

## Markets

Overall civil aerospace revenues were up 4.4%<sup>1</sup>, led by strong growth in the UK, while defence (predominantly a North American market for the Group) was down on the same period last year.

Revenues from the energy sector were 4.1%<sup>1</sup> lower, with the oil & gas sector continuing to register a decline compared with the first half of 2016, when oil & gas revenues were still falling. A bright spot in oil & gas was in our North American onshore business, which showed strong growth in the second quarter. Growth in industrial gas turbine and other power generation revenues was not able to fully offset the oil & gas decline.

Bodycote achieved revenue growth of 15.5%<sup>1</sup> in the car and light truck sector as new programmes, especially using Specialist Technologies, continue to build. Revenues in the volatile heavy truck market were up in the second quarter to register overall positive growth in the first half although heavy truck remains a small part of the Group's business.

Group revenues in the general industrial sector increased 11.8%<sup>1</sup> in the first half, with growth across all of the Group's key territories. With general industrial revenues representing 39% of Group revenues, this change in trend is an important contributor to the Group's growth.

Growth in the emerging markets was also strong with revenues increasing by 24.5%<sup>1</sup>. Macro-economic demand has improved here but most of Bodycote's growth has come from the investment in greenfield sites in these territories.

## Business review

	Half year to 30 June					
	Revenue		Headline operating profit		Headline operating margin	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 %	2016 %
ADE	136.1	121.9	30.7	27.4	22.6	22.5
AGI	209.6	169.1	36.9	27.9	17.6	16.5
	<b>345.7</b>	291.0	<b>67.6</b>	55.3	<b>19.6</b>	19.0
Central costs	-	-	(5.9)	(6.0)	-	-
Total	<b>345.7</b>	291.0	<b>61.7</b>	49.3	<b>17.8</b>	16.9

### Aerospace, Defence & Energy (ADE)

Revenues for the ADE business were £136.1m in the six months to June 2017 compared with £121.9m in 2016, an increase of 11.6%. At constant exchange rates revenues increased 2.1%.

Headline operating profit<sup>2</sup> was £30.7m (2016: £27.4m), an increase of 12.0%, including a 9.9% increase resulting from favourable foreign currency movements. The headline operating margin increased slightly from 22.5% to 22.6%.

Net capital expenditure was £10.8m (2016: £10.3m), representing a spend rate of 1.0 times depreciation (2016: 1.0 times). The Group continued to invest in additional aerospace capacity, with investments in new facilities in Poland and France, and expansion of existing facilities in the UK.

Average capital employed for the period was £258.3m (2016: £242.7m).

### Automotive & General Industrial (AGI)

Revenues for the AGI business were £209.6m in the first half of 2017, compared with £169.1m in 2016, an increase of 24.0%. Revenues increased 12.8% at constant exchange rates.

Headline operating profit<sup>2</sup> was £36.9m (2016: £27.9m), an increase of 32.3%, including an 11.5% increase due to favourable foreign currency movements. Headline operating margin improved from 16.5% to 17.6%.

Net capital expenditure was £16.2m (2016: £16.6m) representing a spend rate of 0.9 times depreciation (2016: 1.1 times). This included further investments in Mexico and Czech Republic. The Group continues to invest in its Specialist Technologies and other high value-added processes in developed markets.

Average capital employed for the period was £372.6m (2016: £325.8m).

<sup>1</sup> At constant exchange rates.

<sup>2</sup> Headline operating profit is reconciled to operating profit in note 2. Bodycote plants do not exclusively supply services to customers of a given market sector (see note 2).