Earnings per share

Basic headline earnings per share from operations for the half year were 18.3p (2015: 21.1p). Basic earnings per share from operations for the half year were 17.5p (2015: 10.6p). Diluted earnings per share were 17.5p (2015: 10.6p).

Dividend

The Board has declared an interim dividend of 5.0p (2015: 4.8p) which represents an increase of 4.2% over the prior year. The interim dividend will be paid on 4 November 2016 to all shareholders on the register at the close of business on 7 October 2016.

Net debt

Group net debt at 30 June 2016 was £5.5m (31 December 2015 net cash: £12.3m and 30 June 2015 net debt: £7.0m). Loans and letters of credit drawn under the committed facilities at 30 June 2016 totalled £7.4m, compared to £1.8m at 31 December 2015 and £13.8m at 30 June 2015. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of funding.

Borrowing facilities

The Group is financed by a mix of cash flows from operations, short-term borrowings, longer-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. At 30 June 2016, the Group had the following committed facilities:

Facility	Expiry date	Facility £m	Loan and letter of credit utilisation £m	**Facility headroom £m**
£230m Revolving Credit	3 July 2019	230.0	5.4	**224.6**
$10m Letter of Credit	31 August 2016	7.5	2.0	**5.5**
		237.5	7.4	**230.1**

Defined benefit pension schemes

The Group's principal defined benefit pension obligations have been reviewed as at 30 June 2016. The surplus in the UK scheme is £1.0m (31 December 2015: £2.7m deficit). In France, the deficit in relation to the primarily unfunded cash lump sum obligation is £9.7m (31 December 2015: £8.6m). The sum of the deficits for all other Group schemes is £7.5m (31 December 2015: £6.6m). These amounts are fully provided at 30 June 2016. The principal actuarial assumptions are unchanged from those used as at 31 December 2015.

Principal risks and uncertainties

The directors have reconsidered the principal risks and uncertainties of the Group. The result of the referendum on the future of the UK's membership in the European Union is not expected to have a material transactional impact as customers are served locally and cross-border trading is minimal. The risk of a wider macro-economic effect as a result of the UK leaving the EU is addressed by the Group's existing Markets risk. Accordingly, the directors do not consider that the principal risks and uncertainties of the Group have significantly changed since the publication of the Annual Report for the year ended 31 December 2015. The risks and associated risk management processes can be found on pages 24, 25, 26, 110 and 111 of the 2015 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;
- Service quality;
- Major disruption at a facility;
- Information technology projects;
- Regulatory and legislative compliance;
- Liquidity;
- Interest rate fluctuation; and
- Currency exchange rate fluctuation.

Going concern

As stated in note 1 to the condensed financial statements, the directors have formed a judgement, at the time of approving the condensed 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 condensed financial statements.

Summary and outlook

The Group has again demonstrated its ability to deal with challenging market conditions, including delivery of a continued improvement in the AGI margin. This has been achieved against a background of subdued demand for industrial machinery and a further substantial decline in oil & gas revenues.

Looking ahead, and noting the Group's lack of visibility, we expect growth in our aerospace and automotive markets to continue and the sequential decline in oil & gas activity to have largely abated. Recent demand in general industrial markets has been softer than expected and improvements are not anticipated in the second half. However, if current exchange rates prevail, we expect weakness in overall trading, for the year as a whole, to be offset by the benefit of currency translation.

The Group continues to benefit from the flexibility afforded by the strength of its balance sheet, with minimal leverage and continuing strong cash generation.

We will continue to follow our strategy of investing in areas of robust profit opportunity, notably in Specialist Technologies, and in further enriching the mix towards higher added value services in Classical Heat Treatment.

S.C. Harris
Group Chief Executive
28 July 2016

D.F. Landless
Group Finance Director
28 July 2016