.5
142.9	Trade and other receivables		128.7	156.5
22.0	Cash and bank balances		23.9	12.5
–	Assets held for sale		–	1.8
195.4			187.7	195.5
1,027.1	Total assets		1,186.1	1,060.1
	Current liabilities			
127.4	Trade and other payables		194.1	125.4
31.2	Current tax liabilities		23.9	31.0
1.1	Borrowings		47.5	38.0
13.4	Lease liabilities		14.5	13.5
4.0	Provisions	9	20.6	5.0
177.1			300.6	212.9
18.3	Net current (liabilities)/assets		(112.9)	(17.4)
	Non-current liabilities			
66.0	Lease liabilities		68.5	72.8
17.9	Retirement benefit obligations		19.7	16.8
48.6	Deferred tax liabilities		52.7	45.6
9.5	Provisions	9	10.7	11.4
2.2	Other payables		2.1	2.5
144.2			153.7	149.1
321.3	Total liabilities		454.3	362.0
705.8	Net assets		731.8	698.1
	Equity			
33.1	Share capital		33.1	33.1
177.1	Share premium account		177.1	177.1
(11.6)	Own shares		(8.2)	(11.6)
136.7	Other reserves		133.0	141.8
37.9	Translation reserves		67.4	64.6
331.8	Retained earnings		328.6	292.3
705.0	Equity attributable to equity holders of the parent		731.0	697.3
0.8	Non-controlling interests		0.8	0.8
705.8	Total equity		731.8	698.1

¹ A reconciliation of the restatement has been provided in note 12 on page 25.

Unaudited condensed consolidated cash flow statement

Year ended 31 Dec 2019 £m		Note	Half year to 30 June 2020 £m	Restated ¹ Half year to 30 June 2019 £m
177.3	Net cash from operating activities	11	75.5	80.1
	Investing activities			
(77.7)	Purchases of property, plant and equipment		(33.3)	(41.0)
7.4	Proceeds on disposal of property, plant and equipment and intangible assets		1.8	0.2
(1.0)	Purchases of other intangibles		(0.2)	(0.3)
(19.1)	Acquisition of businesses, net of cash acquired	10	(66.1)	(19.6)
(90.4)	Net cash used in investing activities		(97.8)	(60.7)
	Financing activities			
0.2	Interest received		0.3	0.2
(4.7)	Interest paid		(2.5)	(2.1)
(74.9)	Dividends paid	6	–	(63.3)
(14.4)	Principal elements of lease payments		(7.6)	(7.2)
(6.0)	Own shares purchased		(0.5)	(6.0)
35.0	Drawdown of bank loans		46.1	35.0
(37.3)	Repayments of bank loans		(11.9)	(5.0)
(102.1)	Net cash generated/(used) in financing activities		23.9	(48.4)
(15.2)	Net increase/(decrease) in cash and cash equivalents		1.6	(29.0)
36.2	Cash and cash equivalents at beginning of period		20.9	36.2
(0.1)	Effect of foreign exchange rate changes		–	(0.2)
20.9	Cash and cash equivalents at end of period	11	22.5	7.0

¹ In the June 2019 comparatives the presentation of share-based payments in the cash flow has been amended to present share-based payments as an operating cash flow item, instead of a financing cash flow item consistent with the treatment in the 2019 Annual Report.

Unaudited condensed consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
Half year to 30 June 2020									
1 January 2020	33.1	177.1	(11.6)	136.7	37.9	331.8	705.0	0.8	705.8
Net loss for the period	-	-	-	-	-	(2.4)	(2.4)	0.1	(2.3)
Exchange differences on translation of overseas operations	-	-	-	-	30.7	-	30.7	(0.1)	30.6
Movements on hedges of net investments	-	-	-	-	(1.2)	-	(1.2)	-	(1.2)
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Total comprehensive income/ (loss) for the period	-	-	-	-	29.5	(2.7)	26.8	-	26.8
Acquired in the period/settlement of share options	-	-	3.4	(3.4)	-	(0.6)	(0.6)	-	(0.6)
Share-based payments	-	-	-	(0.3)	-	-	(0.3)	-	(0.3)
Deferred tax on share-based payment transactions	-	-	-	-	-	0.1	0.1	-	0.1
30 June 2020	33.1	177.1	(8.2)	133.0	67.4	328.6	731.0	0.8	731.8
Half year to 30 June 2019									
1 January 2019 ¹	33.1	177.1	(14.8)	141.4	64.2	317.6	718.6	0.7	719.3
Net profit for the period	-	-	-	-	-	46.9	46.9	0.1	47.0
Exchange differences on translation of overseas operations	-	-	-	-	0.4	-	0.4	-	0.4
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	0.3	0.3	-	0.3
Total comprehensive income for the period	-	-	-	-	0.4	47.2	47.6	0.1	47.7
Acquired in the period/settlement of share options	-	-	3.2	(0.8)	-	(9.2)	(6.8)	-	(6.8)
Share-based payments	-	-	-	1.2	-	-	1.2	-	1.2
Deferred tax on share-based payment transactions	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Dividends paid	-	-	-	-	-	(63.1)	(63.1)	-	(63.1)
Balance at 30 June 2019	33.1	177.1	(11.6)	141.8	64.6	292.3	697.3	0.8	698.1

¹ The 1 January 2019 opening retained earnings has been restated by £0.5m to reflect the impact of the adoption of IFRS 16 and the recognition on deferred tax assets as presented in the 2019 Annual Report.

Unaudited condensed consolidated statement of changes in equity continued

	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
Year ended 31 December 2019									
1 January 2019 ¹	33.1	177.1	(14.8)	141.4	64.2	317.6	718.6	0.7	719.3
Net profit for the year	–	–	–	–	–	93.8	93.8	0.2	94.0
Exchange differences on translation of overseas operations	–	–	–	–	(26.3)	–	(26.3)	(0.1)	(26.4)
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(1.1)	(1.1)	–	(1.1)
Total comprehensive income for the year	–	–	–	–	(26.3)	92.7	66.4	0.1	66.5
Acquired in the year/settlement of share options	–	–	3.2	(5.8)	–	(3.4)	(6.0)	–	(6.0)
Share-based payments	–	–	–	1.1	–	–	1.1	–	1.1
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.4)	(0.4)	–	(0.4)
Dividends paid	–	–	–	–	–	(74.7)	(74.7)	–	(74.7)
Balance at 31 December 2019	33.1	177.1	(11.6)	136.7	37.9	331.8	705.0	0.8	705.8

Included in other reserves is a capital redemption reserve of £129.8m (31 December 2019: £129.8m; 30 June 2019: £129.8m) and a share-based payments reserve of £2.4m (31 December 2019: £6.1m; 30 June 2019: £11.2m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 30 June 2020, 1,012,786 (31 December 2019: 1,405,555; 30 June 2019: 1,405,555) ordinary shares of 17½p each were held by the Bodycote Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes.

Notes to the condensed consolidated financial information

1. Accounting policies

Basis of preparation

These condensed consolidated financial statements for the half year ended 30 June 2020 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority and with International Accounting Standard 34, 'Interim financial reporting', as adopted by the European Union. These condensed consolidated financial statements should be read in conjunction with the Annual Report for the year ended 31 December 2019, which was prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and filed with the Registrar of Companies on 8 June 2020.

The financial information does not constitute statutory accounts as defined by section 434 of the UK Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2019 has been delivered to the Registrar of Companies. The auditors have reported on those accounts; their reports were (i) unqualified and (ii) did not contain a statement under section 498 (2) or (3) of the UK Companies Act 2006.

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

Going concern

In determining the basis of preparation for the condensed consolidated financial statements, the directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Financial overview section of this Interim report includes a summary of the Group's financial position, cash flows, liquidity position and borrowing facilities. The impact of COVID-19 on the Group's performance in the six months to 30 June 2020 is further described in the Interim management report.

The current and plausible future impact of COVID-19 on the Group's activities and performance has been considered by the Board of directors in preparing its going concern assessment. Whilst the situation is uncertain and evolving, the Group has modelled potential severe but plausible impacts on revenues, profits and cash flows in its assessment. In preparing its assessment, the directors have considered the actual impact that COVID-19 has had on the business since the beginning of the outbreak and the related decline in revenues. Second quarter revenues on a like-for-like basis were 33% below those in the prior year, reflecting the impact of shutdowns at the Group's customers' locations. This decline was used to establish a severe but plausible downside scenario under which the crisis would have a prolonged impact, with a significant revenue shortfall compared with 2019 actuals through to the end of 2020, and a continued (albeit smaller) decline compared with 2019 actuals extending to the end of 2021. The Group's record of cash conversion during recent months was used to estimate the cash generation and level of net debt over that period, with the cost reduction actions achieved in the first half resulting in operational gearing of 42%. Operational gearing is the differential in headline operating profit divided into the differential in revenue on a like-for-like constant currency basis.

The Group meets its working capital requirements through a combination of committed and uncommitted facilities and overdrafts. For the purpose of the going concern assessment, the directors have only taken into account the capacity under existing committed facilities, being the Group's Revolving Credit Facility. The Group's uncommitted facilities totalled £59m as at 30 June 2020.

On 27 May 2020, the Group extended and increased the borrowing base of the Revolving Credit Facility for five years to May 2025. The committed facilities at 30 June 2020 were this £250m Revolving Credit Facility maturing on 27 May 2025. At 30 June 2020, the Group's Revolving Credit Facility had drawings of £46.1m (31 December 2019: £nil; 30 June 2019: £30.0m).

The key covenants attached to the Group's Revolving Credit Facility relate to gearing and interest cover which are measured on a pre-IFRS 16 basis. The maximum gearing ratio permitted under the covenants is 3.5x and the minimum interest cover ratio permitted is 4x. In the downside scenario modelled, the Group continues to maintain sufficient liquidity and meets its gearing and interest cover covenants under the Revolving Credit Facility.

In addition to its modelled downside going concern scenario, the Board has reverse stress tested the model to determine the extent of downturn which would result in a breach of covenants. Assuming similar levels of cash conversion as seen in recent months since the outbreak occurred, a monthly revenue decline compared with 2019 actuals well in excess of that experienced in any month in the first six months of 2020 would need to persist throughout the going concern period for a covenant breach to occur, which is considered very unlikely. This stress test also does not incorporate certain mitigating actions or cash preservation responses, which the Group would implement in the event of a severe and extended revenue decline.

Following its assessment, the directors have formed a judgement, at the time of approving the condensed consolidated financial statements, that there are no material uncertainties that cast doubt on the Group's going concern status and that it is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Changes in accounting policies

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

In determining the tax charge for the interim period under IAS 34, historically the Group has applied the forecast annual effective corporate income tax rate to the pre-tax income for the six month period. As a result of increased uncertainty due to the current COVID-19 pandemic, management determined that the actual tax charge for the six months ended 30 June 2020, excluding the impact of one-off items, represented its best estimate of the annual effective income tax rate to be used in calculating the tax charge for this period. No adjustments have been made to prior period comparatives.

1. Accounting policies (continued)

As a result of the COVID-19 pandemic, the Group has benefitted from £2.3m (31 December 2019: £nil; 30 June 2019: £nil) of government assistance across its divisions in the form of job retention schemes and grants for furloughed employees. In line with IAS 20, this income is recognised in the income statement at the date at which the conditions attached to receipt of such assistance have been met, in the period it becomes receivable. This income is presented net against the staff costs included in cost of sales and overheads in the condensed consolidated income statement.

In accordance with IFRS 7, the Group has made the following additions to its accounting policies to reflect hedging activity in the current reporting period:

The Group uses foreign currency debt to hedge its exposure to changes in the underlying net assets of overseas operations arising from foreign exchange rate movements.

The Group maintains documentation of the relationship between the hedged item and the hedging instrument at the inception of a hedging transaction together with the risk management objective and the strategy underlying the designated hedge. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

With respect to IFRS 9, the Group's activities at the reporting date constitute a net investment hedge. To the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised in the condensed consolidated statement of comprehensive income and accumulated in the hedging and translation reserve. The gain or loss relating to any ineffective portion is recognised immediately in the condensed consolidated income statement and is included in other operating expenses.

Note 14 sets out the details and fair values of the instruments used for hedging purposes.

The Group's latest annual audited financial statements set out the key sources of estimation uncertainty and the critical judgements that were made in preparing those financial statements, which related to the assumptions (in particular the discount rate) used to account for retirement benefit schemes under IAS 19 (revised), the decision not to recognise an asset in relation to the surplus on the UK defined benefit pension scheme and the recognition of tax provisions. There have been no changes to these key sources of estimation uncertainty or these critical judgements since year end.

In light of COVID-19, the directors have considered other areas of judgement and estimation, including expected credit loss provisioning and fair value measurements. As described further in note 8, the Group has also performed an impairment test across all, except two of its CGUs, with no impairments identified. The directors have concluded that any updates to the estimates associated with these areas of the interim financial statements are not expected to result in a material change in the next 12 months and, therefore, are not key sources of estimation uncertainty.

2. Alternative performance measures (APMs)

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

The APMs used include headline operating profit, return on sales, headline profit before taxation, EBITDA, headline EBITDA, headline tax charge, headline tax rate, headline earnings per share (EPS), headline operating cash flow, free cash flow, net debt/cash and net debt plus lease liabilities. These measures reflect the underlying trading performance of the business as they exclude certain non operational items, exceptional items, acquisition costs and the amortisation of acquired intangible assets. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, to better represent the 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, headline operating cash flow) and share schemes (headline EPS and return on capital employed). In the 2019 Annual Report the Group made changes to the presentation of headline EBITDA and its cash flow related APMs to present share-based payments as an operating cash flow item, instead of a financing cash flow item. The Group has restated the half year to 30 June 2019 in accordance with the changes adopted.

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. Expansionary capital expenditure is defined as capital expenditure invested to grow the Group's business. APMs are defined and reconciled to the IFRS statutory measure as follows:

Headline operating profit

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
128.6	Statutory operating (loss)/profit	(1.0)	64.4
	Add back:		
–	Exceptional items	32.1	–
4.6	Amortisation of acquired intangibles	4.7	2.1
1.7	Acquisition costs	2.0	0.4
134.9	Headline operating profit	37.8	66.9

Notes to the condensed consolidated financial information continued

2. Alternative performance measures (APMs) (continued)

Return on sales

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
134.9	Headline operating profit	37.8	66.9
719.7	Revenue	306.7	366.5
18.7%	Return on sales	12.3%	18.3%

Headline profit before taxation

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
123.9	(Loss)/profit before taxation	(3.8)	62.2
	Add back:		
–	Exceptional items	32.1	–
4.6	Amortisation of acquired intangibles	4.7	2.1
1.7	Acquisition costs	2.0	0.4
130.2	Headline profit before taxation	35.0	64.7

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

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Restated Half year to 30 June 2019 £m
128.6	Operating (loss)/profit	(1.0)	64.4
84.2	Depreciation and amortisation	45.8	41.1
–	Impairment of property, plant and equipment	12.3	–
(4.4)	Loss/(profit) on disposal of property, plant and equipment	0.1	–
1.1	Share-based payments	(0.3)	1.2
(0.2)	Income from associate	(0.2)	(0.2)
209.3	EBITDA	56.7	106.5
–	Exceptional items	20.1	–
1.7	Acquisition costs	2.0	0.4
(1.1)	Share-based payments	0.3	(1.2)
209.9	Headline EBITDA	79.1	105.7

Headline tax charge

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
29.9	Tax (credit)/charge	(1.5)	15.2
1.1	Tax on amortisation of acquired intangibles	1.2	0.6
–	Tax on exceptional items	8.2	–
31.0	Headline tax charge	7.9	15.8

Headline tax rate

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
31.0	Headline tax charge	7.9	15.8
130.2	Headline profit before taxation	35.0	64.7
23.8%	Headline tax rate	22.5%	24.4%

Headline earnings per share

A detailed reconciliation is provided in note 7.

2. Alternative performance measures (APMs) (continued)

Headline operating cash flow

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Restated Half year to 30 June 2019 £m
209.9	Headline EBITDA	79.1	105.7
	Less:		
(50.2)	Net maintenance capital expenditure	(22.3)	(32.7)
(4.2)	Net working capital movement	24.7	(13.3)
155.5	Headline operating cash flow	81.5	59.7

Free cash flow

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Restated Half year to 30 June 2019 £m
155.5	Headline operating cash flow	81.5	59.7
	Less:		
(3.2)	Restructuring cash flows	(3.0)	(1.2)
(24.7)	Income taxes paid	(6.6)	(11.8)
(4.5)	Interest paid	(2.2)	(2.1)
123.1	Free cash flow	69.7	44.6

Net debt and net debt plus lease liabilities

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
22.0	Cash and bank balances	23.9	12.5
(1.1)	Bank overdrafts (included in borrowings)	(1.4)	(5.5)
–	Bank loans (included in borrowings)	(46.1)	(30.0)
–	Debt acquired (included in borrowings)	–	(2.5)
20.9	Net (debt)/cash	(23.6)	(25.5)
(79.4)	Lease liabilities	(83.0)	(86.3)
(58.5)	Net debt plus lease liabilities	(106.6)	(111.8)

Revenue and headline operating profit/(loss) at constant exchange rates

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

	Half year to 30 June 2020			
	ADE £m	AGI £m	Central costs and eliminations £m	Consolidated £m
Revenue	135.8	170.9	–	306.7
Constant exchange rates adjustment	(1.6)	0.4	–	(1.2)
Revenue at constant exchange rates	134.2	171.3	–	305.5
Headline operating profit/(loss)	27.1	14.4	(3.7)	37.8
Constant exchange rates adjustment	(0.3)	0.9	(0.1)	0.5
Headline operating profit/(loss) at constant exchange rates	26.8	15.3	(3.8)	38.3

Notes to the condensed consolidated financial information continued

3. Business and geographical segments

The Group has more than 185 facilities across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

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

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

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

We have also presented combined results of our two key business areas, ADE and AGI. The split being driven by customer behaviour and requirements, geography, and services provided. Customers in the ADE segment tend to operate and purchase more globally and have long supply chains, whilst customers in the AGI segment tend to purchase more locally and have shorter supply chains.

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

Group	Half year to 30 June 2020			
	ADE £m	AGI £m	Central costs and eliminations £m	Consolidated £m
Revenue				
Total revenue	135.8	170.9	–	306.7
Result				
Headline operating profit prior to share-based payments and unallocated central costs	27.2	14.5	–	41.7
Share-based payments (including social security charges)	(0.1)	(0.1)	0.5	0.3
Unallocated central costs	–	–	(4.2)	(4.2)
Headline operating profit/(loss)	27.1	14.4	(3.7)	37.8
Amortisation of acquired intangible assets	(2.8)	(1.9)	–	(4.7)
Acquisition costs	(2.0)	–	–	(2.0)
Operating profit/(loss) prior to exceptional items	22.3	12.5	(3.7)	31.1
Exceptional items	(6.1)	(26.0)	–	(32.1)
Segment result	16.2	(13.5)	(3.7)	(1.0)
Finance income				0.1
Finance costs				(2.9)
Loss before taxation				(3.8)
Taxation credit				1.5
Loss for the period				(2.3)

Inter-segment sales are not material.

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

3. Business and geographical segments (continued)

	Half year to 30 June 2020			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Aerospace, Defence & Energy				
Revenue				
Total revenue	57.2	78.1	0.5	135.8
Result				
Headline operating profit prior to share-based payments	11.9	15.2	0.1	27.2
Share-based payments (including social security charges)	(0.1)	–	–	(0.1)
Headline operating profit	11.8	15.2	0.1	27.1
Amortisation of acquired intangible assets	–	(2.8)	–	(2.8)
Acquisition costs	–	(2.0)	–	(2.0)
Operating profit prior to exceptional items	11.8	10.4	0.1	22.3
Exceptional items	(4.5)	(1.6)	–	(6.1)
Segment result	7.3	8.8	0.1	16.2

	Half year to 30 June 2020			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Automotive & General Industrial				
Revenue				
Total revenue	102.0	41.2	27.7	170.9
Result				
Headline operating profit/(loss) prior to share-based payments	11.5	(2.0)	5.0	14.5
Share-based payments (including social security charges)	(0.1)	–	–	(0.1)
Headline operating profit/(loss)	11.4	(2.0)	5.0	14.4
Amortisation of acquired intangible assets	(0.3)	(1.4)	(0.2)	(1.9)
Acquisition costs	–	–	–	–
Operating profit/(loss) prior to exceptional items	11.1	(3.4)	4.8	12.5
Exceptional items	(17.0)	(8.5)	(0.5)	(26.0)
Segment result	(5.9)	(11.9)	4.3	(13.5)

Group	Half year to 30 June 2019			
	ADE £m	AGI £m	Central costs and eliminations £m	Consolidated £m
Revenue				
Total revenue	151.1	215.4	–	366.5
Result				
Headline operating profit prior to share-based payments and unallocated central costs	38.3	35.9	–	74.2
Share-based payments (including social security charges)	(0.4)	(0.5)	(0.5)	(1.4)
Unallocated central costs	–	–	(5.9)	(5.9)
Headline operating profit/(loss)	37.9	35.4	(6.4)	66.9
Amortisation of acquired intangible assets	(0.5)	(1.6)	–	(2.1)
Acquisition costs	–	–	(0.4)	(0.4)
Segment result	37.4	33.8	(6.8)	64.4
Finance income				0.2
Finance costs				(2.4)
Profit before taxation				62.2
Taxation				(15.2)
Profit for the period				47.0

Notes to the condensed consolidated financial information continued

3. Business and geographical segments (continued)

	Half year to 30 June 2019			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Aerospace, Defence & Energy				
Revenue				
Total revenue	72.3	78.2	0.6	151.1
Result				
Headline operating profit prior to share-based payments	18.3	19.9	0.1	38.3
Share-based payments (including social security charges)	(0.1)	(0.3)	–	(0.4)
Headline operating profit	18.2	19.6	0.1	37.9
Amortisation of acquired intangible assets	–	(0.5)	–	(0.5)
Segment result	18.2	19.1	0.1	37.4

	Half year to 30 June 2019			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Automotive & General Industrial				
Revenue				
Total revenue	129.3	55.5	30.6	215.4
Result				
Headline operating profit prior to share-based payments	23.2	5.6	7.1	35.9
Share-based payments (including social security charges)	(0.2)	(0.2)	(0.1)	(0.5)
Headline operating profit	23.0	5.4	7.0	35.4
Amortisation of acquired intangible assets	(0.2)	(1.4)	–	(1.6)
Acquisition costs	–	–	–	–
Segment result	22.8	4.0	7.0	33.8

Group	Year ended 31 December 2019			
	ADE £m	AGI £m	Central costs and eliminations £m	Consolidated £m
Revenue				
Total revenue	301.4	418.3	–	719.7
Result				
Headline operating profit prior to share-based payments and unallocated central costs	76.8	65.6	–	142.4
Share-based payments (including social security charges)	(1.0)	0.3	(0.6)	(1.3)
Unallocated central costs	–	–	(6.2)	(6.2)
Headline operating profit/(loss)	75.8	65.9	(6.8)	134.9
Amortisation of acquired intangible assets	(1.1)	(3.5)	–	(4.6)
Acquisition costs	(1.3)	(0.4)	–	(1.7)
Segment result	73.4	62.0	(6.8)	128.6
Finance income				0.2
Finance costs				(4.9)
Profit before taxation				123.9
Taxation				(29.9)
Profit for the year				94.0

3. Business and geographical segments (continued)

	Year ended 31 December 2019			
	Western Europe £m	North America £m	Emerging markets £m	Total ADE £m
Aerospace, Defence & Energy				
Revenue				
Total revenue	141.3	158.7	1.4	301.4
Result				
Headline operating profit prior to share-based payments	35.9	40.6	0.3	76.8
Share-based payments (including social security charges)	(0.4)	(0.6)	–	(1.0)
Headline operating profit	35.5	40.0	0.3	75.8
Amortisation of acquired intangible assets	–	(1.1)	–	(1.1)
Acquisition costs	–	(1.3)	–	(1.3)
Segment result	35.5	37.6	0.3	73.4

	Year ended 31 December 2019			
	Western Europe £m	North America £m	Emerging markets £m	Total AGI £m
Automotive & General Industrial				
Revenue				
Total revenue	246.0	107.4	64.9	418.3
Result				
Headline operating profit prior to share-based payments	40.5	9.7	15.4	65.6
Share-based payments (including social security charges)	0.6	(0.3)	–	0.3
Headline operating profit	41.1	9.4	15.4	65.9
Amortisation of acquired intangible assets	(0.4)	(2.9)	(0.2)	(3.5)
Acquisition costs	(0.4)	–	–	(0.4)
Segment result	40.3	6.5	15.2	62.0

4. Exceptional items

Restructuring costs of £32.1m relate to ongoing initiatives announced this year in Europe and North America, across AGI (£26.0m) and ADE (£6.1m). These exceptional charges relate to restructuring activities designed to right-size the business driven by a combination of both macroeconomic uncertainties and longer term structural shifts. These exceptional costs are a result of strategic restructuring and are therefore non-recurring. Further detail of this restructuring programme is outlined in the Interim management report on page 2.

Restructuring costs include £18.8m of restructuring charges, consisting of £10.0m severance and £8.8m site closure costs, £1.2m of restructuring environmental provisions (provisions detailed in note 9) and property, plant and equipment impairments amounting to £12.0m for assets no longer required.

5. Taxation

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
24.8	Current taxation – (credit)/charge for the period	(2.2)	14.9
(3.9)	Current taxation – adjustments in respect of prior periods	0.1	–
9.0	Deferred tax	0.6	0.3
29.9	Taxation (credit)/charge	(1.5)	15.2

The headline rate of tax for the interim period is 22.5% (31 December 2019: 23.8%; 30 June 2019: 24.4%) of the headline profit before tax. As a result of increased uncertainty due to the current COVID-19 pandemic, management determined that the actual tax charge for the six months ended 30 June 2020, excluding the impact of one-off items, represented its best estimate of the annual effective income tax rate to be used in calculating the tax charge for this period.

Notes to the condensed consolidated financial information continued

6. Dividends

Amounts recognised as distributions to equity holders in the period:

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
25.2	Final dividend for the year ended 31 December 2018 of 13.3p per share	–	25.2
38.1	Special dividend for the year ended 31 December 2018 of 20.0p per share	–	38.1
11.4	Interim dividend for the year ended 31 December 2019 of 6.0p per share	–	–
74.7		–	63.3
	Proposed 2019 deferred dividend of 13.3p (2018 final dividend: 13.3p) per share	25.3	25.2

As a consequence of the impact of COVID-19, the declared 2019 final dividend of 14.0p per share was deferred and was not presented for approval at the AGM. The Board has decided a deferred 2019 dividend of 13.3p will be paid in September 2020.

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

7. Earnings per share

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

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Half year to 30 June 2019 £m
	Earnings		
93.8	(Loss)/earnings for the purpose of basic earnings per share being net (loss)/profit attributable to equity holders of the parent	(2.4)	46.9
	Number of shares	Number	Number
189,921,112	Weighted average number of ordinary shares for the purposes of basic earnings per share	190,205,026	189,804,077
794,287	Effect of dilutive potential ordinary shares: Shares subject to performance conditions*	–	–
190,715,399	Weighted average number of ordinary shares for the purposes of diluted earnings per share	190,205,026	189,804,077

* As at 30 June 2020 and 30 June 2019, the related performance conditions have not been met resulting in nil dilution of earnings per share.

Pence		Pence	Pence
	(Loss)/earnings per share		
49.4	Basic	(1.3)	24.7
49.2	Diluted	(1.3)	24.7
		£m	£m
	Headline earnings		
93.8	Net (loss)/profit attributable to equity holders of the parent	(2.4)	46.9
	Add back:		
3.5	Amortisation of acquired intangible assets (net of tax)	3.5	1.5
–	Exceptional items (net of tax)	23.9	–
1.7	Acquisition costs	2.0	0.4
99.0	Headline earnings	27.0	48.8
		Pence	Pence
	Headline earnings per share		
52.1	Basic	14.2	25.6
51.9	Diluted	14.2	25.6

8. Goodwill

As at 31 Dec 2019 £m		As at 30 June 2020 £m	As at 30 June 2019 £m
	Cost		
225.2	At 1 January	230.7	225.2
(4.9)	Exchange differences	6.8	0.2
10.4	Recognised on acquisition of businesses	48.8	10.4
230.7	At balance sheet date	286.3	235.8
	Accumulated impairment		
61.3	At 1 January	60.9	61.3
(0.4)	Exchange differences	0.4	–
60.9	At balance sheet date	61.3	61.4
169.8	Carrying amount	225.0	174.5

Goodwill acquired through business combinations is allocated to the cash generating units (CGUs) that are expected to benefit from the synergies of the combination. The recoverable amounts of these CGUs are the higher of fair value less costs to dispose and value-in-use. The goodwill arising on the recently acquired Ellison business has been included in the North America ADE CGU (refer to note 10) as the synergies arising on the acquisition are expected to benefit this CGU and the goodwill will, therefore, be monitored at this level. Goodwill is allocated to the CGUs as follows:

As at 31 Dec 2019 £m		As at 30 June 2020 £m	As at 30 June 2019 £m
	ADE:		
26.8	Western Europe	27.0	26.9
47.9	North America	98.4	48.5
	AGI:		
27.6	Western Europe	28.8	28.5
55.5	North America	58.2	58.0
12.0	Emerging markets	12.6	12.6
169.8		225.0	174.5

The Group tests goodwill at least annually for impairment, or more frequently if there are indications that goodwill might be impaired. In accordance with IAS 36, given the impact that the COVID-19 pandemic has had on the Group in the first half of the year, the Group performed an impairment trigger assessment on goodwill and other assets across all of its CGUs. The results of this trigger assessment required the Group to perform a full impairment test on all CGUs with the exception of two CGUs which did not show signs of impairment based on the trigger assessment and were therefore not tested at 30 June 2020. No impairment exercise was performed as at 30 June 2019 as there were no impairment triggers.

The recoverable amounts of the cash generating units were determined from value-in-use calculations and are the sum of the discounted cash flows. The key assumptions for those calculations include the discount rates and the growth rates in respect of future cash flows. Growth rates are determined by a combination of management's forward-looking scenarios for the first five years together with a further estimate of cash flows into perpetuity using GDP growth rates based on the historical weighted average growth in GDP in the respective geographies. The cash flows are discounted using a pre-tax Weighted Average Cost of Capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the cash generating units, including country risk premium. The pre-tax rates used to discount the forecast cash flows for each cash generating unit are between 9.7% (31 December 2019: 11.7%) and 11.2% (31 December 2019: 12.7%).

The projected cash flows reflect management's expectation of how sales and operating profit will develop. In formulating the view on future cash flows, consideration has been given to various external data sources on the strength and timing of any expected economic recovery and industry specific information. Recognising the uncertainty regarding the near-term future economic outlook, three projected potential scenarios have been modelled, with a probability weighting of these scenarios used to forecast 2020 outcomes. These scenarios include declines in the second half of the year reflecting different eventual outcomes, including a second wave of COVID-19 scenario and different recovery rates on Group sales. The most pessimistic of these three scenarios sees, for three months in H2 2020, revenue declines at a similar level to those seen in the second quarter, which saw revenues on a like-for-like basis 33% below those in the prior year, with a continued (albeit slightly smaller) decline in the rest of the half. The most optimistic scenario sees revenue declines compared with 2019 throughout H2 2020, but less significant declines than experienced in quarter two. The probability weighting attached to each scenario has no impact on the outcome of the impairment assessment as the value in the CGUs is largely in later years.

Maintenance capital expenditure projections are based on historical experience and include expenditure necessary to maintain the projected cash flows from existing assets. The cash flows are adjusted for the expected working capital requirements to deliver sales and the timing of converting operating profits into cash. GDP growth rates used to determine cash flows for 2024 and into perpetuity are in the range 2.3% (31 December 2019: 2.3%) to 5.4% (31 December 2019: 5.4%) depending on the geographical region of each cash generating unit.

Notes to the condensed consolidated financial information continued

8. Goodwill (continued)

The majority of goodwill is allocated to two of the cash generating units, being North America ADE and North America AGI. The long-term growth rates applied to cash flows after 2023 and the rates used to discount the projected cash flows for these cash generating units are shown below:

	Goodwill carrying value As at 30 June 2020 £m	Long-term growth rate As at 30 June 2020 %	Discount rate As at 30 June 2020 %
Cash generating unit			
North America ADE	98.4	2.8	9.7
North America AGI	58.2	2.8	9.7

	Goodwill carrying value As at 31 Dec 2019 £m	Long-term growth rate As at 31 Dec 2019 %	Discount rate As at 31 Dec 2019 %
Cash generating unit			
North America ADE	47.9	2.8	11.7
North America AGI	55.5	2.8	11.7

Expected future cash flows are inherently uncertain and could change materially over time. They are affected by a number of factors, including market and production estimates, together with economic factors such as prices, discount rates, currency exchange rates, estimates of production costs, and future maintenance capital expenditure, and therefore the Group has conducted sensitivity analysis on the key assumptions applied to the value in use calculations for the cash generating units. This uncertainty is especially relevant in light of the impact of the COVID-19 pandemic across the world and this has been reflected in the sensitivity analyses performed of reasonably possible changes in the underlying assumptions for the cash generating units. This analysis included: slower growth in the aerospace market; 100% weighting given to the 2020 cash flow scenario that assumes a second wave of the COVID-19 pandemic; and an increase in the discount rate of 1%. These sensitivities stress test the cash flow headroom on situations that the directors consider are reasonably possible but not expected. None of these scenarios resulted in an impairment.

The immediate outlook varies by sector and it is difficult in the current environment to predict how the world's economies will recover. Based on current available information the directors do not consider that there are any reasonable possible sensitivities that could arise in the next 12 months that would result in a material impairment charge being recognised. The directors have concluded that no impairment charge is required as at 30 June 2020.

9. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
Half year to 30 June 2020				
1 January 2020	3.0	2.4	8.1	13.5
Increase in provision	18.8	1.2	0.1	20.1
Utilisation of provision	(2.8)	(0.2)	(0.6)	(3.6)
Acquired with subsidiaries	–	–	0.2	0.2
Exchange difference	0.4	0.2	0.5	1.1
30 June 2020	19.4	3.6	8.3	31.3
Included in current liabilities				20.6
Included in non-current liabilities				10.7
				31.3

The restructuring provision relates to the costs associated with the closure of a number of Heat Treatment sites. The increase in restructuring and restructuring environmental provisions of £20.1m in the period relates to exceptional costs of £32.1m incurred as a result of restructuring initiatives announced in Europe and North America.

The Group provides for the costs of environmental remediation that have been identified, either as part of acquisition due diligence, or in other circumstances where remediation by the Group is required. This provision is reviewed annually and is separated into restructuring environmental and environmental to identify separately environmental provisions relating to restructuring programmes from those arising in the ordinary course of business.

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

9. Provisions (continued)

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.

10. Acquisition of businesses

During the period the Group completed the acquisition of 100% of the ordinary share capital of Ellison Surface Technologies ("Ellison") for total provisional consideration of £130.2m. Ellison is a Surface Technology business located in North America with a number of sites primarily serving the aerospace sector.

The acquisition significantly strengthens the Group's network, enhances processes and creates synergies allowing the Group to deliver industry-leading solutions that address aerospace customers' heat treatment and specialist thermal requirements.

The accounting is provisional as the Group has twelve months to finalise the valuation of the acquired assets and liabilities and the resultant goodwill under IFRS 3.

The transaction has been accounted for as a business combination under IFRS 3 and is summarised below:

	Provisional as at 30 June 2020 £m
Fair value of net assets acquired:	
Other intangible assets	87.9
Property, plant and equipment	14.8
Right-of-use assets	5.1
Inventories	2.7
Trade and other receivables	7.5
Trade and other payables	(19.4)
Lease liabilities	(5.1)
Provisions	(0.2)
Bank loans	(11.9)
	81.4
Goodwill	48.8
Total consideration	130.2
Satisfied by:	
Cash consideration	66.1
Deferred consideration	64.1
Total consideration transferred/to be transferred	130.2
Net cash outflow arising on acquisition:	
Cash consideration paid to seller	66.1
Repayment following completion of debt and other payables acquired	28.8
	94.9

Acquisition-related costs amounted to £2.0m (31 December 2019: £1.7m of which £1.3m related to the Ellison acquisition; 30 June 2019: £0.4m) and have been included in the Income statement.

The gross contractual value of the trade and other receivables was £7.8m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected was £0.3m.

Deferred consideration is recognised at its fair value in the consolidated financial statements. Gross deferred consideration of £65.2m is payable within 12 months of the completion date of the acquisition and has been discounted to its fair value.

The goodwill arising on the acquisition is expected to be deductible for tax purposes and is attributable to:

- the anticipated profitability of the distribution of the Group's services in new markets; and
- the synergies that can be achieved in the business combination including management, processes and maximising site capacities.

The business was acquired on 3 April 2020 and contributed £7.2m revenue and £0.2m headline operating loss and £2.6m operating loss (after deducting £2.3m for amortisation of acquired intangibles and £0.1m exceptional items) for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on the first day of the financial period, the acquisition would have contributed £18.9m to Group revenue, £0.6m to Group headline operating profit and £1.8m operating loss (after deducting £2.3m for amortisation of acquired intangibles and £0.1m exceptional items) attributable to equity holders of the parent.

In the prior year the Group acquired two facilities that were accounted for as business combinations for total consideration of £20.0m resulting in £10.4m of goodwill being recognised in the consolidated financial statements. Refer to note 23 in the 2019 Annual Report for further information.

Notes to the condensed consolidated financial information continued

11. Notes to the cash flow statement

Year ended 31 Dec 2019 £m		Half year to 30 June 2020 £m	Restated ¹ Half year to 30 June 2019 £m
94.0	(Loss)/profit for the period	(2.3)	47.0
	Adjustments for:		
(0.2)	Finance income	(0.1)	(0.2)
4.9	Finance costs	2.9	2.4
29.9	Taxation	(1.5)	15.2
128.6	Operating (loss)/profit	(1.0)	64.4
	Adjustments for:		
63.3	Depreciation of property, plant and equipment	32.6	30.9
14.5	Depreciation of right-of-use assets	7.3	7.2
6.4	Amortisation of other intangible assets	5.9	3.0
(4.4)	Loss/(profit) on disposal of property, plant and equipment	0.1	–
1.1	Share-based payments	(0.3)	1.2
(0.2)	Income from associate	(0.2)	(0.2)
–	Impairment of property, plant and equipment	12.3	–
209.3	EBITDA ²	56.7	106.5
(1.5)	Increase in inventories	–	(2.3)
(1.1)	Decrease/(increase) in receivables	27.3	(9.0)
(2.1)	Decrease in payables	(18.3)	(3.0)
(2.6)	Increase/(decrease) in provisions	16.4	(0.3)
202.0	Cash generated by operations	82.1	91.9
(24.7)	Income taxes paid	(6.6)	(11.8)
177.3	Net cash from operating activities	75.5	80.1

¹ In the June 2019 comparative the presentation of share-based payments in the cash flow has been amended to present share-based payments as an operating cash flow item, instead of a financing cash flow item consistent with the treatment in the 2019 Annual Report.

² Defined in note 2.

Cash and cash equivalents comprise:

22.0	Cash and bank balances	23.9	12.5
(1.1)	Bank overdrafts (included in borrowings)	(1.4)	(5.5)
20.9		22.5	7.0

12. Restatement of comparative information

The following table summarises the impact resulting from restatements, being the netting of deferred tax on the condensed consolidated balance sheet and an adjustment of £0.5m to reflect the impact of the adoption of IFRS 16 and the recognition on deferred tax assets as presented in the 2019 Annual Report.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Management applied a more strict application of this netting for the 2019 year end which has resulted in a restatement of the interim 2019 balances, reducing the asset by £16.6m and the liability by £16.6m, to conform with the approach taken for the 2019 year end financial statements. This restatement has had no impact on the condensed consolidated income statement or condensed consolidated cash flow statement.

Summarised condensed consolidated balance sheet

	30 June 2019		
	As previously reported £m	Effect of restatement £m	As restated £m
Non-current assets			
Deferred tax assets	24.3	(16.1)	8.2
Other non-current assets	856.4	–	856.4
	880.7	(16.1)	864.6
Non-current liabilities			
Deferred tax liabilities	62.2	(16.6)	45.6
Other non-current liabilities	103.5	–	103.5
	165.7	(16.6)	149.1
Net assets	697.6	0.5	698.1
Equity			
Retained earnings	291.8	0.5	292.3
Equity attributable to equity holders of the parent	696.8	0.5	697.3
Total equity	697.6	0.5	698.1

13. Related party transactions

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

14. Financial instruments

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

The Group uses foreign currency forward contracts in the management of its exchange rate exposures. The contracts are primarily denominated in the currencies of the Group's principal markets. The aggregate notional amount (aggregate face value) of contracts held at 30 June 2020 was £4.5m (31 December 2019: £1.4m; 30 June 2019: £1.4m).

The fair value of the Group's foreign currency forward contracts is determined using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contracts. The related fair value of the contracts held at 30 June 2020 was £0.1m (31 December 2019: £nil; 30 June 2019: £nil).

The Group's interest rate risk is primarily in relation to its floating rate borrowings (cash flow risk). From time to time the Group will use interest rate derivative contracts to manage its exposure to interest rate movements within Group policy. However, at the balance sheet date, the Group had no interest rate derivative contracts (31 December 2019: nil; 30 June 2019: nil).

Whilst low levels of debt are typically maintained, at the balance sheet date the Group has drawn on the RCF to partly fund the Ellison acquisition. This loan is denominated in USD and EUR and the amounts designated as hedges of the net investments of the Group's subsidiaries with matching functional currency on a 1:1 ratio. The effects and performance of the net investment hedge at 30 June 2020 are set out as follows:

	£m	€m	\$m
Carrying amount (bank loan) and denominations	(46.2)	25.0	29.0
Hedge ratio	1:1	–	–
Change in bank loan carrying amount as a result of foreign currency movements since 1 January 2020	(1.2)	–	–
Change in value of hedged item used to determine hedge effectiveness	1.2	–	–

Notes to the condensed consolidated financial information continued

14. Financial instruments (continued)

The foreign exchange loss of £1.2m on translation of borrowings to GBP at the end of the reporting period is recognised in other comprehensive income and accumulated in the foreign currency translation reserve in shareholder's equity. There was no ineffectiveness to be recorded from the net investment hedge.

15. Contingent liabilities

The international tax environment has received increased attention and seen rapid change over recent years, both at a US and European level, and by international bodies such as the Organisation for Economic Cooperation and Development (OECD). Against this backdrop, Bodycote has been monitoring developments and continues to engage transparently with the tax authorities in the countries where we operate. On 25 April 2019, the European Commission released its decision that part of the UK Group Financing Exemption measures in the UK-controlled foreign company rules were unlawful and incompatible State Aid and have instructed HM Revenue & Customs to recover the State Aid. The UK Government has subsequently appealed the decision.

In common with other UK-based international companies whose arrangements were in line with current UK CFC legislation, Bodycote may be affected by the outcome of this decision and has calculated the maximum potential liability including interest to be approximately £21.8m (31 December 2019: £21.6m; 30 June 2019: £20.0m). Bodycote is reviewing the details of the decision and assessing any impact upon the Company's tax position. At present, Bodycote believes that no provision is required in respect of this matter.

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

16. General information

Copies of this report and the last Annual Report are available from the Group Company Secretary, Bodycote plc, Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield, Cheshire SK10 2XF, and can each be downloaded or viewed via the Group's website at www.bodycote.com. Copies of this report have also been submitted to the UK Listing Authority and will shortly be available at the FCA Electronic Submission System which is situated at: <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>

Independent review report to Bodycote plc

Report on the interim financial statements

Our conclusion

We have reviewed Bodycote plc's interim financial statements (the "interim financial statements") in the interim report 2020 of Bodycote plc for the 6 month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the unaudited condensed consolidated balance sheet as at 30 June 2020;
- the unaudited condensed consolidated income statement and unaudited condensed consolidated statement of comprehensive income for the period then ended;
- the unaudited condensed consolidated cash flow statement for the period then ended;
- the unaudited condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim report 2020 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim report 2020, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report 2020 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim report 2020 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim report 2020 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants
London
23 July 2020

Company information

Financial calendar

Deferred dividend for 2019
Results for 2020
Annual General Meeting
Interim results for 2021

September 2020
March 2021
May 2021
July 2021

Shareholder enquiries

Enquiries on the following administrative matters can be addressed to the Company's registrars at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 9.00am to 5.00pm (UK time), Monday to Friday excluding public holidays in England and Wales; Email: Log on to help.shareview.co.uk (from here you will be able to email your query securely).

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

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

Shareholder dealing service

For information on the share dealing service offered by Equiniti Limited*, telephone 0345 603 7037 (+44 121 415 7560 if calling from outside the UK). Lines open 8.00am to 4.30pm (UK time), Monday to Friday excluding public holidays in England and Wales.

* Please either telephone Equiniti or look online at www.shareview.co.uk for the up-to-date commission rates.



To view the Bodycote interim report online visit

www.bodycote.com

www.bodycote.com

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