

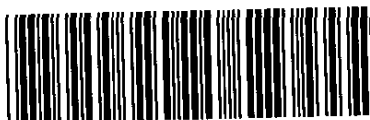
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Bodycote America Treasury Limited 7016167

See page 142.

annual report 2019

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Visit [www.bodycote.com/investors](http://www.bodycote.com/investors) for further information

In preparing this Strategic report, the directors have complied with s414C of the Companies Act 2006

This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Bodycote plc and its subsidiary undertakings when viewed as a whole.

# Understanding Bodycote

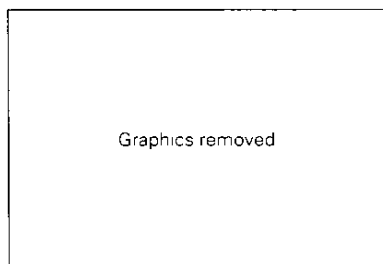
Bodycote is the world's leading provider of thermal processing services. As the supplier of choice for many of the world's most respected manufacturing companies, our purpose is to provide a vital link in the manufacturing process that makes the products our customers manufacture fit for purpose.

From Classical Heat Treatment to Specialist Technologies, we create value for our customers across aerospace, defence, energy, automotive and general industrial markets.

Our unique business model, expertise, and global infrastructure mean we can adapt to our many customers' needs and continue to deliver long-term success for our shareholders and other stakeholders.

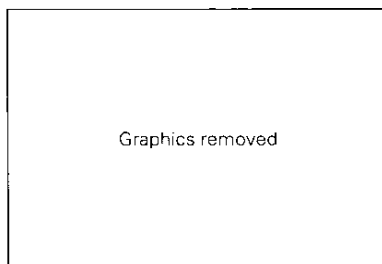


## Performance driven by our core values



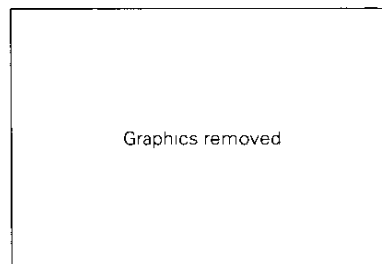
### Honesty and Transparency

We are honest and act with integrity. This is not something we take for granted. Bodycote lives by a culture of honest and transparent behaviour, which is at the core of all our business relationships.



### Respect and Responsibility

We manage our business with respect, applying an ethical approach to our dealings with those we interact with. We believe in taking ownership, and being mindful of the impact of our actions.



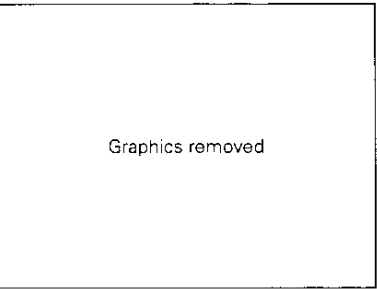
### Creating Value

Creating value is the very essence of our business and needs to be the focus of our endeavours. We create value for our customers, our employees and our shareholders.

# Understanding Bodycote

## Our markets and technologies

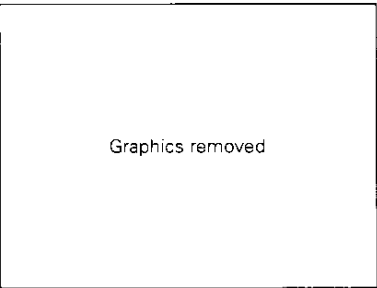
We provide expertise across both classical heat treatment and specialist thermal processes, with a focus on four core markets.



### Aerospace and Defence

Largely focused on civil aerospace, we primarily treat engine, landing gear and airframe components to improve performance. Bodycote operates an international network of quality accredited facilities, in support of prime aerospace manufacturers and their supply chains.

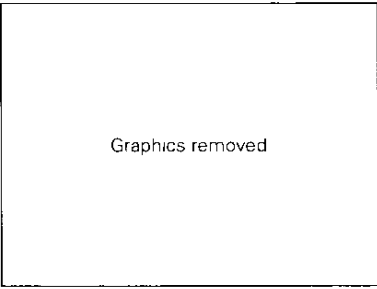
Our services provide thermal processing solutions across a wide range of applications which include general aviation, commercial, business and military aircraft



### Energy

Extending the life of products used in the onshore, offshore and subsea, oil & gas industry around the world. Using industry leading thermal processing we are able to extend the life of industrial gas turbines, power generation, and oil & gas

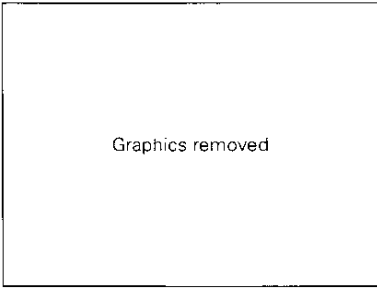
components by reducing the wear caused to them through abrasion, erosion and corrosion thus helping to reduce downtime.



### Automotive

Focused on the car and light truck market, heat treatment delivers greater strength and durability for key components.

Bodycote has developed strategic partnerships with major automotive original equipment manufacturers (OEMs) and their supply chains by offering comprehensive thermal processing support on a global basis.

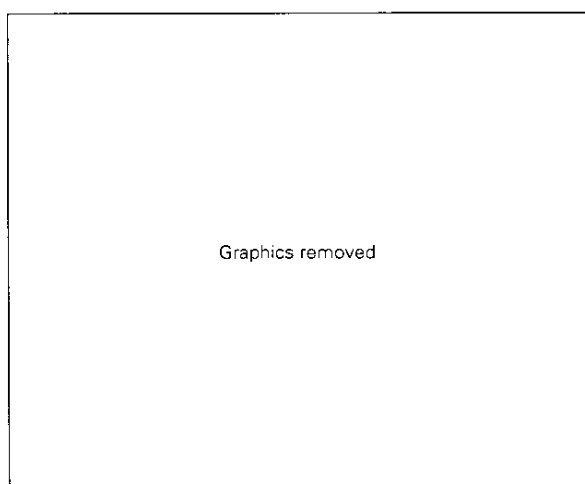


### General Industrial

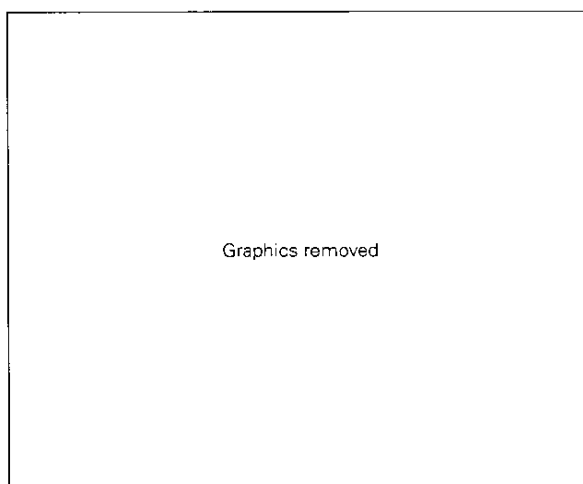
We serve a very broad range of customers across our general industrial facilities. These customers range from industrial machinery to tooling, construction, electronics and medical equipment. The general industrial business serves a cross section of industry segments.

Our success in this market is due to the breadth of processes available within Bodycote and extensive technical resources on hand, allowing for the development of cost effective solutions for our customers.

Bodycote's purpose is to support our customers in producing superior components. Our thermal processing services encompass a variety of techniques and specialist processes which improve the properties of metals and alloys and extend the life of components. Bodycote addresses the markets we serve with our superior levels of service and unmatched ability to satisfy customers' needs.



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## Classical Heat Treatment

Classical Heat Treatment is the process of controlled heating and cooling of metals in order to obtain the desired mechanical, chemical and metallurgical properties during the manufacturing of a product.

Classical Heat Treatment is an indispensable set of processes within the manufacturing chain of most of the products used in daily life. By providing wear resistance, strength or toughness, depending on the application, the components we treat last longer and reduce downtime for the products our customers manufacture. Surface hardness can be controlled by diffusing elements such as carbon and nitrogen into the metal during the heating stages of the process. The heat treatment of products impacts lives every day, whether it be the seat belt buckle to ensure that it keeps the passenger safe during an accident or a turbine blade bringing power to your neighbourhood.

Product life is extended by accurately treating products.

Classical Heat Treatment is carried out in precisely controlled industrial furnaces which can heat up to temperatures above 1000°C and use quenchants like oil, water or nitrogen gas to cool the heated material.

During the process, the microstructure of the metal transforms into a different structure which results in hardening or softening of the material depending on the process. Engineers can design thinner, lighter but stronger components with the help of Classical Heat Treatment.

## Specialist Technologies

A selection of highly differentiated, early-stage processes with high margins, large market opportunity and good growth prospects. Bodycote is either the clear market leader or one of the top players among few competitors.

### Hot Isostatic Pressing (HIP) Services

Improves component integrity and strength by application of extreme pressure and heat.

### HIP PF Inc. Powdermet®

Additive manufacturing of often complex components by combining with HIP.

### Specialty Stainless Steel (S<sup>2</sup>P) Processes

Improves the strength, hardness and wear resistance of stainless steels. Standard heat treatments negatively impact corrosion resistance of stainless steel, but our proprietary S<sup>2</sup>P can provide the hardened properties while maintaining corrosion resistance.

### Surface Technology

Enhances component life using ceramic and metal coatings.

### Low Pressure Carburising (LPC)

Obtains a hardened surface and a tough core using a cleaner process under vacuum. Providing improved wear resistance and fatigue life with less distortion.

### Corr-I-Dur® (CiD)

Improves corrosion resistance and wear properties without the use of chrome.

## Understanding Bodycote

### Our global network

Delivering quality through our international network of facilities.

As the only global provider of subcontract thermal processing services, Bodycote is able to offer significant advantages to its customers. Through an international network of facilities, Bodycote can effectively utilise a wealth of knowledge, experience and specialist expertise to deliver quality service when and where it is needed.

The network operates from more than 185 facilities, with customers able to benefit from Bodycote's comprehensive range of services across multiple locations. Customers know that if their business expands, Bodycote will have the capability to meet their needs. They recognise that if they were to broaden their manufacturing footprint, Bodycote would be able to assist them. They are aware that they can obtain the same process to the same quality standards from multiple locations.

Such a large network brings economies of scale, with technology developed at

one location being available globally if the market requires it. Similarly, network utilisation is enhanced by using logistics to put customers' work into the most effective facility to meet their requirements. Moreover, the network allows Bodycote to specialise in fewer technologies per location, reducing complexity and increasing the efficiency of our operations.

The Bodycote network has a wealth of technical accreditations, some industry or customer specific, others more general. Individual operations concentrate on the accreditations suited to their market.

**>40,000**  
customers

**>185**  
facilities

**5,373<sup>1</sup>**  
employees

**23**  
countries

1 at year-end 2019

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## Western Europe

Bodycote operates more than 100 facilities in Western Europe and is the number one provider of thermal processing services, with by far the largest network and comprehensive service offering.

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## North America

Bodycote is the largest provider of thermal processing services in North America by a significant margin, with a comprehensive network coverage. This network offers more than 55 facilities convenient to customers in all areas where manufacturing and technical industries are concentrated.

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## Emerging markets

Bodycote has more than 25 facilities in emerging markets covering Eastern Europe, China and Mexico. Bodycote is the number one thermal processing provider in Eastern Europe and is the leading Western provider in China.

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Strategic priority  
**Investing in emerging markets**



Read more about our  
Strategic priorities **page 12**

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Governance

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Additional information

Strategic report

# Understanding Bodycote

## Highlights

### Financial highlights

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<sup>1</sup> Prior years restated for IFRS 16 Leases



## Financial highlights

	2019	Restated <sup>1</sup> 2018
Revenue	<b>£719.7m</b>	£728.6m
Headline operating profit <sup>2</sup>	<b>£134.9m</b>	£140.7m
Return on sales <sup>2</sup>	<b>18.7%</b>	19.3%
Headline profit before taxation <sup>2</sup>	<b>£130.2m</b>	£136.4m
Free cash flow <sup>2</sup>	<b>£123.1m</b>	£133.8m
Basic headline earnings per share <sup>2,3</sup>	<b>52.1p</b>	55.9p
Ordinary dividend per share	<b>20.0p</b>	19.0p
Special dividend per share	–	20.0p
Return on capital employed <sup>2</sup>	<b>17.7%</b>	18.9%

## Statutory results

	2019	Restated <sup>1</sup> 2018
Operating profit	<b>£128.6m</b>	£136.5m
Profit before taxation	<b>£123.9m</b>	£132.2m
Basic earnings per share	<b>49.4p</b>	54.2p

## Operational highlights<sup>2</sup>

- Resilient margin of 18.7% despite some tough market conditions – significant action taken to reduce costs
- Civil aviation revenues up 17%
- Specialist Technologies revenues up 3%, continuing to outperform Classical Heat Treatment (-4%)
- Emerging markets growth of 5%
- Healthy free cash flow conversion of 91%
- £61m expansionary investment in strategic growth areas in 2019
- £154m acquisition of Ellison Surface Technologies strengthens aerospace business and Specialist Technologies; expected to complete Q1
- Full year ordinary dividend 20.0p, up 5%

1 The Group adopted IFRS 16 Leases which is effective from 1st January 2019 using the full retrospective approach. Consequently, prior periods have been restated to reflect IFRS 16 implementation. Further details are disclosed in notes 12 and 31 of the consolidated financial statements.

2 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 1 to the financial statements on page 98 for a reconciliation to the IFRS equivalent.

3 A detailed EPS reconciliation is provided in note 8 on page 108.

## Chair's statement

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The enthusiasm and knowledge of Bodycote employees continues to impress, and is critical to the successful application of the Group's strategy and, in turn, the creation of shareholder value.

**A. C. Quinn CBE**  
Chair

### Overview

Bodycote experienced some significant headwinds in a number of key markets in 2019. I am pleased to report that despite this demanding backdrop the Group made solid progress throughout the year, with management continuing to execute on strategy and at the same time delivering a resilient performance

### Dividend

The Board is proposing a final dividend of 14.0p, an increase of 5%, which will be paid on 5 June 2020, subject to shareholder approval at the 2020 Annual General Meeting (AGM). This brings the total ordinary dividend for 2019 to 20.0p (2018: 19.0p) costing £26.6m and representing a year-on-year increase of 5.3%. This increase in dividend underscores the Board's view of the Group's future earnings and cash flow potential.

### Board and governance

The Board is mindful of its obligations under the corporate governance code and, following the changes in 2018, we have continued to embed the activities required to address these obligations throughout the year.

One of my key roles as Chair is to ensure that the Board members possess a range of complementary skills which are relevant to Bodycote's business. Having now led the Bodycote Board for two years, I am confident that we have a well-balanced Board that is functioning effectively and fulfilling its important governance mission. By maintaining high standards of corporate governance, we are able to enhance business performance underpinned by our strategy and business model. The approach to governance is set by the Board and implemented by our Executive Committee. Effective and robust governance remains a strong pillar supporting the sustainable success of the Group.

### People

During the year, together with my Board colleagues, I have continued to engage with employees in the Group at all levels as we have toured a number of Bodycote locations. The enthusiasm and knowledge of Bodycote employees continues to impress, and is critical to the successful application of the Group's strategy and, in turn, the creation of shareholder value.

### Sustainability

Throughout the year, the Board continued to work with the operational leaders to ensure Bodycote is acting responsibly. We review reports on Safety, Health and Environment (SHE), risk, and employee issues. I am passionate about sustainability and happy to report the Group's culture continues to reflect positively in the areas of environment, social and governance. We are now reporting more broadly on our ESG actions so as to be transparent on the impact of our activities on shareholders, employees, the communities in which our employees work, on the environment and more particularly on climate change.

### Shareholders

Meetings with shareholders also took place throughout the year, with positive feedback. I look forward to continuing to engage with you during the coming year and to seeing many of you at this year's AGM in May 2020.

### Summary

2019 has been a challenging year in some ways, with a number of the Group's key market sectors experiencing tough conditions. Nonetheless, the resilient Group performance has served to validate the strategy and reinforce the business model.

The acquisition of Ellison Surface Technologies offers an exciting acceleration to the Group's growing aerospace business.

**A.C. Quinn CBE**  
Chair  
12 March 2020

# Chief Executive's review

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I am pleased to report that Bodycote, once again, demonstrated the ability to withstand adverse market conditions and deliver a resilient performance. We achieved notable revenue growth across all of our key strategic priority areas.

**S. C. Harris**  
Group Chief Executive

## Overview

I am pleased to report that Bodycote, once again, demonstrated the ability to withstand adverse market conditions and deliver a resilient performance. This is testament to the success of the reshaping of the Group that has occurred over the years and the significant effort of our leadership teams and our employees.

Bodycote revenues declined 1.2% to £719.7m in 2019 compared with 2018, or 2.0% at constant currency.

Notwithstanding this decline, return on sales reduced only slightly to 18.7% (2018: 19.3%). This resilient margin performance was achieved in spite of challenging market conditions and inflationary pressures in labour and utility costs. These pressures were mitigated through good cost control while at the same time maintaining or improving our levels of customer service. Headline operating profit decreased 4% to £134.9m (2018: £140.7m), while statutory operating profit fell 6% to £128.6m.

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

## Market sectors

Investment in Civil Aerospace secular growth has been a strategic priority for the Group for nearly a decade. The Aerospace & Defence revenues of £197m represent a 14% growth on the prior year. This growth is well above the background secular growth of the aerospace and defence markets which is driven both by new platform introductions (offset to some degree by retirements), as well as the growing size of the global aircraft fleet and the replacement parts streams that result. Bodycote not only processes the original equipment parts but also those same parts in the replacement part market. The strong growth that the business is enjoying derives from a large percentage of the OEM replacement part market as well as the revenue boost from the stronger content that Bodycote has on a number of the new engine platforms, particularly LEAP. A further factor is the market share gains that are being won as the primes shake out the supply chains after overbuilding them in the initial ramp up of production of the new platforms. The superior growth of the Aerospace and Defence business has increased its proportion of total Group revenues to 28% in the second half, overtaking the size of the automotive revenue weighting.

Automotive revenues declined 8% to £201m. Our largest automotive market is currently in Western Europe, where revenues declined 12%. While this was partly due to strong comparatives as European manufacturers accelerated deliveries in late 2018 ahead of the introduction of the Worldwide Harmonised Light Vehicles Test Procedure (WLTP) regulations, it also reflects the multi-year declines in output of the automotive OEMs in Western Europe. Car and light truck production in Germany, for example, declined by 8% in 2019 following a 9% decline in 2018.

General Industrial revenues declined 7% to £260m, including disposals and closures. On a like-for-like basis the decline was 4%, which is very much in line with the weakening trend we have seen since Q4 2018. This decline was broad based and not concentrated in any one sub sector or geography. It is apparent that customers have been delaying capital investments and have been destocking, which is in keeping with the global uncertainty surrounding macroeconomic growth and trade tensions that prevailed in 2019.

The Energy sector now only represents some 9% of Bodycote's business. Within this oil & gas revenues grew strongly in the subsea segment. However, this was offset by weakness in North American onshore oil & gas business (which is primarily driven by Permian Basin activity). The issues relating to lost market share referred to in the first half announcement no longer featured strongly in the second half comparatives. Industrial Gas Turbine (IGT) revenues continued to decline so that, in aggregate, Energy revenues were 2% lower for the year at £62m.

## Specialist Technologies

Bodycote has for many years invested in "Specialist Technologies" across its divisions (a description of these can be found on page 3). In 2019 the revenues from these Specialist Technologies grew 3%, some 7% ahead of the Classical Heat Treatment technologies. This growth differential has been similar or higher for a number of years. We believe that this level of differential growth is sustainable and a more appropriate way to assess the performance of our Specialist Technologies business in challenging market conditions. As and when market conditions improve we remain confident that Specialist Technologies growth is capable of stepping up again in absolute terms. HIP Services performed well in civil aerospace, while Powdermet® grew solidly in subsea applications. Exciting prospects for Powdermet® in aerospace

## Strategic report

# Chief Executive's review continued

started to contribute to revenue growth in the second half and our Surface Technology aerospace business achieved good growth

LPC was adversely affected by the cancellation of an automotive programme in Western Europe that had been destined for the Chinese market. In addition, a major S3P contract came to an end due to a product change by a significant customer. The rest of the S3P business continues to grow well.

### Emerging markets

Investment in Emerging Markets is another of our strategic priorities. Our growing presence in emerging markets is concentrated in the automotive sector, with plants in Eastern Europe, China and Mexico. It is notable, and probably unsurprising, that most incoming requests for proposal for electric vehicles are for future production in these territories. This reflects not only the growing importance of EVs in China but also the realisation by Western OEMs that the new technology supply chains need to be in low-cost countries if they are to compete. Emerging Markets revenues grew 5% during the period, a lower growth than achieved in previous years. The lower growth mainly reflects Eastern Europe weakness where German manufacturers favoured their domestic production facilities which are less easily flexed. Mexico revenues also eased, as the GM strike in the US in September impacted on our business there. China recovered its growth pace after a more subdued first half, recording second half revenue growth of 15%.

### Investment in growth

In 2019 we increased the pace of our investment to support future growth, spending a total of £61m (including acquired lease liabilities). We invested £29m in acquiring two bolt-on businesses, one in Scandinavia focused on mining, the other expanding Bodycote's emerging markets presence into Slovakia. Both fit well into our network of existing facilities.

The £32m balance of our investment in growth was partly on greenfield facilities, and partly on adding additional capacity to the established network where the demand is strong.

Our new facility in the Czech Republic went into operation in the first half and the new facility in Hungary will become operational in 2020. We are also well advanced with the new facilities in Illinois and upstate New York (USA).

Additional HIP capacity in Europe came on stream during the year and additional HIP capacity in North America will become operational during 2020.

### Profits and earnings

We continued to experience input cost inflation in a number of markets, with pressure coming from wage increases, as well as higher utility costs. Price increases and active management of costs once again enabled us to cover the impact of the cost increases.

Overall volumes declined, while the performance across our served markets was mixed. Significant increases in certain sectors, such as aerospace, were more than offset by declines in other sectors, including the Western European automotive market and general industrial revenues in developed markets, in particular. Nonetheless, the 18.7% return on sales achieved in the period represents a resilient performance in light of the challenges that the business has faced, assisted by lower variable pay compensation in the year. The ability to quickly adapt and adjust its cost base as business conditions change remains critical to protecting the Group's margins.

At 23.8%, the Group's headline tax rate is in line with guidance given to the market during the year, but higher than last year's rate (2018: 21.7%). As a result, basic headline earnings per share were 52.1p (2018: 55.9p). Basic earnings per share were 49.4p (2018: 54.2p).

### Strategic progress

Bodycote's strategy is to focus investment to drive long-term profitable growth. The priorities are markets with long-term structural growth such as civil aerospace, capability and capacity enhancement in Specialist Technologies, expansion of the Group's footprint in rapid growth Emerging Markets and targeted acquisitions.

The Group has a minimum 20% (pre tax) hurdle rate return when appraising investments.

A further element of Bodycote's strategy is the drive for operational efficiency and a focus on business that can achieve strong return on sales and good return on capital employed.

In overall terms 2019 was a challenging year, with revenues, margin and return on capital all easing slightly, the latter reducing to 17.7% from 18.9% in 2018.

Nonetheless, we achieved notable revenue growth across all of our key strategic priority areas, 17% in civil aerospace, 5% in emerging markets, and 3% in Specialist Technologies. Our investment programme for the future continued unabated.

In late December we signed an agreement to acquire Ellison Surface Technologies, a significant enhancement to the Group's existing Surface Technology business, creating one of the world's largest providers of thermal spray and engineered coating surface technology services to the aerospace industry.

Together with the £61m of investment described above, this brings total investment committed during the year to over £200m, roughly equivalent to the total spent on acquisitions and expansionary capital expenditure over the prior four years together.

This investment reflects the excitement we have for growth prospects in the selected segments of our business.

## Restructuring

The macroeconomic uncertainties that held back some of our market sectors in 2019 still persist as we enter 2020. Moreover, while it is clear that we are at a weaker point in the business cycle, it has become evident that there are also some long term structural changes underway in the car & light truck markets. This is particularly the case in Western Europe. We believe that it is unlikely that the Western European car & light truck supply chains will recover to the same position and profile as before.

The combination of the macroeconomic uncertainties and longer term structural shifts will require some consolidation of Bodycote's facilities.

As a result, we will be implementing a restructuring plan through 2020. The principal focus of the plan is on our Classical Heat Treatment activities in Western Europe, with particular emphasis on reducing exposure to the internal combustion engine. At the same time, we will continue to increase our exposure to the new car and light truck supply chains that are being set up in the Emerging Markets with a focus on supporting electric vehicle production. We anticipate a P&L charge for this restructuring of c.£30m, approximately half which will be cash cost. The payback on the cash cost is expected to be c.2.5 years.

## Organisation and people

Bodycote is a service business, and our first-class service is delivered by committed individuals, who understand their customers' needs and meet their demanding and changing requirements on a continual basis. Our people are the cornerstone of the business and it is through their efforts, day in and day out, that we create value and deliver on our objectives.

## Summary and Outlook

Bodycote delivered a robust performance in 2019, achieving a resilient operating margin despite challenging market conditions.

2020 has started with a number of challenges, notably Covid-19, and ongoing international trade tensions.

The potential impact of the Covid-19 health crisis is difficult to assess at this time. However, Bodycote has a proven track record of margin enhancement through cost management and improving the mix of business and we will continue to manage the cost base in response to market conditions whilst investing in our strategic growth areas of Aerospace, Specialist Technologies and Emerging Markets.

### S.C. Harris

Group Chief Executive  
12 March 2020

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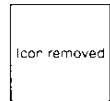
<sup>1</sup> Return on capital employed here excludes the impact on headline operating profit and capital employed from IFRS 16. Leases

# Strategy and objectives

Bodycote’s objective is to create superior shareholder returns through the provision of selected thermal processing services that are highly valued by our customers, giving full regard to a safe working environment for our employees and with the minimal environmental impact.

Strategic priorities

Objectives



**Safety and Environment**

At the foundation of our business is the provision of a safe working environment for our employees, and to operate with minimal environmental impact.



**Driving operational improvement**

Continuous improvement of business processes and systems which make us more efficient and responsive.



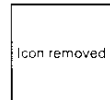
**Capitalising on and investing in our Specialist Technologies**

Delivering unique solutions that provide customers with innovative, high value-added products to meet the changing needs within component manufacturing.



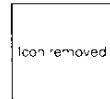
**Investing in emerging markets**

Expanding with our customers in rapid growth countries with an emphasis on Eastern Europe, Mexico and China.



**Investing in structural growth opportunities**

We invest in markets with long-term structural opportunities such as the civil aerospace market.



**Acquisitions**

Adding bolt-on acquisitions to improve our plant network in Classical Heat Treatment, and investing in larger acquisitions and adjacent technologies to grow Specialist Technologies.

In addition to the strategic icons above we also link our markets and values via the following icons throughout the report.

Core markets



Aerospace and Defence



Energy



Automotive



General Industrial

Core values



Honesty and Transparency,  
Respect and Responsibility,  
Creating Value

# Our business model

## Our business model is built around the priorities: being the supplier of choice and delivering operational excellence to our customers.

By continuing to meet our customers' needs and investing in our global network, we are strategically placed to deliver successful solutions.

### Provider of essential services to our customers

Icon removed

Bodycote's global network of engineers and metallurgists supports our customers to determine a suitable thermal processing solution for their designs and products. By working together with the customer in the early planning phases of their product development, we can help designers specify cleaner thermal processing technologies that improve product development through enhanced life expectancy, reduced downtime, and waste.

To deliver on our purpose and priorities, it is vital that we collaborate with our customers to solve their complex challenges and help improve their product performance and enhance their operational efficiencies. Our services simplify the production for our customers by expertly addressing their Classical Heat Treatment needs or providing unmatched support and know-how from one of our Specialist Technologies.

### The global leader

#### Customer focus

- Bodycote is focused on continual improvement of our quality of service and takes an active role in finding solutions to technical issues and promoting mutual business development with our customers
- Bodycote seeks to secure service-specific arrangements with our customers which provide protection from supply disruption by leveraging Bodycote's unique facility network.

#### Global network

- Bodycote's global network of more than 185 market-focused facilities (see pages 4 and 5) in 23 countries brings economies of scale, particularly by using logistics to improve equipment utilisation. This makes Bodycote's processing inherently more efficient than customers' in-house operations (see page 35) and competitors, thereby enhancing our competitive position in the subcontract market.
- Bodycote's local networks of facilities allow specialisation of one or a few technologies per location, reducing complexity and, thereby increasing efficiency
- The capital intensive nature of Bodycote's business also provides significant barriers to entry. The scope of Bodycote's network enables us to specialise more effectively than competitors at individual locations and provides comprehensive backup for our customers.

#### Transferable know-how

- The global Bodycote network provides unique opportunities for the transfer of knowledge and skills, and the transfer of technology.
- With some of the best metallurgists, engineers and technicians in the industry, Bodycote is ideally placed to provide solutions for customers, whatever their market or wherever in the world they may be.
- Bodycote's scale enables continuous yet focused investment, both in the latest processes and in the most efficient and environmentally friendly equipment

### The supplier of choice

Icon removed

#### Service

- Bodycote has become the supplier of choice for many of the world's most respected and innovative engineering companies by providing highly efficient, cost-effective services to the highest quality standards through strategic investment in people and the latest technology, equipment and quality systems.

#### Quality

- Bodycote's quality management systems, validated by major engineering OEMs, have been developed to meet the requirements of international and national accrediting bodies. Bodycote facilities hold industry and customer approvals appropriate to the services they offer and the markets they serve.

#### Expertise

- Bodycote's extensive facilities and expertise mean that projects can extend beyond customers' in-house capabilities, combining identification and provision of technical solutions which address in-service specification and deliver value-adding material properties.
- Our own enhancements and improvement of standard processes have led to Bodycote offering a range of proprietary processes which far outperform their standard counterparts

### Creating value

Icon removed

#### For customers

- Value-adding services
- Global supplier which can meet multiple processing needs
- Access to entire Bodycote knowledge base and expertise
- Cost and environmental benefits versus in-house operations

#### For Bodycote

- Mutually beneficial customer relationships
- Wide customer base means Bodycote is not reliant on any one customer
- Ideally positioned to promote growth in emerging markets and selected technologies
- Clearly focused strategy

#### For investors

- Financially stable and sustainable business
- Good growth drivers
- Superior return on investment
- Strong margins and cash flows

Strategic report

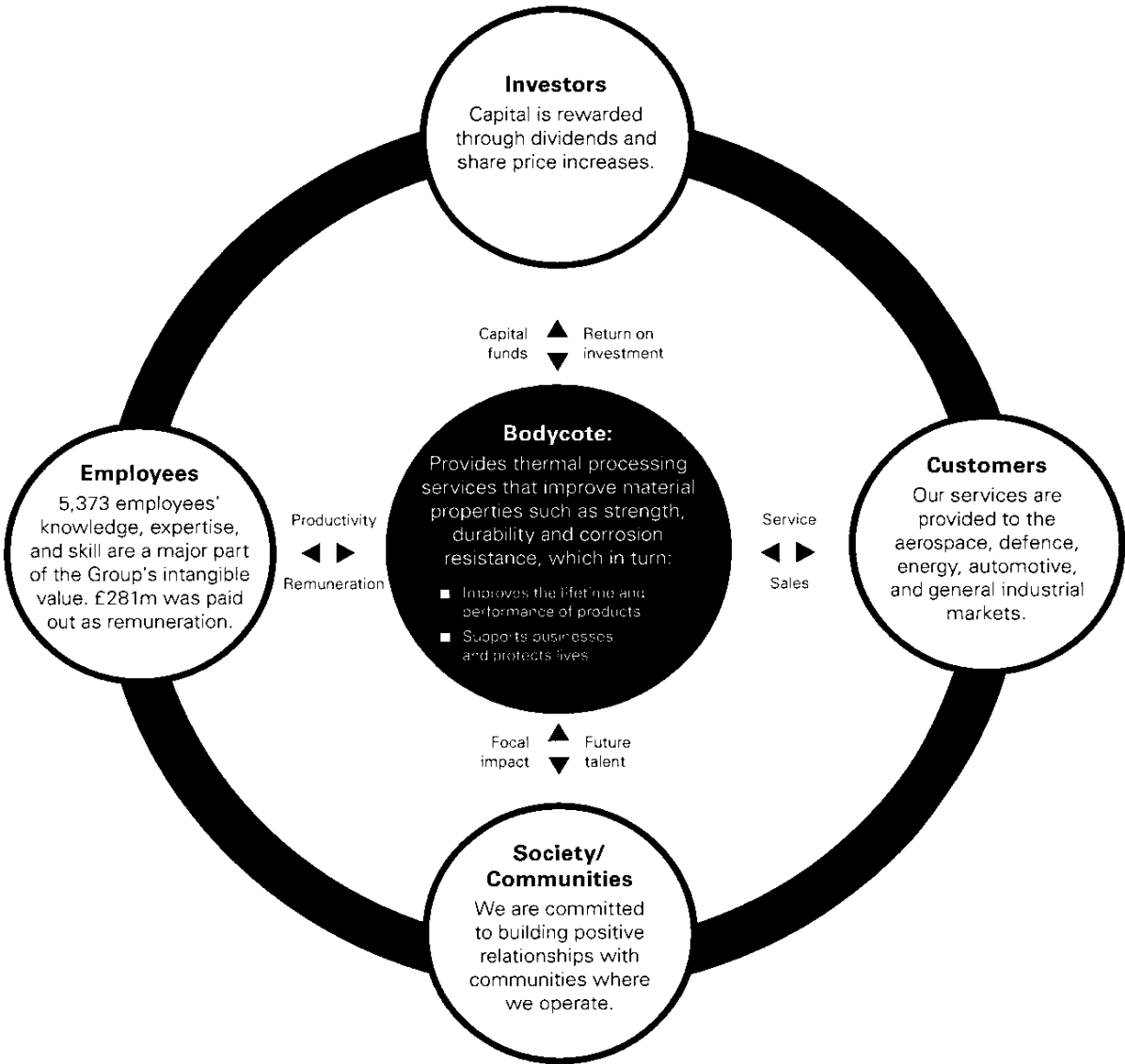
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# Our stakeholders

Bodycote’s stakeholder model shows how its interactions on various levels contribute towards socioeconomic growth and development. These exchanges, based on mutually beneficial relationships, provide the basis for the Group’s growth and sustainability, which in return provides benefits to employees, investors, customers and society/communities.





## Compliance with Directors' duties

We set out in the table below our main stakeholder groups, how and why we have engaged with them, and their key interests. Each stakeholder group requires a tailored engagement approach to foster effective and mutually beneficial relationships.

By understanding our stakeholders, we can factor into boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns.

Interests of our stakeholders are considered by the Board through a combination of the following: the Group Chief Executive reports on safety, health and environmental (SHE), people matters, and customers at Board meetings. The NED responsible for employee engagement provides feedback to the Board regularly throughout the year. Investor feedback is received by the Board at least twice a year from our brokers and corporate PR adviser. An annual presentation on SHE matters as well as updates on modern slavery and climate change/sustainability developments are provided. The Board takes into account environmental and social factors when deciding on acquisitions. An annual strategy review which considers the purpose and strategy supported by a budget for the following year and a three-year financial plan is undertaken.

### Investors

#### Engagement undertaken

- Annual report and accounts/AGM
- Corporate website, including investor relations section
- Results presentation and regular engagement with top shareholders
- Meetings throughout the year with existing and prospective shareholders, including investor roadshows in Europe and North America
- Press releases (incl. LSE announcements)
- Addressing regular analysts' enquiries
- Capital markets day

#### Reason for engagement

Continued access to capital is important to the long-term performance of our business. We work to ensure that our investors and analysts have a good understanding of our strategy and performance.

#### Stakeholders' key interests

- Financial performance and economic impact
- Governance and transparency
- Sustainability of performance

### Customers

#### Engagement undertaken

- Management of ongoing customer relationships
- Participation in industry forums/events
- Bodycote plc website 'www.bodycote.com' including the Annual and Interim Reports

#### Reason for engagement

Engaging with our customers helps us to understand their needs and identify opportunities and challenges. We collaborate with our customers to improve our customers' product characteristics and to develop a project pipeline.

#### Stakeholders' key interests

- Customer satisfaction
- Service performance, efficiency and quality
- Sustainable performance

### Employees

#### Engagement undertaken

- Annual individual performance reviews
- Employee engagement groups
- Internal intranet and communications
- Annual report and accounts
- SHE briefings and toolbox talks
- Twitter and LinkedIn communications

#### Reason for engagement

Employee engagement is vital for our success. We work to create a diverse and inclusive workplace where every employee can reach their full potential. We engage with our people to ensure we are delivering to their expectations and making the right business decisions. This ensures we can retain and develop the best talent.

#### Stakeholders' key interests

- Reputation
- Employee development/engagement
- Talent retention/career opportunities
- SHE performance
- Diversity and inclusion

### Society/Communities

#### Engagement undertaken

- Individual employee volunteering
- Corporate website

#### Reason for engagement

We are committed to building positive relationships with the communities where we operate.

#### Stakeholders' key interests

- Future talent pipeline
- Local operational impact
- Safety, health and environmental performance

## Measuring progress

Graph Removed

### Performance

Return on capital employed declined by 1.2 percentage points during the year, down from 18.9% to 17.7%.

### Definition

Headline operating profit as a percentage of the average of the opening and closing capital employed.

Capital employed is defined as net assets adjusted for net cash/(debt).

Graph Removed

### Performance

Headline earnings per share decreased by 3.8p (7%) from 55.9p to 52.1p.

### Definition

Headline earnings per share is defined in note 1 to the financial statements.

Graph Removed

### Performance

Return on sales declined by 0.6 percentage points during the year, from 19.3% to 18.7%. Headline operating profit decreased by 4% from £140.7m to £134.9m, while revenue decreased by 1.2% from £728.6m to £719.7m.

### Definition

Headline operating profit as a percentage of revenue.

Graph Removed

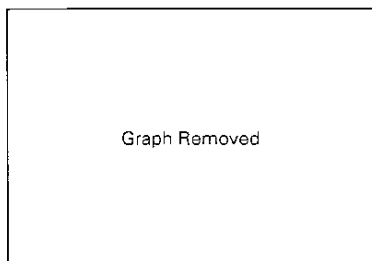
### Performance

Free cash flow for the Group was £123.1m (2018<sup>1</sup>: £133.8m). This was 115% of headline operating profit (2018<sup>1</sup>: 118%).

### Definition

Free cash flow is defined in note 1 to the financial statements.

<sup>1</sup> Prior years restated for IFRS 16 Leases

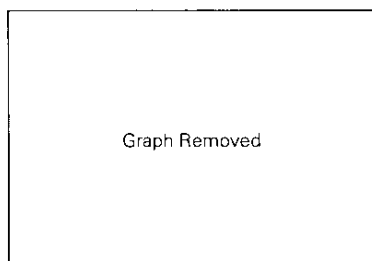


### Performance

Bodycote works tirelessly to improve safety and reduce workplace incidents and is committed to providing a safe environment for everyone who works at or visits our locations. The TRC rate increased to 2.8 this year (2018: 2.6). Further details are included in the Corporate Responsibility and Sustainability section on page 35.

### Definition

TRC is defined as the number of lost time incidents, restricted work cases and medical treatment cases x200,000 hours (approximately 100 man years), divided by the total number of employee hours worked.



### Performance

On a normalised basis, the carbon footprint decreased by 1.7% from 449.0 tonnes per £m sales to 441.2 tonnes per £m sales. Further details are included in the Corporate Responsibility and Sustainability section on page 36.

### Definition

Carbon footprint is defined as tonnes of CO<sub>2</sub> equivalent emissions divided by £m revenue. CO<sub>2</sub> equivalent emissions are calculated by taking electricity and gas usage in kilowatt hours and multiplying by country specific conversion factors provided by the International Energy Agency (IEA). Normalised emissions statistics restate prior year figures using current year country specific conversion (IEA) factors and current year average exchange rates.

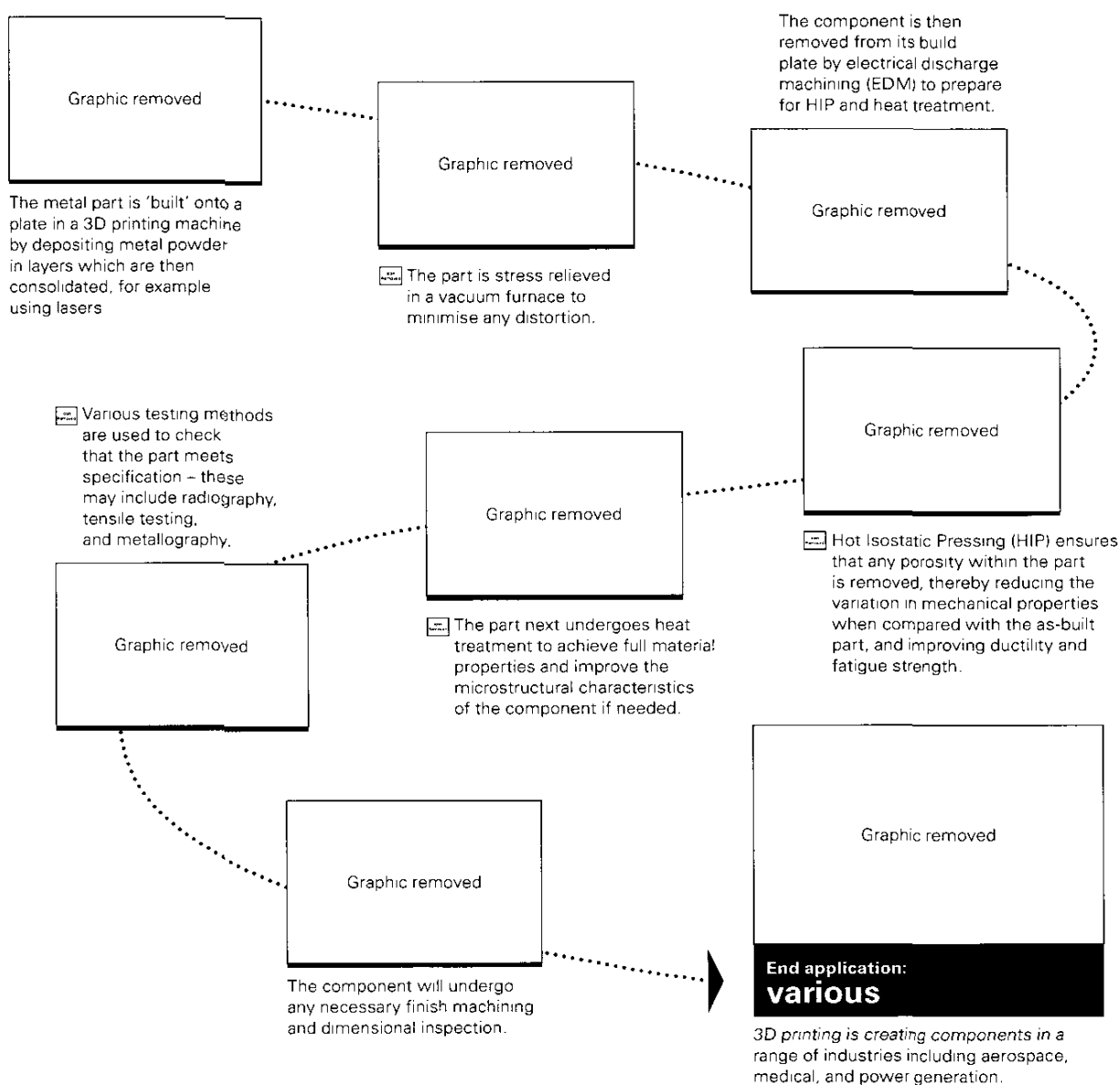
1. Normalised statistics restate prior year figures using current year IEA carbon conversion factors and current year average exchange rates

## Adding value

### 3D-Printed metal part

Almost all metal parts built by the additive manufacturing process require secondary treatments to make them suitable for their intended use.

Bodycote provides a complete post-manufacture service solution including hot isostatic pressing to remove micro-porosity and reduce the extent of segregation in the built structure, heat treatment to improve material properties, and associated quality assurance testing.



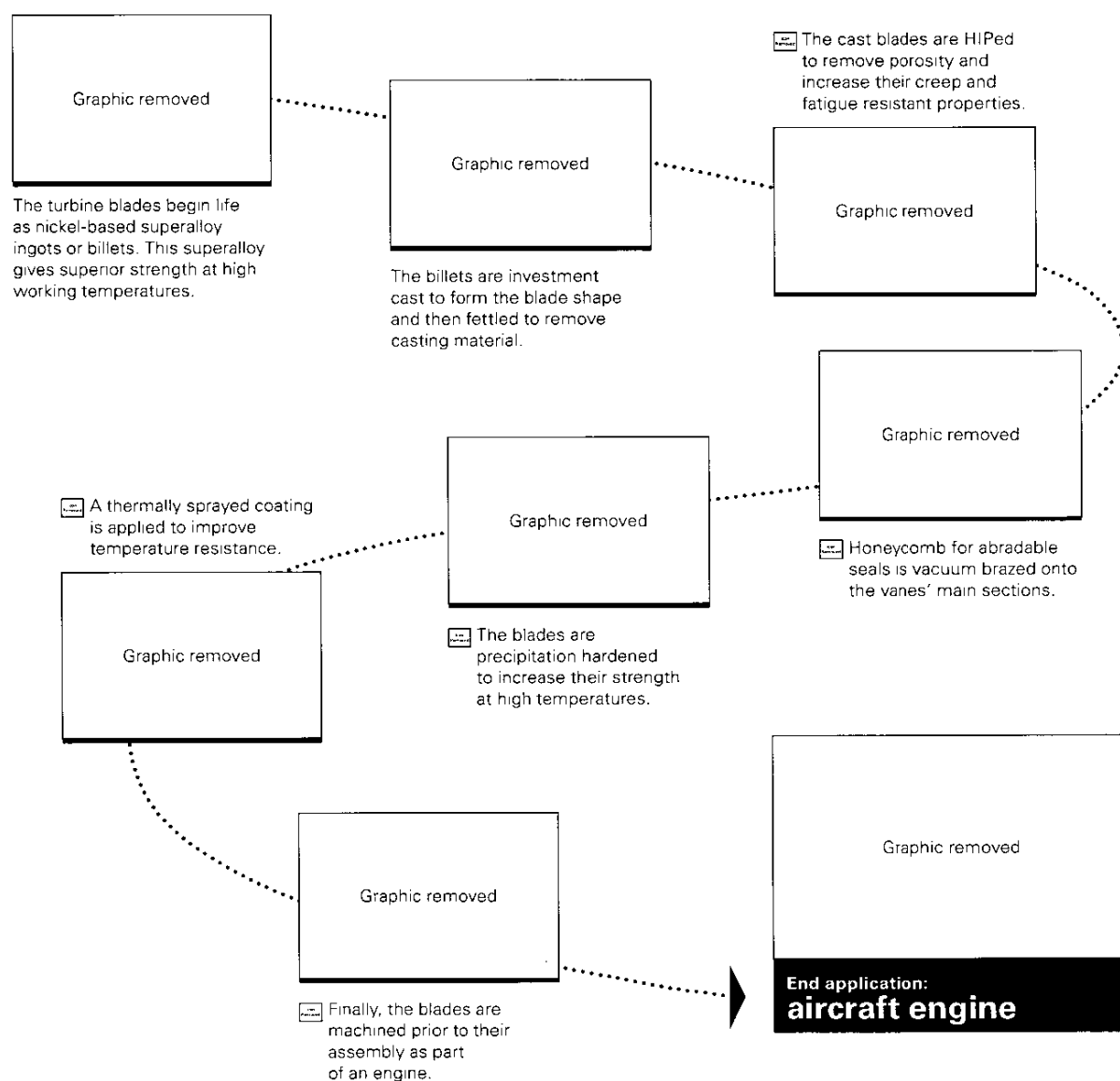
The Bodycote 'B' next to a component journey stage shows where Bodycote's vital services have been applied

# The power to deliver

## Aircraft turbine blades and vanes

Aircraft turbine blades and vanes must withstand extreme temperatures in operation.

These materials frequently operate at temperatures approaching their melting point – heat treatment, HIP and the use of surface technology allow these blades to operate reliably at these high temperatures for extended periods of time.



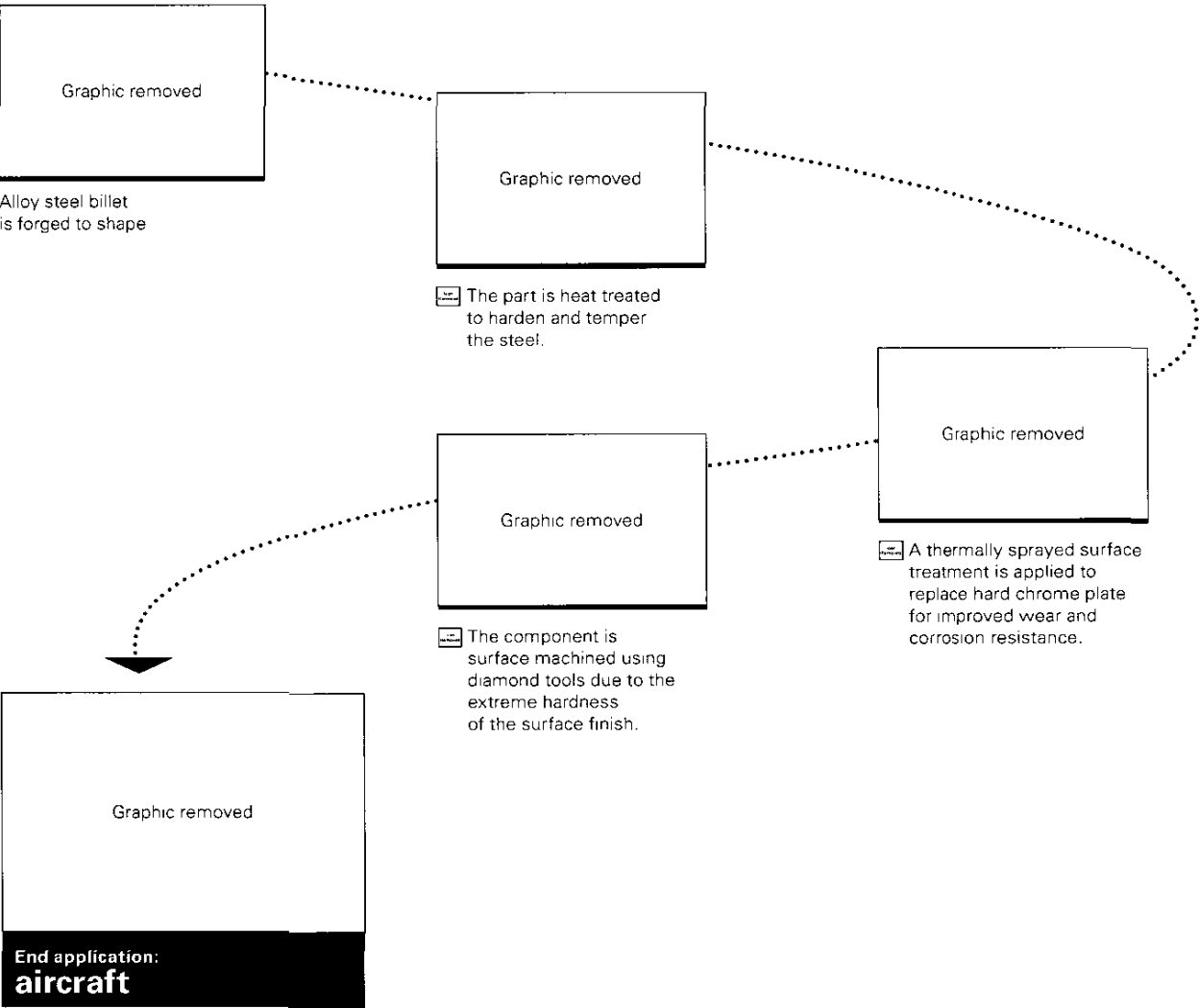
The Bodycote 'B' next to a component journey stage shows where Bodycote's vital services have been applied


# Touch down

## Aircraft landing gear

Safety critical landing gear must perform without fault every time the aircraft flies. A combination of thermal processing techniques is used to ensure the steel’s material properties are optimised and to protect it during its working life.

Traditionally, landing gear has been surface treated using hard chrome plate, but this is now being superseded by more environmentally friendly thermal spray processes, which provide extreme wear and corrosion resistance.



 The Bodycote 'B' next to a component journey stage shows where Bodycote's vital services have been applied

# The investment case

## Building on our strengths to create value for our shareholders

Bodycote is the leading provider of Classical Heat Treatment and Specialist Technologies, significantly advancing the performance of our customers' components. The focus of the management team is to deliver on the Group's strategy and promote operational excellence.

Bodycote is uniquely placed via our global network, servicing more than 40,000 customers across multiple market sectors, enabling us to reduce business volatility. With a wealth of experience, Bodycote's longevity, expertise and market leadership in key areas are recognised and valued by our customers, allowing us to develop strong long-term partnerships and deliver consistently healthy margins and returns.

Our strategy encompasses the following goals:

-  Investment in structural end-market growth opportunities across the Group i.e civil aerospace.
-  Aggressive growth of Specialist Technologies, benefiting from their superior margins and higher growth potential.
-  Investment in growth and localisation opportunities in emerging/high-growth markets with an emphasis on Eastern Europe, Mexico and China.
-  Investment in acquisitions/Greenfields and expanding existing facilities to support sustainable and profitable growth.

This strategy can successfully accommodate a wide variety of different market outcomes as a result of the operational focus on mix improvement and flexibility of the cost base, including the work force, thereby continually improving the quality of Bodycote's business.

As a result of the pursuit of the strategy, Bodycote delivers consistently healthy margins (2019 return on sales: 18.7%) and excellent free cash flow (2019 free cash flow: £123.1m). For shareholders, this resulted in more than £300m cash return via dividends over the past five years. In the past five years, we have also committed almost £400m of expansionary capital expenditure, much of which is still in the process of maturing and is not yet fully contributing to Group profitability and cash generation.

Bodycote's long-term strategy and core values bolster value creation.

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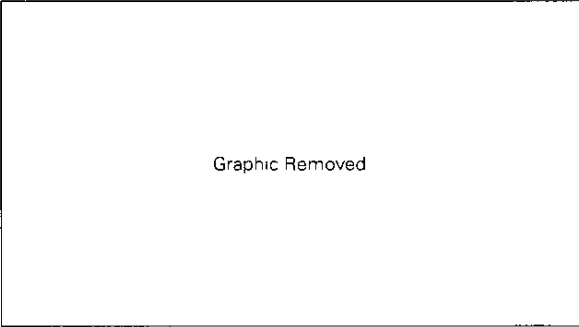
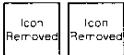
 Strategic priority:  
**Creating value**

# Business review

Bodycote has more than 185 facilities around the world which are organised into two customer-focused businesses: the ADE business and the AGI business.

Our ADE business focuses on aerospace, defence and energy customers, who tend to think and operate globally. Our AGI business focuses on automotive and general industrial customers. These include many multinational companies which tend to operate on a regionally-focused basis, as well as numerous medium-sized and smaller businesses, and all of which are important to Bodycote. Much of the AGI business is locally oriented. Strategically we have focused on building customer relationships to enable our participation in long-term programmes, in particular in the civil aviation market. Not only do we have a competitive advantage as a result of our scale and capabilities, but our global reach allows customers to work with us on multiple projects simultaneously, making us a valued business partner.

## The ADE Business



A large number of Bodycote’s global customers fall within our ADE business and Bodycote intends to continue to leverage its unique market position to increase revenues in the aerospace, defence and energy sectors.

Within ADE, we have more than 60 facilities around the world, including Hot Isostatic Pressing (HIP) and Surface Technology facilities, alongside our Classical Heat Treatment plants

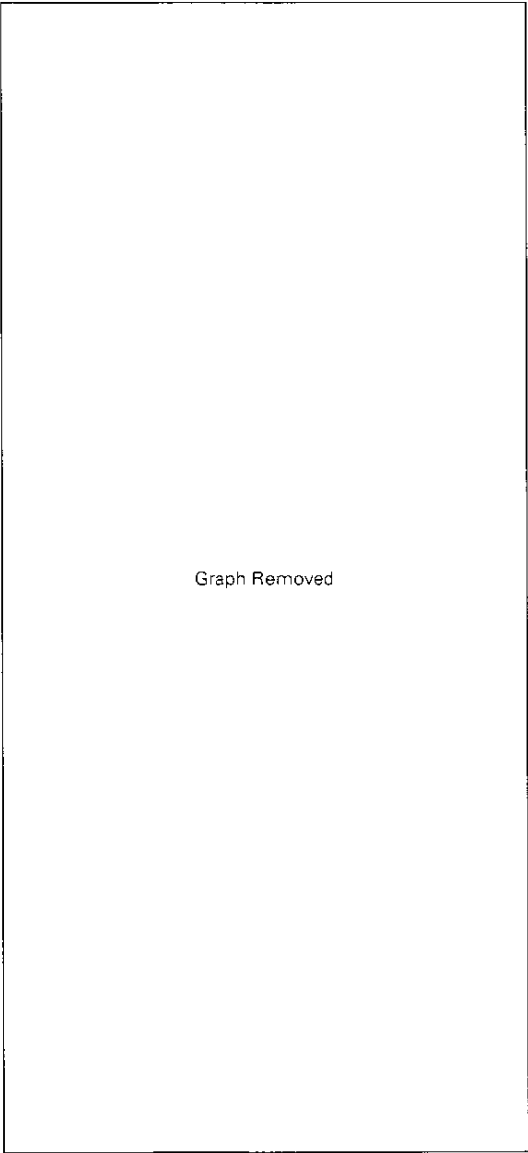
The following review reflects constant currency growth rates unless stated otherwise.

Revenue in 2019 was £301.4m, an increase of 3% (5% at actual rates). Civil aerospace revenues registered good growth, driven by growth in Bodycote’s after-market business. This was partially offset by lower energy revenues and lower general industrial revenues in the ADE business (while the focus of the ADE business is on aerospace, defence and energy customers, 19% of ADE revenues are derived from general industrial customers, where the market had been weak in 2019).

Headline operating profit was £75.8m (2018<sup>1</sup>: £69.4m), an increase of 7% (9% at actual rates). Consequently, return on sales improved to 25.1% (2018<sup>1</sup>: 24.1%) Statutory operating profit grew to £73.4m (2018<sup>1</sup>: £68.5m).

We spent £8.8m on expansionary capital expenditure, including investment in new HIP capacity in North America and Europe.

Return on capital employed increased to 24.2% (2018<sup>1</sup>: 22.3%), with improved profitability and continued careful management of the balance sheet.

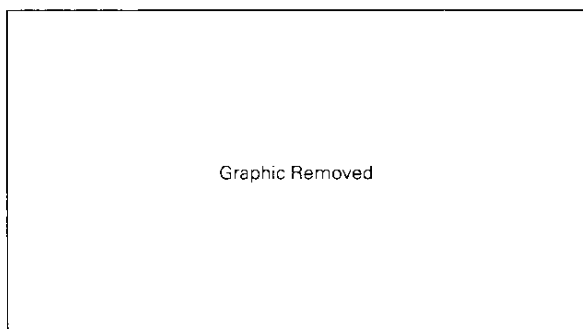
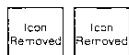


1 Restated 2018 for IFRS 16 Leases

This review reflects constant currency growth rates unless stated otherwise



## The AGI Business



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

Each of our AGI facilities works with their customers to respond with the expertise and appropriate service level required, no matter the size of the customer's demand.

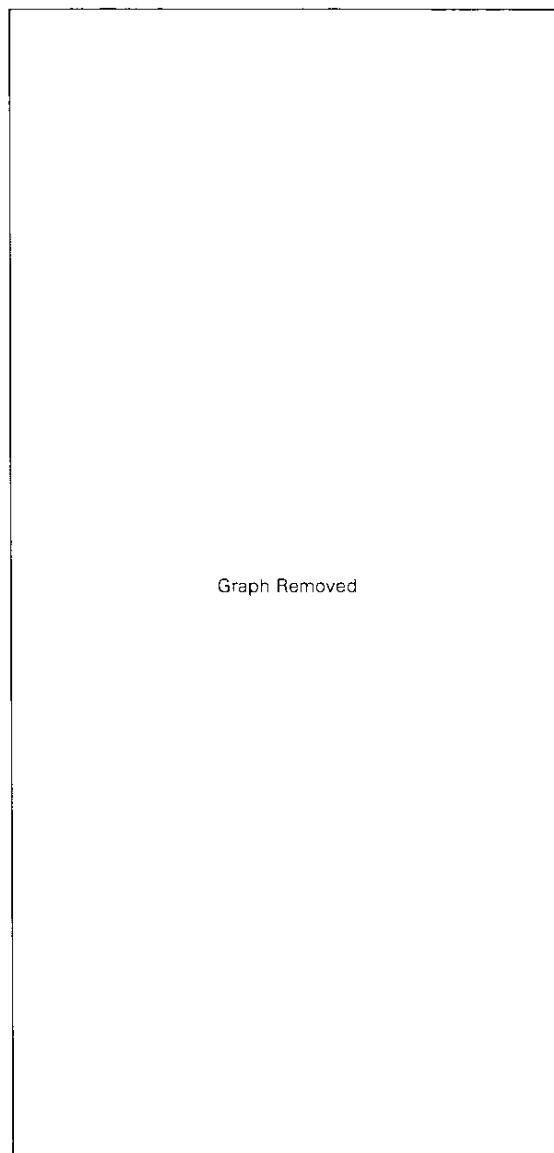
The following review reflects constant currency growth rates unless stated otherwise.

Revenue was £418.3m, a decline of 5% on the prior year (5% at actual rates). In automotive, again, the developed markets were weak, particularly in Western Europe. The significant majority of the Group's emerging markets business is in AGI and this registered growth, with a particularly pleasing 10% growth in revenues in China.

Headline operating profit was £65.9m (2018: £83.9m), representing a decline of 21% against the prior period (21% at actual rates). Return on sales correspondingly declined to 15.9% (2018: 19.0%), with the most significant drop in Western Europe where the revenue development was weakest. Statutory operating profit declined to £62.0m (2018<sup>1</sup>: £80.6m).

We spent £45.4m on acquisitions and expansionary capital expenditure. The two acquired plants were in Slovakia and Sweden, and fit well with our existing business. We opened a new plant in the Czech Republic and are investing in a new plant in Hungary and two new plants in North America, all of which should become operational in 2020.

Return on capital employed decreased to 13.8% (2018<sup>1</sup>: 18.6%), reflecting the lower profitability, as well as the continued investment behind acquisitions and expansionary investment projects described above, which typically take a number of years to reach full financial maturity and contribute fully to returns.



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<sup>1</sup> Restated 2018 for IFRS 16 Leases

## Strategic report

# Chief Financial Officer's report

Graphic removed

Headline operating cash conversion was 115% as the Group continues its track record of converting profit into cash.

**D. Yates**  
Chief Financial Officer

## Financial overview

	2019 £m	Restated 2018 £m
Revenue	719.7	728.6
Headline operating profit	134.9	140.7
Amortisation of acquired intangible assets	(4.6)	(3.7)
Acquisition costs	(1.7)	(0.5)
Operating profit	128.6	136.5
Net finance charges	(4.7)	(4.3)
Profit before taxation	123.9	132.2
Taxation	(29.9)	(28.6)
Profit for the year	94.0	103.6

Group revenue was £719.7m, representing a decline of 1.2% at actual exchange rates, and 2.0% at constant currency.

Headline operating profit for the year declined by 4% to £134.9m (2018: £140.7m), and return on sales was a healthy 18.7% (2018: 19.3%). Statutory operating profit declined 6% to £128.6m (2018: £136.5m).

## Finance charge

The net finance charge was £4.7m in the year compared with £4.3m in 2018, analysed in the table below. The reader will note the inclusion of a finance charge associated with right-of-use assets, which appears for the first time following the introduction of IFRS 16, and which has increased the Group's finance charge.

	2019 £m	Restated 2018 £m
Interest received on bank overdrafts and loans	0.2	0.2
Loan interest payable	0.3	0.1
Interest on lease liabilities	2.4	2.4
Financing and bank charges	1.9	1.8
Pension finance charge	0.3	0.2
Total finance charge	4.9	4.5
Net finance charge	4.7	4.3

As at 31 December 2019, the Group's £230m Revolving Credit Facility was totally undrawn and has a remaining life of 2.3 years.

## Profit before Taxation

	2019 £m	Restated 2018 £m
Headline profit before taxation	130.2	136.4
Amortisation of intangibles	(4.6)	(3.7)
Acquisition costs	(1.7)	(0.5)
Profit before taxation	123.9	132.2

Statutory profit before tax decreased to £123.9m (2018: £132.2m), while headline profit before tax decreased 5% to £130.2m (2018: £136.4m). Acquisition costs increased as we completed two acquisitions in the first half and worked on the successful offer for Ellison Surface Technologies, which we expect to complete soon.

## Tax

The headline tax rate for the Group was 23.8%, in line with guidance given to the market during the year. The increase compared with the 2018 rate of 21.7% results mainly from the restriction from 2019 onwards of certain benefits that we historically enjoyed on our financing arrangements into the US.

The effective statutory tax rate also increased to 24.1% from 21.7% in 2018. The Group's effective statutory tax rate is impacted by a certain level of tax risk related to jurisdictions in which the Group operates. Provisions of £15.3m are carried in respect of potential future additional tax assessments related to 'open' historic tax years. Reference is made in note 6 to the financial statements for more information.

During the year, the European Commission reached a decision that certain tax exemptions offered by the UK authorities constituted State Aid and, as such, will need to be recovered. The UK government has subsequently appealed against this decision. In the meantime, the UK tax authorities have indicated that they will be raising assessments on affected UK companies in line with the current judgement. To date, Bodycote has not had to make any payments, nor have we made any provision against this contingent liability. More details can be found in note 30 to the financial statements.

## Earnings per Share

Headline earnings per share fell 7% to 52.1p (2018: 55.9p) as a result of the lower headline operating profit and the higher headline tax rate. Basic earnings per share for the year fell to 49.4p (2018: 54.2p).

	2019 £m	Restated 2018 £m
Profit before taxation	123.9	132.2
Taxation	(29.9)	(28.6)
Profit for the year	94.0	103.6
Basic headline EPS	52.1	55.9
Basic EPS	49.4	54.2

## Return on Capital Employed

The introduction of IFRS 16 has resulted in changes to the balance sheet.

The key impact on the return on capital employed calculation is that leased assets now appear on the balance sheet as right-of-use assets, increasing capital employed. Taking these into account, return on capital employed (including right-of-use assets) fell in the year to 17.7% from 18.9% in 2018. The decline in the return reflects the reduction in profitability, as well as the continued investment behind acquisitions and expansionary investment projects, which typically take a number of years to reach full financial maturity and contribute fully to Group returns.

For completeness, we have also performed the calculations consistent with previous years, excluding the impact of IFRS 16 on the profit and loss account and balance sheet. This measure of return on capital employed fell in the year to 19.2% from 20.5% in 2018.

## Cash Flow

	2019		2018	
	Post IFRS 16 £m	Pre IFRS 16 £m	Post IFRS 16 £m	Pre IFRS 16 £m
<b>Headline operating profit</b>	<b>134.9</b>	<b>132.6</b>	140.7	138.3
Depreciation and amortisation	79.6	65.1	76.4	62.0
Impairment of PPE	–	–	1.8	1.8
Income from associates	(0.2)	(0.2)	–	–
Loss on disposal of business	–	–	0.6	0.6
Profit on disposal of PPE	(4.4)	(4.4)	(1.7)	(1.8)
<b>Headline EBITDA</b>	<b>209.9</b>	<b>193.1</b>	217.8	200.9
Net maintenance capital expenditure	(50.2)	(39.1)	(48.7)	(29.8)
Net working capital movement	(4.2)	(4.2)	(3.7)	(3.7)
<b>Headline operating cash flow</b>	<b>155.5</b>	<b>149.8</b>	165.4	167.4
Restructuring	(3.2)	(3.2)	(2.8)	(2.8)
Financing costs	(4.5)	(2.1)	(4.3)	(1.9)
Tax	(24.7)	(24.7)	(24.5)	(24.5)
<b>Free cash flow</b>	<b>123.1</b>	<b>119.8</b>	133.8	138.2
Expansionary capital expenditure	(32.2)	(32.2)	(44.1)	(44.1)
Ordinary dividend	(36.8)	(36.8)	(34.3)	(34.3)
Acquisition spend	(29.0)	(22.9)	(8.8)	(8.8)
Special dividend	(38.1)	(38.1)	(47.5)	(47.5)
Own shares purchased less SBP and others	(4.9)	(4.9)	(6.7)	(6.6)
<b>Reduction in net cash</b>	<b>(17.9)</b>	<b>(15.1)</b>	(7.6)	(3.1)
Opening net (debt)/cash	(44.1)	36.2	(34.8)	39.6
Foreign exchange movements	3.5	(0.2)	(1.7)	(0.3)
<b>Closing net (debt)/cash</b>	<b>(58.5)</b>	<b>20.9</b>	(44.1)	36.2

## Strategic report

# Chief Financial Officer's report continued

The introduction of IFRS 16 has resulted in some changes to the management of cash flow. The key impact of IFRS 16 is that depreciation increases, thereby increasing EBITDA, whilst, in order to be able to reconcile the cash flows to the relevant net cash/debt movements, we have treated lease additions and extensions as a form of capital expenditure outlay.

For ease of reference, we have shown both the pre and post IFRS 16 cash flows for both years in the table on page 25.

We have also taken the opportunity to make some other changes to the presentation of the cashflow statement. The key change is to distinguish maintenance (stay in business) capital expenditure, which is required for the operations to continue to run smoothly, from expansionary capital expenditure, which is discretionary in nature. Expansionary capital expenditure is, therefore, no longer deducted from free cash flow. We have also taken the logical steps of combining acquisition costs with the acquisition consideration and combining the share-based payments add back with the cash outlay to purchase our own shares (given that we settle share-based payments by buying shares in the market).

The Group's headline operating cash flow fell 6% to £155.5m from £165.4 m, reflecting the lower headline operating profit, as well as a higher level of expenditure on maintenance capital expenditure. Headline operating cash conversion was 115% as the Group continues its track record of converting profit into cash. Free cash flow correspondingly fell to £123.1m (2018: £133.8m), with free cash flow conversion at 91% (2018: 95%).

### Expansionary capital expenditure and acquisitions

In 2019, the Group continued to invest. Accordingly, £32m of capital expenditure was expended on expansionary projects, while £23m was expended on two acquisitions mid-year (excluding £6m of lease liabilities acquired). Taken together with the Ellison Surface Technologies acquisition, which should complete in the coming days, the Group committed over £200m of investment during the year for future profitable growth.

### Dividend and Dividend Policy

The Group aims to pay ordinary dividends so that dividend cover will be at or above 2.0 times earnings. The Board may also recommend payment of a supplemental distribution to shareholders. The amount of any supplemental distribution will be assessed in light of the cash position of the Group, along with funding requirements for both organic growth and acquisitions.

In line with this policy, the Board has recommended a final ordinary dividend of 14.0p (2018: 13.3p), bringing the total ordinary dividend to 20.0p (2018: 19.0p). In light of the imminent acquisition of Ellison Surface Technologies, the Board is not recommending a special dividend this year (2018: 20.0p). If approved by shareholders, the final ordinary dividend will be paid on 5 June 2019 to shareholders on the register at the close of business on 24 April 2020.

### Borrowing facilities

The Group is financed by a mix of cash flows from operations, short-term borrowings, and leases. The Group's funding policy aims to ensure continuity of finance at reasonable cost, based on committed and uncommitted facilities and loans from several sources over a spread of maturities. The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of long-term funding.

The total undrawn committed facility funding available to the Group at 31 December 2019 was £230.0m (2018: £230m). At 31 December 2019, the facility was undrawn.

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

### Post balance sheet events

Bodycote announced the agreement to purchase Ellison Surface Technologies ('Ellison') in December 2019 for gross consideration of £154m, to be settled through the Group's existing committed funding facilities. Refer to note 25 on page 125 for further details.

### Alternative performance measures

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

### Going concern

In determining the basis of preparation for the Annual Report and the Group's viability statement, the directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. This includes an overview of the Group's financial position, cash flows, liquidity position and borrowing facilities.

The Group meets its working capital requirements through a combination of cash resources, committed and uncommitted facilities, and overdrafts. The overdrafts and uncommitted facilities are repayable on demand but the committed facilities are due for renewal as set out below. There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future.

The committed facilities as at 31 December 2019 were as follows:

#### ■ £230m Revolving Credit Facility maturing 3 April 2022

The December 2019 weighted average life of the committed facilities was 2.3 years.

The Group's forecasts and projections, taking account of reasonable potential changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

The Directors have reviewed forecasts and projections for the Group's markets and services, assessing the committed facility and financial covenant headroom, central liquidity and the Group's ability to access further funding. The Directors also reviewed downside sensitivity analysis over the forecast period, thereby taking into account the uncertainties arising from the current economic environment. Following this review, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

### D. Yates

Chief Financial Officer  
12 March 2020

# Principal risks and uncertainties

The Board is responsible for the Group's risk management and determining the Group's risk appetite. The review of financial risk has been delegated to the Audit Committee. The Group's risk framework, using a variety of top down and bottom up approaches, is used to identify, monitor and report risks. Risk registers are maintained throughout the business and the content of these are discussed at regular meetings with senior management. Risks are aggregated first at a divisional level and then at Group level. For each business-critical risk, assurance activities have been documented in risk assurance maps and these are used to direct assurance activity including that of internal audit.

The Group Head of Risk is supported by the Risk and SHE Committee, which met three times during 2019, attended by a Vice President from each of the operating divisions, the Group Head of SHE and the Group General Counsel. The Risk and SHE Committee assists the Group Head of Risk in identifying critical risks, embedding risk management and facilitating the implementation of risk management measures throughout the Group. The Group Head of Risk provides an update to the Executive and Audit Committees on the Group's risk activities at every meeting and a comprehensive review of the Group's business critical and emerging risks is presented to the Board in June and in December. The Board concluded that an ongoing process of identifying, evaluating and managing the Group's significant and emerging risks has been in place throughout 2019, and up to the date of the approval of the annual report, and that a robust assessment of the principal and emerging risks had been undertaken.

The table below highlights the major risks that may affect Bodycote's ability to deliver the strategy, as laid out on page 12. The risks to the business have been reviewed throughout the year and remain unchanged from the previous year.

Per the criteria that the Board has agreed to assess potential risks, they may be classified as principal risks by virtue of their potential financial impact on the Group in the foreseeable future, in combination with the likelihood of this impact occurring and taking into account the appropriate mitigating controls.

The Board continues to review the potential risks relating to Brexit. The Board maintains the view that Brexit will not have a material impact on Bodycote as customers are served locally and therefore cross-border trading is not material.

Details of the Group's financial risks (funding, foreign exchange, interest rate and counterparty risks), which are managed by the Group's treasury function, are provided in note 17 to the financial statements. The mitigating activities described below will help to reduce the impact or likelihood of the major risk occurring, although the Board recognises that it will not be possible to eliminate these risks entirely. The Board recognises that there could be risks that may be unknown or that may be judged to be insignificant at present but may later prove to be significant. For this reason business continuity plans have been prepared for all plants to provide for situations where specific risks have the potential to severely impact the business.




## Emerging risk

In 2019 Bodycote implemented an emerging risk identification process based around horizon scanning. This process was aligned with the Group's existing risk management processes but was performed and reported separately.

The emerging risks identified have been reported against two time periods: 0 to 3 years and 3 years and longer. Each risk was assessed as to its potential impact on the Group: high, medium or low. Any risk in the 0 to 3 years having a high potential was also included in the principal risk review – the only risk in this category is 'markets risk'. The emerging risk process identified a number of potential risks to the Group posed by the wider effects of climate change on Bodycote's business. The Board concluded that the effects of climate change do not currently qualify as a principal risk for the Group but this will be regularly monitored as part of the emerging risk process.

Risk description	Impact	Mitigation and control	Relevance to strategy
<b>Market and customer risks</b>			
<b>Markets</b>	<b>Increasing</b>		
Bodycote operates in 23 countries and the Group's revenues are closely linked to general macroeconomic trends and the economic environment. While there are uncertainties as a result of Brexit these are not expected to have a material transactional impact as customers are typically served locally and cross-border trading is not material.	The high proportion of short-term fixed costs in the business means that a drop in sales will have a significant impact on profitability.	<ul style="list-style-type: none"> <li>■ Bodycote's presence in 23 countries servicing more than 40,000 customers across a wide variety of end-markets acts as a natural hedge to neutralise localised economic volatility and component life cycles.</li> <li>■ There is some short-term flexibility in the cost base (e.g. by ensuring that a proportion of the workforce is employed on temporary contracts) and changes in customer demand are responded to quickly.</li> <li>■ It should be noted that revenues for the UK represent only 9% of Group revenues, with the significant majority of its business coming from UK customers.</li> <li>■ China only represents around 2.5% of Group turnover.</li> </ul>	<div>Icon removed</div> <div>Icon removed</div> <div>Icon removed</div> <div>Icon removed</div>
The economic environment can also be impacted by global issues such as pandemics including coronavirus (COVID-19) which developed in early 2020. While the duration and impact of COVID-19 are both uncertain supply chains are being disrupted inside and outside of China. In the short term the impact on the Group is not significant although the flow of goods to our Chinese plants is being disrupted. However, a wider or prolonged disruption to world-wide supply chains leading to an economic slow-down could materially impact upon the Group's revenues.			




## Principal risks and uncertainties continued

Risk description	Impact	Mitigation and control	Relevance to strategy
<b>Market and customer risks</b>			
<b>Loss of key customers</b> Bodycote benefits from many long-term relationships with key customers and the damage to, or loss of, any of these relationships would be detrimental to the Group. A number of customers, mainly in North America, are being impacted by the temporary halt in production of the Boeing 737 Max. While the production halt is not significantly impacting upon the Group's turnover there is a risk the production halt could result in a number of customers failing, and the longer the production halt, the greater this risk. At the same time, sustained disruption is also likely to provide opportunities for longer-term gain.	<b>Stable</b> Although the Group does not rely on any individual major customers, the loss of a key customer could adversely affect the Group's financial results and the viability of one or more of Bodycote's facilities.	<ul style="list-style-type: none"> <li>■ The Group has more than 40,000 customers and there is no significant customer dependency, with the Group's top ten customers accounting for less than 16% of revenues.</li> <li>■ There is an ongoing focus on customer service and quality processes to maintain excellent relationships with customers. Key account management is in place where this is required to deliver good customer service.</li> </ul>	
<b>Competitor action</b> The entry of competitors into one or more of the Group's Specialist Technologies.	<b>Stable</b> The erosion of market share resulting in loss of revenue and profit.	<ul style="list-style-type: none"> <li>■ The close control of proprietary knowledge.</li> <li>■ Rapid increase in the scale of the Group's offerings to maintain the position as supplier of choice.</li> <li>■ A focus on customer service to ensure that satisfied customers have no cause to seek alternative suppliers.</li> </ul>	
<b>Corporate and community risks</b>			
<b>Safety and health</b> The nature of Bodycote's activities presents safety and health risks.	<b>Stable</b> Bodycote is committed to providing a safe work environment for its employees but Bodycote's operations, if not properly managed, could have a significant impact on individual employees. Furthermore, poor safety and health practices could lead to disruption of business, financial penalties and loss of reputation.	<ul style="list-style-type: none"> <li>■ Group-wide health and safety policies set by the Group Chief Executive.</li> <li>■ OHSAS 18001 and ISO 14001 compliant SHE management systems being used by Group Head of Safety, Health and Environment with support of divisional safety, health and environmental teams.</li> <li>■ Programme in place to focus on reduction of incidents which could have a high impact.</li> <li>■ Safety compliance audits at all plants at least every two years.</li> <li>■ Oversight of safety and health framework provided by the Group Risk and SHE Committee.</li> </ul>	

Risk description	Impact	Mitigation and control	Relevance to strategy
<b>Corporate and community risks</b> continued			
<b>Environment</b>	<b>Stable</b>		
Actual or potential environmental contamination could lead to health risks, disruption of business, financial costs and loss of reputation. There is increasing focus by regulators and activists on climate change and while the Group does not currently consider this to be a principal risk this is being closely monitored as part of the Group's emerging risk process.	Bodycote is committed to providing the highest level of protection to the environment. Environmental regulators in many jurisdictions in which Bodycote operates can impose obligations on Bodycote to investigate potential contamination and remediate where required.	<ul style="list-style-type: none"> <li>■ Environmental procedures and measures in place conforming to ISO 14001.</li> <li>■ Environmental due diligence of businesses for acquisition.</li> <li>■ Remediation of contaminated sites or additional emission abatement as required by local legislation.</li> <li>■ Close monitoring of climate change risks and opportunities.</li> </ul>	icon removed
<b>Operational risks</b>			
<b>Service quality</b>	<b>Stable</b>		
The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification to an agreed time.	Deterioration in quality or service levels can cause serious long-term damage to Bodycote's reputation with financial consequences such as the loss of a customer and the cost of damages or litigation. Work that is released into use which is not in compliance with specification could arise as a result of system or human failure. Customers are tending to demand higher liabilities in respect of any quality defects or delays on Bodycote's part.	<ul style="list-style-type: none"> <li>■ Bodycote has stringent quality systems in place managed by qualified staff.</li> <li>■ Quality systems and processes operated at plant level with oversight by divisional quality teams.</li> <li>■ Where necessary, plants maintain industry relevant accreditations, such as ISO 9001, Nadcap and IATF 16949.</li> <li>■ All plants subjected to internal and external quality audits and inspections at least once a year.</li> <li>■ Bodycote carefully negotiates terms and conditions associated with the supply of services to its customers, carefully managing potential liabilities.</li> </ul>	icon removed
<b>Major disruption at a facility</b>	<b>Stable</b>		
Bodycote's facilities are subject to man-made and natural hazards that could lead to the closure of a facility. A number of business processes are inherently risky and there is a possibility that a major incident, such as a fire or utility outage, could occur. In addition a number of sites are exposed to natural hazards, such as earthquakes, flooding and storms. Similarly, facilities can also be impacted by industrial action of employees. None of the Group's facilities suffered any significant disruption during 2019.	Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted.	<ul style="list-style-type: none"> <li>■ Bodycote has a global network of more than 185 facilities. These facilities create a framework to provide backup capability for affected facilities</li> <li>■ Business continuity plans are in place for all plants. These are updated and tested annually.</li> <li>■ The Group's property and business interruption loss reduction programme is focused on high risk processes.</li> <li>■ Independent insurer inspections to assess hazard and business interruption risks.</li> <li>■ Insurance cover, including business interruption cover.</li> <li>■ Scheduled equipment maintenance and inspections.</li> </ul>	icon removed

## Strategic report

# Principal risks and uncertainties continued

Risk description	Impact	Mitigation and control	Relevance to strategy
<b>Operational risks</b> continued			
<b>Capital projects</b> <p>The Group invests capital in developing existing plants as well as into Greenfield developments and acquisitions. This risk was reviewed by the Board during 2018 and additional controls have been implemented during 2019. As a result this risk has moved from increasing to stable.</p>	<b>Stable</b> <p>The Group is undertaking a higher number of capital projects. This may cause projects to be delivered late or at a higher cost than forecast. Market conditions may also change making a project less profitable than initially projected.</p>	<ul style="list-style-type: none"> <li>■ There is a well-established capital investment approval process that applies to all major capital projects.</li> <li>■ Financial controls have been enhanced to improve both the reporting and monitoring of projects</li> <li>■ Technical Services departments are being established, one of whose responsibilities is to improve the management and oversight of key capital projects.</li> <li>■ All major projects are subject to post implementation reviews.</li> </ul>	
<b>Information Technology projects</b> <p>The Group relies upon its IT systems including a range of ERP solutions to manage its operations. There are increasing global threats faced by these systems from sophisticated cyber-attacks, including ransomware and phishing. These attacks could result in systems becoming unavailable for periods of time with customer, financial and reputational impacts.</p>	<b>Increasing</b> <p>A significant failure of IT systems as a result of external factors, such as a cyber-attack, could disrupt service to our customers, and result in reputational loss and financial loss.</p>	<ul style="list-style-type: none"> <li>■ The Group has robust governance processes to ensure that IT projects are properly reviewed and approved to ensure that they are consistent with the Group's IT strategy.</li> <li>■ Increased focus on IT security management processes including the use of antivirus and malware software, firewalls and the provision of IT security awareness training.</li> <li>■ Well protected data centres with defined disaster recovery planning and data backup procedures.</li> </ul>	
<b>Regulatory risks</b>			
<b>Regulatory and legislative compliance</b> <p>The global nature of Bodycote's operations means that the Group has to comply with a wide range of local and international legislative requirements, including modern slavery, anti-bribery and anti-competition legislation, taxation legislation, employment law and import and export controls.</p>	<b>Stable</b> <p>Failure to comply with legislation could lead to substantial financial penalties, disruption to business, diversion of management time, personal and corporate liability and loss of reputation.</p>	<ul style="list-style-type: none"> <li>■ Business processes are supported by HR policies and the Group Code of Conduct alongside training and awareness programmes.</li> <li>■ An 'Open Door Line' whistle-blower facility, managed by a third party, for employees and temporary workers to report any concerns they may have in their own language. The effectiveness of this process was reviewed and reported to the Audit Committee in 2019.</li> <li>■ Engagement of local specialists to support Bodycote at local, divisional and Group level.</li> <li>■ Regular audit of the effectiveness of implemented procedures.</li> </ul>	



## Viability statement

In preparing this statement of viability, the Directors have considered the prospects of the Group over the three-year period immediately following the 2019 financial year. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern (on page 26). The Directors have determined that a three-year period is an appropriate period over which the business could be restructured in the event that any material changes to demand for the Group's services transpired. This period is also consistent with that used for the Group's planning process. As a result, the Board determined that a period of longer than three years would not be meaningful for the purpose of concluding on longer-term viability.

The forecast used considers metrics which enable the assessment of the Group's key performance indicators (including return on capital employed, headline earnings per share and headline operating cash flow) in addition to net debt, liquidity and financing requirements. As part of the forecast, we have also considered the impact of the pending Ellison Surface Technologies acquisition on these key performance indicators.

In conducting the review of the Group's prospects, the Directors assessed the three-year plan alongside the Group's current position, the Group's strategy and the principal risks facing the Group (all of which are detailed in the Strategic Report on pages 1 to 37). This assessment considered the impact of the principal risks on the business model and on future performance, liquidity and solvency and was mindful of the limited forward visibility that the Group has as it carries no order backlog. The Directors' viability assessment included a review of the sensitivity analysis performed on the three-year plan, whereby the principal risks were applied to the plan in a number of diverging scenarios. The developed scenarios were designed to be plausible, yet severe. Examples of the scenarios reviewed were:

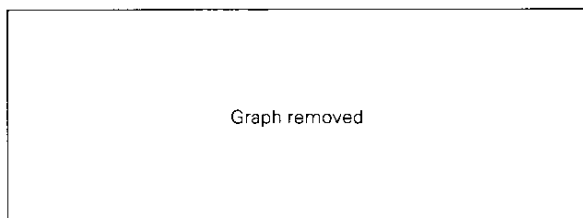
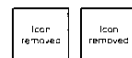
- A decrease in forecast group revenue of 10%
- An increase of 10 days in forecast debtor days
- A 10% strengthening of sterling against other currencies

The combined effect of those elements was also reviewed, to reflect the effects of an economic downturn.

In making this viability statement the Directors considered the mitigating actions that are taken by the Group in the event that the principal risks of the company become realised. The directors also took into consideration the Group's financial position at 31 December 2019, with net cash of £20.9m, available committed facility headroom of £230m and a history of strong cash generation.

The directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2022.

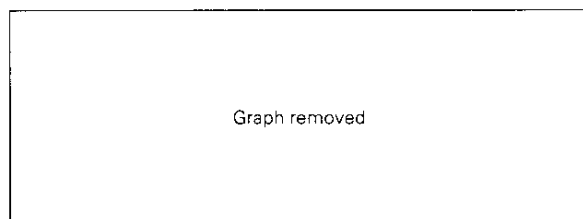
# Corporate responsibility and sustainability



## Corporate responsibility and sustainability

As a Group, Bodycote is committed to acting responsibly as a good corporate citizen, to reducing the environmental impact of the Group's activities and to providing our employees with a safe working environment.

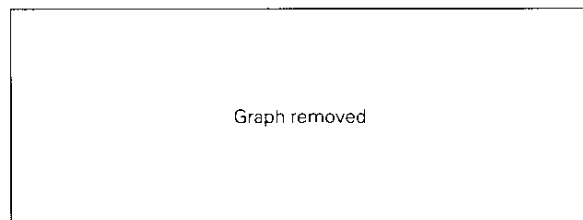
Bodycote's stakeholder model shows how its interactions on various levels contribute towards socioeconomic growth and development. These exchanges, based on mutually beneficial relationships, provide the basis for the Group's growth and sustainability, which in return provides benefits to employees, investors, customers, and society/communities.



## Our approach

Bodycote's objective is to create superior shareholder returns through the provision of selected thermal processing services that are highly valued by our customers. We aim to achieve this in a safe working environment, while continually seeking to minimise the impact on the environment.

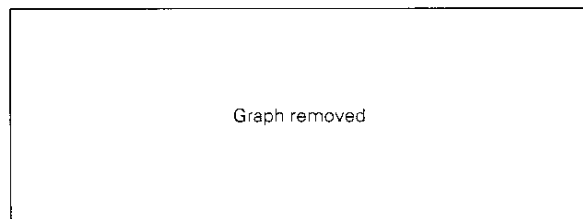
Bodycote is dedicated to improving the management of corporate responsibility issues and is implementing policies and initiatives to achieve this goal. The future success and growth of the Group is intrinsically linked to our ability to ensure the Group's operations are sustainable and that we can nurture and develop our talent.



## Our people

The strength of the Group primarily rests in its people and one of the key challenges for management is to ensure availability of appropriately qualified people to support its continued growth. Bodycote is fortunate to have a competent and committed international team that is well respected in technical and business circles.

Bodycote invests in the training and development of its people both at local and Group level. The Group is committed to providing the appropriate skills and training which will allow its employees to operate effectively and safely in their roles and deliver results. Regular internal customer satisfaction surveys are undertaken that provide feedback to the Shared Services Centres and IT. Overall satisfaction levels are good.



A tool to develop further understanding and skill in the area of performance management is in place and is being used globally through our management population. Through communication of clear messages coupled with skills development, the organisation aims to raise the capability of its management in driving performance. This initiative is backed by a performance management system which supports the process.

Bodycote's employment policies are non-discriminatory, complying with all current legislation to engender equal opportunity irrespective of age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual preference, political or philosophical opinions or trade union membership. Harassment is not tolerated.

Female representation on our Board during 2019 was 43% (2018: 43%) and at manager level it is 25% (2018: 26%). Females represent 19% (2018: 19%) of our total workforce.

	Male	Female	Total	Male	Female	Total
Directors	4	3	7	57%	43%	100%
Managers	57	19	76	75%	25%	100%
Other staff	4287	1003	5340	81%	19%	100%
	4348	1025	5373	81%	19%	100%

1 Total reportable case rate is the number of lost time injuries, medical treatment cases and restricted work cases X 200,000 hours, divided by the total number of employee hours worked

2 CO<sub>2</sub>e is carbon dioxide equivalent, which represents the CO<sub>2</sub> release due to our energy usage

3 Normalised statistics restate prior year figures using current year IEA carbon conversion factors and current year average exchange rates

The overall UK gender pay gap figures are published on our website [www.bodycote.com](http://www.bodycote.com). The UK mean gender pay gap is 4% in favour of women.

## Diversity and inclusion

The Group is committed to being an inclusive and respectful employer that welcomes diversity and promotes equality. We regularly review our recruitment and working practises to identify how we can continue to attract and retain a diverse workforce. We recognise that diversity enriches our solutions and adds value for our stakeholders. In accordance with our HR policy that includes equal opportunities, we give full and fair consideration to all employment applicants. Recruitment, training, reward and career progression are based purely on merit. Wherever possible, we also accommodate part-time, agile and flexible working requests.

## Health and well-being

We recognise that individuals work best and can achieve sustainable high-performance over time when they are healthy and feeling valued. This is supported by our culture, leadership and how we manage our people.

## Culture and Values

It is not just important what we do but how we do it and how we behave in our Company. How we operate as a Group and the behaviours that we expect from all our employees are expressed in our Core Values. Our values represent Bodycote and its people and our commitment to the Company and the business.

Our Core Values are straightforward and are as follows:

### Honesty and Transparency

We are honest and act with integrity. Trust stems from honesty and trust is at the heart of everything we engage in: our customers trust us to deliver what we say we will, our colleagues trust us to act in their best interests and our suppliers trust us to conduct business according to agreed terms. This is not something we take for granted. Bodycote lives by a culture of honest and transparent behaviour, which is at the core of all our business relationships.

### Respect and Responsibility

We manage our business with respect, applying an ethical approach to our dealings with those we interact with. We respect our colleagues, who are all of the employees of Bodycote. Part of our respect for our colleagues is our commitment to safe and responsible behaviour and our fundamental belief that no one should come to any harm at work. We show respect for our customers, our suppliers and our competitors. We respect the communities around us and behave as responsible corporate citizens by being compliant with the laws and regulations of the countries in which we do business and by ensuring that our effect on the environment is minimal. We believe in taking ownership for, and being mindful of the impact of, our actions.

### Creating Value

Creating value is the very essence of our business and needs to be the focus of our endeavours. We create value for our customers, our employees and our shareholders. The realities are harsh. If we do not create value for our customers then we have no reason for existence. If we do not create value for our employees there will be no one to create value for our customers. Our shareholders rightfully require that we ultimately create value for them as they are the owners of the business.

## Human rights

Bodycote's human rights policy is consistent with the Universal Declaration of Human Rights and the UN Global Compact's ten principles.

We prohibit forced, compulsory and underage labour and any form of discrimination based on age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual preference, political or philosophical opinions or trade union membership. Appropriate mechanisms are in place to minimise the potential for any contravention of these rules.

By publicly posting our human rights policy on [www.bodycote.com](http://www.bodycote.com), stakeholders worldwide can alert us to potential breaches of the policy. Our internal systems also support compliance with our policy and we have a robust Open Door Line for employees to report alleged violations of law and/or our policies on a confidential basis and in their own language. In the jurisdictions in which we employ a majority of our employees, there are laws applicable to many of the areas dealt with in our human rights policy.

## The Modern Slavery Act

Bodycote plc has conducted a risk assessment on our supply chain using the UK Government's published guidance entitled 'Transparency in Supply Chains'. Suppliers in those countries identified in Walk Free Foundation's 2016 Global Slavery Index as being the most vulnerable to human rights issues in the supply chain have been identified for further review and audit. All relevant employees undergo Anti-Slavery training.

We have a Code of Conduct which sets out our policy on compliance with legislation, child labour, anti-slavery and human trafficking, and conditions of employment, health and safety and the environment.

The Anti-Slavery and Human Trafficking statement was reviewed by our Board of directors in June 2019 and was published on our website. The statement will be reviewed on an annual basis.

## Customers and suppliers

Bodycote has no significant suppliers who are wholly dependent upon the Group's business and has no significant suppliers on which the Group is dependent upon for a substantial part of its business. Suppliers are paid in line with contractual and legal obligations.

We endeavour to respond quickly to changing customer demand, to identify emerging needs and to improve service availability and quality. We stay close to our current and potential customers, building long-term relationships.

## Community

Bodycote seeks to play a positive role in the local communities in which it operates by providing employment opportunities, and building goodwill and a reputation as a good neighbour and employer. Our operations are international but our strength lies in the local nature of our plants that are close to our customers. We encourage fundraising activities championed by our plants and their employees locally.

## Corporate responsibility and sustainability continued

### Responsible business ethics

The Group has a robust governance structure in place to support business ethics and a series of policies which details its commitments and standards in this area. We recognise that rules alone are not sufficient to ensure wrongdoing is avoided – a combination of rules and values is needed to help embed a healthy business culture. The Group's approach is to set the tone of an ethical business culture from the top, demonstrating commitment to the right values and behaviours of all employees.

All Bodycote personnel are expected to apply a high ethical standard, consistent with an international UK-listed company. Directors and employees are expected to ensure that their personal interests do not at any time conflict with those of Bodycote. Shareholder employees are advised of, and comply with, the share dealing code.

Bodycote has systems in place that are designed to ensure compliance with all applicable laws and regulations, and conformity with all relevant codes of business practice. Furthermore, Bodycote does not make political donations.

With regard to competition, Bodycote aims to win business in a differentiated high-value manner. The Group does not employ unfair trading methods and it competes vigorously, but fairly, within the requirements of applicable laws. Employees are prohibited from either giving or receiving any inducements.

Our Open Door Policy has been translated into all languages used throughout the Group. The policy allows employees to report their concern confidentially, verbally or in writing, to an independent third party provider, ensuring anonymity.

#### Responding when wrongdoing is reported

When incidents are reported, whether through internal or external mechanisms, they are passed to the Group Head of Risk for investigation and determination of the appropriate steps to be taken for the matter to be addressed.

#### Supporting employees who speak up

When our employees do the right thing by speaking up against instances of wrongdoing, we believe it is crucial that the Group also does the right thing and ensures that there are no repercussions for their actions.

Online training courses in respect of Anti-Bribery and Competition Law have been designed and translated into the major languages used throughout the Group. All relevant employees have completed the interactive courses.

### Operational SHE performance

Bodycote is committed to continuous improvement in our safety, health and environmental performance (SHE). We are committed to complying with all local legislative requirements as a minimum and establishing consistent and robust best practices at all of our sites, enabling the delivery of consistently high performance across all aspects of SHE management.

#### Safety and health

The nature of the Group's operations is such that employees are inevitably exposed to hazards in the workplace. Bodycote aims to manage these hazards and thereby minimise risks to employees through the deployment of robust safety control systems and procedures, and seeks to establish these at all sites. Bodycote uses a global incident reporting and SHE management tool at every site and this enables more consistent and thorough reporting of workplace injuries, near misses and unsafe conditions.

A key element in the Bodycote SHE strategy is the development of a strong SHE culture that supports and values the identification and reporting of near misses, unsafe acts or conditions, and suggestions for improvement – collectively known as 'opportunities for improvement' (OFIs). In 2019 the number of OFIs reported by employees continued to increase across the Group by a further 8% from 2018. This improvement demonstrates stronger engagement of employees in proactively raising and rectifying safety issues. Accidents, though regrettable and unacceptable, represent learning opportunities, and for this reason accurate reporting is an essential part of building a robust safety management system.

The most frequent cause of recordable cases relates to manual handling of parts and lifting operations. This area has a number of underlying causes and therefore continues to be a focus for risk reduction activities over the next few years.

In 2019, Group SHE capital investment continued in the areas of pedestrian safety and ergonomics/manual handling improvements to reduce accident frequency and address the severity of risk in these areas. In addition, new risk areas were added for Group SHE capital investment including: slips, trips and falls; material handling; and fire and explosion.

All reportable cases and lost time injuries are reviewed during Executive Committee meetings and by the Board. In addition, the Executive Committee reviews incidents which do not result in injury but are considered to have been serious or to have had a high potential impact. All serious incidents and high potential incidents are reviewed by the Group SHE Committee and cascaded as appropriate within the business to ensure that preventive actions are taken.

In 2019, the Total Reportable Case (TRC) rate increased to 2.8 (2018: 2.6), and the Lost Time Injury (LTI) rate decreased to 1.4 (2018: 1.7).

## Total Recordable Case rate (TRC)

Total Reportable Cases (TRC) include:

- Any lost time incident (>1 day or shift, not including the day of the accident)
- Any restricted work case (where the injured person cannot do their usual work)
- Any medical treatment case (specialist medical treatment, not first aid)

In 2019, the TRC rate was 2.8.

## Environment

A proactive approach to improving energy efficiency means that Bodycote has implemented a variety of systems to reduce water and gas consumption, and to reuse heat energy. In order to lessen the impact on the environment, Bodycote seeks to gain ISO 14001 accreditation at all of our operational facilities.

At every stage where Bodycote is involved in the manufacturing cycle, our operational aim is to reduce the overall impact on the environment, not just in our own operations, but also those of our customers. Bodycote operates modern, efficient equipment, which is operated around the clock so as to optimise treatment processing cycles. Without Bodycote, many companies would be using older in-house technology and running their equipment at reduced capacity, both of which drain energy resources. Working with Bodycote enables our customers to commit more easily to carbon reduction initiatives.

Bodycote also reduces the carbon footprint of our customers' activities by increasing the lifespan of their products, improving metallurgical properties and enhancing corrosion resistance.

For example, surface treatment technology is widely used in the reclamation of damaged and worn components, offering a cost-effective and energy-efficient alternative to the need to manufacture new replacement parts. The treated parts often last up to twenty times longer than the original.

While thermal processing is an energy-intensive business, it is a vital part of the manufacturing supply chain and its use saves the energy it consumes many times over. Moreover, by effectively consolidating the heat treatment requirements of our many thousands of customers, Bodycote significantly reduces the overall required energy consumed compared with the energy that would be consumed if each customer treated their own products. In this regard, Bodycote should be viewed as an enabler to the goal of a reduction in emissions.

## Greenhouse gas emissions

Scope 1 emissions are direct emissions resulting from fuel usage and the operation of facilities.

Scope 2 emissions are indirect energy emissions resulting from purchased electricity, heat, steam or cooling for own use.

The Group collects electricity and natural gas usage information from each facility on a monthly basis. The Group then applies the DEFRA and International Energy Agency (IEA) published national carbon conversion factors to calculate the total tonnage of CO<sub>2</sub>e produced, which along with the geographical sales for the year provides the tCO<sub>2</sub>e per £m of sales, normalised.

All entities and facilities under financial control are included within the disclosure. Emissions less than 1% of the Group's total CO<sub>2</sub>e relating to fugitive emissions and owned vehicles are not significant and are excluded. As such there are no significant omissions from this disclosure.

	2019		2018		2018 (normalised)	
	CO <sub>2</sub> e emissions (ktCO <sub>2</sub> e)	Intensity ratio (tCO <sub>2</sub> e/£m)	CO <sub>2</sub> e emissions (ktCO <sub>2</sub> e)	Intensity ratio (tCO <sub>2</sub> e/£m)	CO <sub>2</sub> e emissions (ktCO <sub>2</sub> e)	Intensity ratio (tCO <sub>2</sub> e/£m)
Scope 1	142.6	198.1	145.0	199.0	145.0	197.0
Scope 2	174.4	242.3	192.0	263.5	185.4	252.0
Statutory total <sup>1</sup>	316.9	440.4	336.9	462.5	330.4	449.0

1. Statutory carbon reporting disclosures required by Companies Act 2006

# Corporate responsibility and sustainability continued

## Total Energy Consumption

	2019		
	Group Energy consumption kWh	UK Energy consumption kWh	Proportion of energy consumed in the UK
Total Energy Consumption kWh	1,342,804,654	103,680,543	7.7%

In 2019 the aggregate of the annual quantity of energy from activities for which the company is responsible worldwide and the annual quantity of energy consumed resulting from the purchase of electricity, heat, steam or cooling by the company for its own use was 1,342,804,654 kWh; the proportion of that figure that relates to energy consumed in the UK is 7.7%.

### ISO 14001 accredited facilities

Reducing the environmental impact of the Group's activities is taken very seriously. Compliance with the requirements of ISO 14001 helps to minimise the risk of adverse environmental effects at Bodycote's sites. At the end of 2019, 90% (159 of our operating facilities) had achieved or maintained ISO 14001:2015 accreditation (2018: 90%). The remaining 10% of operational plants are working towards accreditation. The accreditation rates for 2019 have remained at 90% due to the gain and loss of businesses throughout the year.

### Carbon footprint and water consumption

The absolute energy usage in 2019 decreased by 3.7% and per £m sales (at constant exchange rates) decreased by 1.7%.

The total CO<sub>2</sub>e emissions per £m sales in 2019 were 440.4 Te (2018<sup>1</sup>: normalised<sup>1</sup> 449.0 Te).

The Group's total CO<sub>2</sub>e emission data is based on Scope 1 and Scope 2 emissions, as defined by the UK Government's DEFRA, and data relating to this has been calculated to include country-specific electricity conversion factors.

Bodycote aims to reduce water consumption wherever possible, however, as part of some of our processes, water is used for either cooling operational equipment, or for washing customer parts. Any water discharge resulting from these operations is controlled, for example at some facilities, interception tanks capture water discharged allowing it to be checked for any contaminant levels, and ensuring it is of an acceptable level prior to final discharge. In addition to this, at many facilities there is a requirement to have backflow protectors in place protecting water supplies in the local area. All such control measures are verified by both internal and external auditing in line with ISO 14001:2015 to ensure compliance with legal obligations.

On a normalised<sup>1</sup> basis, water usage per £m sales in 2019 decreased by 1.0%. On a non-normalised basis, water usage per £m showed a decrease of 2.0%.

The Energy Efficiency Directive 2012/27/EU is transposed into local legislation and requires sites to monitor energy usage and assess energy reduction opportunities additionally to ongoing energy-saving activities. One mechanism for ensuring compliance is for sites to become certified to ISO 50001 (Energy Management Systems standard). This enables the consistent measurement of energy usage and targets the most effective ways of reducing energy usage. All Bodycote sites in Austria, Denmark and the Netherlands are certified and 62% of our sites in Germany are certified. The UK is compliant to the Energy Efficiency Directive 2012/27/EU under the Energy Savings Opportunity Scheme (ESOS).

Examples of energy improvement projects undertaken across Bodycote sites in 2019 are discussed below.

The continued replacement of traditional lighting with LED for environmental and improved safety has resulted in further CO<sub>2</sub> reductions. Specifically, our sites at Marchtrenk and Nürnberg will benefit from projected total savings of 14.6 Te CO<sub>2</sub> annually.

Improvements to cooling systems at the Tilburg and Lüdenscheid plants are projected to save a projected 9.2 TeCO<sub>2</sub> annually.

Modifications to improve furnace efficiency at Remscheid, Tilburg and Lüdenscheid will result in a projected saving of 544.1 TeCO<sub>2</sub> annually.

Bodycote submits data on CO<sub>2</sub> usage to the Carbon Disclosure Project, one of the leading carbon reporting and verification bodies. In 2019 the Company maintained its "C" rating.

### Chlorinated solvent use

Cleaning and degreasing of components is a necessary step in virtually all thermal processing work. For many years Bodycote has been moving customers to change their specifications from Trichloroethylene (TCE) to the more benign Perchloroethylene (PCE), or, where possible, away from chlorinated solvent cleaning altogether. For reference, PCE is the chemical of choice in the garment dry cleaning industry. Our use of TCE has now been virtually eliminated with only residual work being carried out on customer components where the customer insists that changing the specification would endanger the viability of their product. Bodycote's use of PCE has remained relatively stable over the last five years, varying around a relatively low level, according to the mix of customer components processed and absolute volume of sales.

### Waste

As we provide a service to our customers, customer goods generally arrive in customers' containers and leave the plant in customers' containers. Direct waste is therefore not a significant environmental impact for our business as it is principally limited to office materials, packaging and containers from maintenance supplies plus chemical and oil waste from maintenance activities. All waste is segregated into waste streams and disposed of in accordance with local legislation. Waste transfer arrangements are validated via internal and external audit mechanisms.

### Cautionary statement

The Strategic report (pages 1 to 37) has been prepared solely to provide information to shareholders to assess how the Directors have performed their duty to promote the success of the Group.

The Strategic 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.

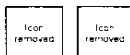
### Approval

The Group Strategic report of Bodycote plc was approved by the Board of Directors and signed on its behalf by:

**S.C. Harris**  
Group Chief Executive  
12 March 2020

<sup>1</sup> Normalised statistics restate prior year emissions using current year IEA carbon conversion factors and current year average exchange rates

## Non-financial information statement



Relevant to UN Sustainable Development Goals	Standards, policies and actions which govern our approach	Where to find further information	Key metrics	Internal processes to monitor performance
<b>Environmental</b>				
  	<ul style="list-style-type: none"> <li>■ Safety, Health, &amp; Environment (SHE) Policy</li> <li>■ Carbon Footprint &amp; Water consumption statements</li> <li>■ Reduction of greenhouse gas emissions</li> </ul>	For further information pages: <b>32 to 36</b> Visit <a href="http://bodycote.com">bodycote.com</a>	Progress on reductions in carbon footprint, water consumption, chlorinated solvents	Energy and Greenhouse gas management is tracked per facility monthly.
<b>Social</b>				
    	<ul style="list-style-type: none"> <li>■ Graduate &amp; Apprenticeship Programme</li> <li>■ Performance Goal Management System</li> <li>■ Safety, Health, &amp; Environment (SHE) Policy</li> <li>■ Succession Planning Process</li> <li>■ Equal Opportunities Policy</li> <li>■ Data Protection Policy</li> <li>■ Open Door Policy</li> <li>■ Dignity at Work Policy</li> </ul>	For further information pages: <b>32 to 34</b> Visit <a href="http://bodycote.com/investors/governance">bodycote.com/investors/governance</a>	% of female representation in total workforce and on Executive Committee and Board of Directors Lost work case incident rate Recordable incident rate UK Gender Pay Gap Report	Executive committee monitors SHE performance on a monthly basis. Executive committee monitors employee turnover rate performance on a monthly basis. Regular Open Door incident update to the Board and Executive committee.
<b>Business Governance</b>				
	<ul style="list-style-type: none"> <li>■ Core Values</li> <li>■ Code of Conduct</li> <li>■ Ethics Policy</li> <li>■ Anti-Slavery &amp; Human Trafficking statement</li> <li>■ Human Rights policy</li> <li>■ Anti-Bribery &amp; Corruption policy</li> <li>■ Competition &amp; Anti-Trust Policy</li> <li>■ Control &amp; Compliance Statement</li> <li>■ Tax Strategy</li> </ul>	For further information pages: <b>32 to 34</b> Visit <a href="http://bodycote.com/investors/governance">bodycote.com/investors/governance</a>	% of relevant employees trained on our policies # of breaches	The implementation and effectiveness of the training is overseen by the Group General Counsel and Group Company Secretary.

Strategic report

Governance

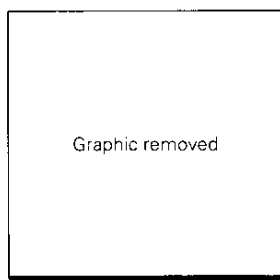
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Additional information

## Governance

# Board of Directors

### Executive Directors



**Stephen Harris**  
GROUP CHIEF EXECUTIVE

APPOINTED:  
November 2008, and Chief  
Executive from January 2009.

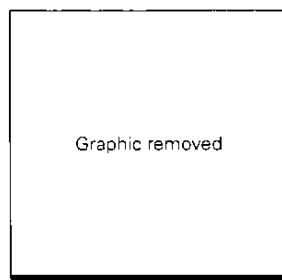
External roles  
Senior Independent Director for  
Mondi plc

**Past roles**  
Spent his early career in  
engineering with Courtaulds  
plc and then moved to the USA  
to join APV Inc from 1984 until  
1995, where he held several  
senior management positions.  
He was appointed to the Board  
of Powell Duffryn plc as an  
Executive Director in 1995 and  
then went on to join Spectris  
plc as an Executive Director  
from 2003 to 2008. He was  
also a Non-Executive Director of  
Brixton plc from 2006 to 2009.

**Qualifications**  
Chartered Engineer, graduated  
from Cambridge University,  
Master's degree in business  
administration from the  
University of Chicago, Booth  
School of Business.

#### Skills and experience

- Management
- Leadership
- Mergers and acquisitions
- International operations
- Emerging markets
- Engineering
- Service industry
- Capital intensive industry



**Dominique Yates**  
CHIEF FINANCIAL OFFICER

APPOINTED:  
November 2016

External roles  
None.

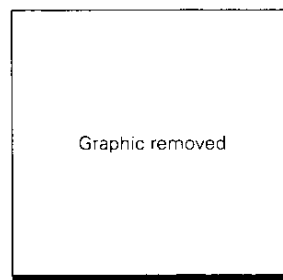
**Past roles**  
Held various senior positions  
in Imperial Tobacco Group plc  
followed by Chief Financial  
Officer positions at Symrise  
AG, LM Windpower and most  
recently at Regus plc from 2011  
to 2015.

**Qualifications**  
Chartered Accountant, graduated  
from Bristol University in  
Economics and Accounting.

#### Skills and experience

- Leadership
- International operations
- Mergers and acquisitions
- Emerging markets
- Current financial experience
- Service industry

### Non-Executive Directors



**Anne Quinn CBE**  
CHAIR

APPOINTED:  
January 2018

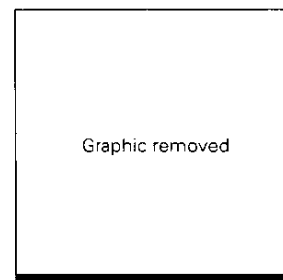
External roles  
None.

**Past roles**  
Worked in various roles for NZ  
Forest Products Ltd, followed  
by management consultancy  
with Resource Planning  
Associates, a management  
position with Standard Oil and  
various senior management  
roles with BP plc from 1987  
to 2007. Managing Director of  
Riverstone Holdings LLC from  
2008 to 2009. Non-Executive  
Director of BOC Group plc from  
2004 to 2006, Non-Executive  
Director and Remuneration  
Committee Chair as well as  
Senior Independent Director of  
Mondi plc from 2007 to 2017  
and Non-Executive Director and  
Remuneration Committee Chair  
of Smiths Group plc from 2009  
to 2018.

**Qualifications**  
B.Com University of Auckland  
and MSc Management Sciences,  
Massachusetts Institute  
of Technology

#### Skills and experience

- International operations
- Emerging markets
- Mergers and acquisitions
- Management
- Leadership
- Manufacturing
- Capital intensive industry
- Managing Director



**Ian Duncan**  
SENIOR INDEPENDENT DIRECTOR

APPOINTED:  
November 2014

External roles  
Non-Executive Director and  
Chairman of the audit committee  
of Babcock International Group  
plc since 2010 and a Non-  
Executive Director and Chairman  
of the audit committee of SIG plc  
from 2017.

**Past roles**  
Worked on a variety of audits  
with Deloitte & Touche, followed  
by four years with Dresdner  
Kleinwort Wasserstein.  
From 1990 to 1992 he worked  
for Lloyds Bank plc and then  
switched to British Nuclear Fuels  
plc from 1993 to 2006. In 2006  
he took on the role of Group  
Finance Director with Royal Mail  
Holdings plc leaving in 2010.  
He was Non-Executive Director  
of Fiberweb plc during 2013,  
Mouchel Group from 2013 to  
2015 and WANDisco plc from  
2012 to 2016.

**Qualifications**  
Chartered Accountant, qualified  
with Deloitte & Touche after  
graduating from University  
of Oxford.

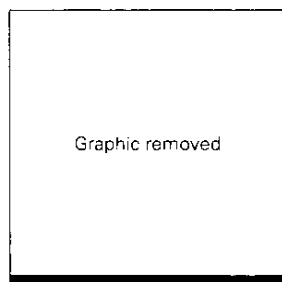
#### Skills and experience

- International operations
- Current financial experience
- Supply chain and logistics
- Mergers and acquisitions
- Service industry



# KEY TO COMMITTEES

- (E) Executive
- (N) Nomination
- (R) Remuneration
- (A) Audit
- Committee Chair



**Eva Lindqvist**  
NON-EXECUTIVE DIRECTOR

APPOINTED:  
June 2012 (R) (A) (N)

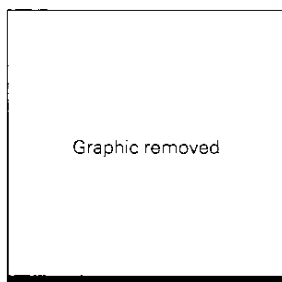
**External roles**  
Non-Executive Director of Sweco AB since 2013, Tele 2 AB from 2014 and Keller Group plc since 2017.

**Past roles**  
Began her career in various positions with Ericsson working in Continental Europe, North America and Asia from 1981 to 1990 followed by director roles with Ericsson from 1993 to 1999. Joined Telasonera in 2000 as Senior Vice President moving to Xelerated initially as Chairperson and later as Chief Executive from 2007 to 2011. Non-Executive Director of Transmode Holdings AB from 2007 to 2013, Blekinge Institute of Technology from 2010 to 2013, Tieto Corporation from 2010 to 2016, Assa Abloy from 2008 to 2018, Caverion Oy from 2013 to 2018, Alimak Holding from 2015 to 2018, Micronic Mydata AB from 2013 to 2016, and Mr Green & Co AB from 2016 to February 2019.

**Qualifications**  
Engineer, graduated with a Masters from Linköping Institute of Technology, Diploma in Marketing from IHM Business School and MBA Financial Analysis from University of Melbourne.

## Skills and experience

- International operations
- Manufacturing
- Engineering
- Technology
- Mergers and acquisitions
- Service industry
- Sales and marketing
- Sustainability



**Patrick Larmon**  
NON-EXECUTIVE DIRECTOR

APPOINTED:  
September 2016 (A) (R) (N)

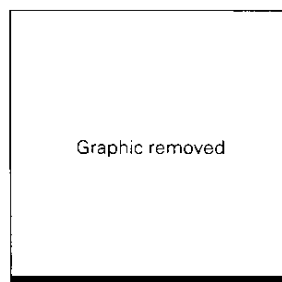
**External roles**  
Non-Executive Director of Huttig Building Products Inc., a NASDAQ listed international distributor of construction products since 2015.

**Past roles**  
Executive Vice President and owner of Packaging Products Corporation until 1990 when the company was acquired by Bunzl plc. Held various senior management positions for over 13 years before becoming President of Bunzl's North America business in 2003, then Chief Executive Officer, North America, of Bunzl plc in 2004, joining the Bunzl plc board in 2005. Retired from Bunzl plc on 31 December 2018.

**Qualifications**  
Graduated from Illinois Benedictine University (major Economics & Business Economics) followed by achieving Certified Public Accountant, followed by an MBA from Loyola University of Chicago and a Masters of International Business from St. Louis University.

## Skills and experience

- International operations
- Mergers and acquisitions
- Service industry
- Manufacturing
- Distribution
- Sales and marketing
- Chief Executive Officer



**Lili Chahbazi<sup>1</sup>**  
NON-EXECUTIVE DIRECTOR

APPOINTED:  
January 2018 (A) (R) (N)

**External roles**  
Strategy consultant and since 2008 a global partner in the London office of Bain & Company.

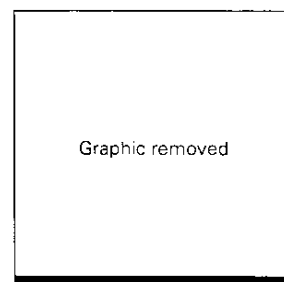
**Past roles**  
Lili began her career as an actuary before joining Bain & Company.

**Qualifications**  
Graduated with a BSc in Mathematics from Concordia University, Montreal followed by an MBA from INSEAD, Fontainebleau. Associate of the Society of Actuaries.

## Skills and experience

- Strategy and consultancy
- International operations
- Mergers and acquisitions
- Oil & gas industry
- Business services industry
- Oilfield services and engineering services industries
- Transport industry

<sup>1</sup> Lili considers herself a person of colour due to her part Iranian/Middle East background



**Ute Ball**  
GROUP COMPANY SECRETARY

**Registered office**  
Springwood Close  
Tytherington Business Park  
Macclesfield  
Cheshire  
SK10 2XF

Tel: +44 1625 505300  
Fax: +44 1625 505313

Registered Number 519057  
England and Wales.

## Governance

# Corporate governance statement

### Chair's message

Dear Shareholders

On behalf of the Board, I am pleased to present Bodycote's Corporate Governance Statement for 2019.

The Board understands that good corporate governance is an important element in helping to build a successful business in a sustainable manner. During the year we have discussed how the various changes in regulation and societal expectations are most appropriately taken into account in how we as a Board, and Bodycote as an organisation, operate. We are committed to reporting on corporate governance as part of broader statements of our Environmental, Societal and Governance (ESG) impacts.

The 2018 Corporate Governance Code highlights the importance of effective engagement with shareholders and stakeholders. The Group's key stakeholders and their differing perspectives are identified and taken into account, not only as part of the Board's annual strategy and corporate planning discussions but also in our project assessments and in our other Board conversations. These discussions, assessments and conversations focus not only on delivering increased value for shareholders, but also address the impacts of our decisions and strategies on the Group's wider stakeholders. The Board recognises the importance of regular, open and constructive dialogue with shareholders and other stakeholders, and the interests of our stakeholders have been a key aspect of our culture and factor in our decision making.

In line with the Director's Duties, the Board's engagement with employees, shareholders, customers, and communities in 2019 is explained in our stakeholder section on pages 14 to 15. The Directors receive regular reports on Safety, Health and Environment to support their decisions. Further information on Board activities can be found on pages 41 to 46. Ensuring high standards of business conduct is critical for the success of the Group.

Employee Engagement Groups led by the designated Non-Executive Director, Patrick Larmon, were introduced during 2018 and several meetings have taken place since. A variety of topics have been raised by employees at the meetings and, in turn, these have been presented directly to the Board. A number of these have been addressed and further topics are work in progress.

Succession planning is a regular topic for discussion, although the outcome of these discussions is only visible from time to time when new appointments are made. For each appointment we are looking to appoint an outstanding candidate, with a diverse range of experience, to maximise Board effectiveness. When we think about diversity, we recognise that diversity can take many forms including diversity of gender, social, and ethnic backgrounds, and of cognitive and personal strength, and that diversity at Board level and throughout the Company is a valuable strength.

My ambitions for the composition of the Board are to maintain and, where applicable, broaden the range of expertise, experience, and diversity. The Board continues to ensure that effective succession plans are in place.

I encourage all shareholders to attend the Annual General Meeting, which will be held at the Sofitel, T5 Heathrow on 28 May 2020. This event provides an excellent opportunity to meet the executive and independent Non-Executive Directors.

**A.C. Quinn**  
Chair

### Compliance Statement

In respect of the financial year 2019, Bodycote's obligation under the Disclosure and Transparency Rules is to prepare a corporate governance statement with reference to the UK Corporate Governance Code issued by the FRC in July 2018 ('the Code').

In respect of the year ended 31 December 2019, Bodycote has complied with the provisions of the Code with the exception of Provision 36, a formal policy for post-employment shareholding requirements, and Provision 23, progress on achieving objectives on diversity and inclusion. Concerning Provision 36, whilst the Board has not put a formal policy for post-employment shareholding requirements in place, a two-year holding period for share scheme awards as of the date of the approval of the remuneration committee policy in May 2019, as well as bonus deferral, are in place to provide a partial post-employment holding policy. Concerning Provision 23, the Board is strong on diversity and inclusion with female representation at 43%, 5 different nationalities including a member who meets the Parker Committee definition of a person of colour. At the senior management level, there is broad international representation, and growing female representation. The Board and the management are committed to the principles of diversity and inclusion. A review of workforce policies is in progress and a culture survey has been undertaken and information provided to the Board. Executive Directors' pensions and their alignment to the wider workforce in the respective countries of residence have been discussed.

Taken together with the Report of the Audit Committee, the Report of the Nomination Committee and the Board report on remuneration presented on pages 56 to 77, this statement explains how Bodycote has applied the principles of good corporate governance as set out in the Code.

## Leadership and engagement

### Role and responsibilities of the Board and its principal committees

The Board is responsible to shareholders for good corporate governance, setting the Group's strategic objectives, values and standards, and ensuring the necessary resources are in place to achieve the objectives.

The Board met on nine occasions during 2019, including a specific meeting to review the Group's long-term strategy. The Board of directors comprises seven members, of whom five are Non-Executive Directors and two are Executive Directors, led by the Group's part-time Non-Executive Chair, A.C. Quinn, who also chairs the Nomination Committee. The Group Chief Executive is S.C. Harris and the Senior Independent Non-Executive Director is I.B. Duncan, who also chairs the Audit Committee. E. Lindqvist is Chair of the Remuneration Committee and P. Larmon is the Chair of the Employee Engagement Groups. L. Chahbazi is a Non-Executive Director. Brief biographical details of all directors are given on pages 38 to 39. During the year the Board visited a number of overseas facilities, including sites in Mexico and the USA. Such events involved meeting with local management and the workforce to understand more clearly technical and operational performance in countries where Bodycote has a significant presence.

Chair	Group Chief Executive	Chief Financial Officer
<ul style="list-style-type: none"> <li>■ leadership and governance of the Board and chairs the Nomination Committee</li> <li>■ Board effectiveness</li> <li>■ ensures members receive accurate, timely and clear information on Board issues</li> <li>■ ensures, together with the Group Company Secretary, a comprehensive induction of new directors</li> <li>■ sets Board agenda, style and tone of Board discussions</li> <li>■ ensures effective communication with shareholders</li> <li>■ ensures progress on ESG impact tracking and reporting</li> </ul>	<ul style="list-style-type: none"> <li>■ overall responsibility and leadership of Group performance</li> <li>■ stewardship of Group assets</li> <li>■ plans and executes objectives and strategies</li> <li>■ maintains a close working relationship with the Chair, ensuring effective dialogue with investors and stakeholders</li> <li>■ ensures leadership and development frameworks are developed to generate a positive pipeline for future opportunities for the Group</li> <li>■ has overall responsibility for the Group's sustainability performance, communicates the vision and values of the Group</li> <li>■ manages the senior management team</li> </ul>	<ul style="list-style-type: none"> <li>■ maintains strong financial management and implements effective financial controls</li> <li>■ provides financial and commercial decision leadership, vision and support</li> <li>■ ensures the appropriateness of risk management systems</li> <li>■ oversees all aspects of accounting/finance operations including accounting policies and integrity of financial data and external financial reporting</li> <li>■ responsible for corporate finance functions, financial planning and budget management</li> <li>■ supports and advises the senior management team</li> <li>■ leads the development of investor relations strategy and communications</li> </ul>
Senior Independent Director	Non-Executive Directors	Group Company Secretary
<ul style="list-style-type: none"> <li>■ acts as a sounding board for the Chair</li> <li>■ serves as an intermediary for other directors</li> <li>■ is available to meet shareholders if they have concerns which they have not been able to resolve through the normal channels</li> <li>■ conducts an annual review of the performance of the Chair and convenes a meeting of the Non-Executive Directors to discuss the same</li> </ul>	<ul style="list-style-type: none"> <li>■ provide constructive challenge</li> <li>■ help develop strategy</li> <li>■ ensure financial controls and systems of risk management are robust and defensible</li> <li>■ determine appropriate levels of remuneration for the executive directors</li> <li>■ monitor reporting of performance</li> <li>■ scrutinise performance of management</li> <li>■ are available to meet with major shareholders</li> </ul>	<ul style="list-style-type: none"> <li>■ secretary to the Board and its committees</li> <li>■ ensures efficient information flows within the Board and its committees and between senior management and Non-Executive Directors</li> <li>■ facilitates induction of new directors and assists with training and development needs as required</li> <li>■ regularly updates the Board on corporate governance matters, legislative changes and regulatory regimes affecting the Group</li> <li>■ ensures compliance with Board procedures</li> <li>■ co-ordinates external Board evaluation and conducts internal Board evaluation</li> </ul>

Strategic report

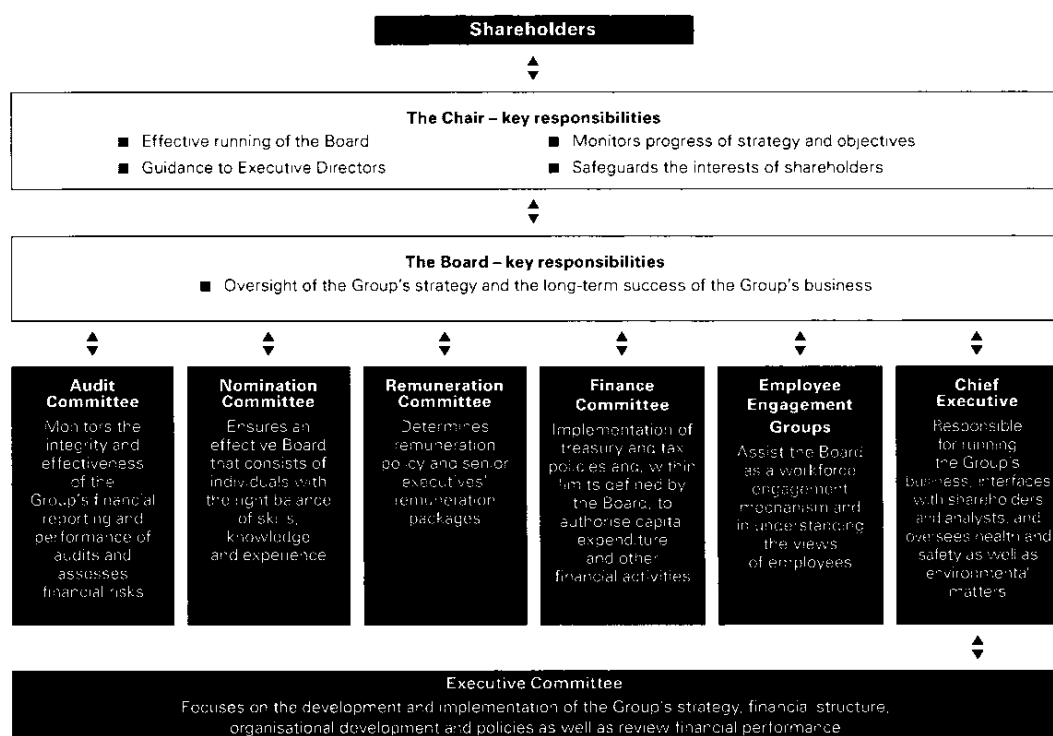
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## Governance

# Corporate governance statement continued



The SHE and Risk Committee reports to the Executive Committee.

### Finance Committee

In order that necessary actions can be taken promptly, a finance sub-committee, comprising the Chair, the Senior Independent Director, the Group Chief Executive and the Chief Financial Officer is authorised to make decisions, within limits defined by the Board, in respect of certain finance, treasury, tax or investment matters.

### The Employee Engagement Groups

We have two Groups run in parallel, a European and an American Committee. Each Group meets bi-annually. The Groups are led by Patrick Larmon, the designated non-executive Board director. Representatives from across the business are the members of the Groups. Participation of the Groups is rotated at certain intervals to allow a variety of opinions and voices to be heard.

### Main activities of the Employee Engagement Groups

At each meeting the participants communicate the views, motivations, and conditions of their fellow employees. The minutes of the meetings are part of the next set of Board meeting papers and are presented by the designated non-executive Board Director to the Board. As a result of feedback received from employees a communication improvement plan is being implemented.

In addition, both the Board and the Executive Committee take every opportunity to meet with local employees when visiting different business locations. During 2019 the Board and the Executive Committee met with employees in Mexico. The Board also met with employees in Detroit, USA and the Executive Committee met with employees in the Netherlands.

## Board and Board Committees meeting attendance

Attendance of directors at regular scheduled meetings of the Board and its Committees is shown in the table below:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Meetings held during the year	9	4	3	4
Icons removed	Icons removed	Icons removed	Icons removed	Icons removed
<b>Executive Directors</b>	<b>Meetings attended</b>	<b>Meetings attended</b>	<b>Meetings attended</b>	<b>Meetings attended</b>
Stephen Harris	Icons removed	n/a	n/a	n/a
Dominique Yates	Icons removed	n/a	n/a	n/a
<b>Non-Executive Directors</b>	<b>Meetings attended</b>	<b>Meetings attended</b>	<b>Meetings attended</b>	<b>Meetings attended</b>
Anne C. Quinn	Icons removed	n/a		n/a
Eva Lindqvist	Icons removed	Icons removed	Icons removed	Icons removed
Ian Duncan	Icons removed	Icons removed	Icons removed	Icons removed
Patrick Larmon	Icons removed	Icons removed	Icons removed	Icons removed
Lili Chahbazi	Icons removed	Icons removed	Icons removed	Icons removed

All directors attended the maximum number of Board, Audit and Nomination Committee meetings that they were scheduled to attend. Non-members A.C. Quinn, S.C. Harris, D. Yates attended by invitation some parts of the meetings of the Audit, Nomination and Remuneration Committees. Note that the Employee Engagement Groups are led by P. Larmon and supported by the company secretary. There were 4 Employee Engagement meetings in 2019.

## Diversity and length of service

Bodycote is a global business with operations in 23 countries and diversity is an integral part of how we do business. The Nomination Committee considers diversity when making appointments to the Board, taking into account relevant skills, experience, knowledge, personality, ethnicity, and gender. Our prime responsibility, however, is the strength of the Board and our overriding aim in any new appointment must always be to select the best candidate. The Nominations Committee also considers capability and capacity to commit the necessary time to the role in its recommendation to the Board. The intention is to appoint the most suitable qualified candidate to complement and balance the current skills, knowledge and experience of the Board and who will be best able to help lead the Company in its long-term strategy. The Nomination Committee is advised by international search companies, who have been briefed on our diversity policy and are required to reflect the policy in the long list submitted to the Committee.

In 2019 female representation on our Board was 43% (2018: 43%). At manager level it is 25% (2018: 26%). Females represent 19% (2018: 19%) of our total workforce. Whilst we are above the 33% by 2020 voluntary target for female representation on Boards recommended by the Hampton-Alexander review, we continue to believe it is difficult to set targets or timescales for increasing the proportion of women, or any other minority group, on our Board and do not propose to do so. We will increase female and/or other minority representation on the Board if appropriate candidates are available when Board vacancies arise. Lili Chahbazi considers herself a person of colour due to her Iranian/Middle East background.

The Corporate responsibility and sustainability report contains further details regarding the male and female representation within the Group, including Board representation.

Graph removed

## Governance

# Corporate governance statement continued

### Board activities and stakeholder engagement

#### Strategic Leadership

- Regularly discussing strategy at Board meetings during the year
- Receiving presentations from operational management on performance against the strategy
- Considering potential acquisition opportunities and other strategic initiatives
- Considering the proposal to open new Specialist Technologies facilities in the United States
- Considering and approving strategic opportunities e.g. the restructuring plan in Western Europe
- Approving the Group's strategy and budget
- Approving the Group's tax and dividend strategy

#### Governance and Risk

- Reviewing the three-year forecast and other factors to support the Viability Statement
- Reviewing Board and Committee effectiveness and directors' conflicts of interest
- Reviewing terms of reference of all Committees
- Reviewing Safety, Health and Environmental updates at each meeting
- Reviewing principal financial and non-financial risks (supported by the Audit Committee)
- Reviewing new corporate governance code and related legislation
- Determining and maintaining the Group's values and ensuring that these are reflected in the business practice

#### People and Succession

- Considering proposals on succession planning, when required, for the Board
- Reviewing proposals on senior executive succession planning
- Considering the talent management programme and the need to develop the managers and executives for the future
- Reviewing the structure, size, composition and diversity of both the Board and its Committees (supported by the Nomination Committee)
- Approving further terms as Non-Executive Directors for Ian Duncan and Eva Lindqvist
- Tailored induction of Non-Executive Directors, when required

#### Performance Monitoring

- Recommending the 2019 final dividend and the 2019 interim dividend
- Reviewing and approving the Group's interim results and Annual Report
- Considering whether the Annual Report and Accounts are fair, balanced and understandable
- Considering monthly operational reports from the Group Chief Executive and Chief Financial Officer
- Reviewing reports from the Chairs of the Audit, Nomination, Remuneration and Finance Committees
- Approving capital expenditure proposals in excess of £4m

Matters reserved for the Board were reviewed during the year and updated where required. Certain defined powers and issues reserved for the Board to decide are, *inter alia*:

- Strategy;
- Approval of financial statements and circulars;
- Capital projects, acquisitions and disposals;
- Annual budgets;
- Directors' appointments, service agreements, remuneration and succession planning; policies for financial statements, treasury, safety, health and environment, donations;
- Committees' terms of reference;
- Board and committee Chairs and membership;
- Investments;
- Equity and bank financing;
- Internal control and risk management;
- Corporate governance;
- Key external and internal appointments; and
- Employee share incentives and pension arrangements.

In advance of Board meetings, directors are supplied with up-to-date information regarding the trading performance of each operating division and subdivision, in addition to the Group's overall financial position and its achievement against prior year results, budgets and forecasts. They are also supplied with the latest available information on safety, health and environmental and risk management issues and details of the safety and health performance of the Group, and each division, in terms of severity and frequency rates for accidents at work. Senior management from across the Group and advisers attend some of the meetings to provide updates. The exposure to members of senior management from across the Group helps enhance the Board's understanding of the business, the implementation of strategy and the changing dynamics of the markets in which the Group operates.

Complementing the regular briefings from operational and functional management about Group-specific matters (such as a report at each Board meeting from the CEO on health and safety), the Board also has a program of briefings from the Group's external advisers on a range of topics. This enables current and future plans to be set in the wider context of the broader environment.

Board visits are an important way in which Board members can engage both with our employees and our customers. During 2019 the Board visited plants in Mexico and USA.

The Group Chief Executive and Chief Financial Officer regularly talk with and meet institutional investors, both individually and collectively, and this has enabled institutional investors to increase their understanding of the Group's strategy and operating performance. In addition, internet users are able to view up-to-date news on the Group and its share price via the Bodycote website at [www.bodycote.com](http://www.bodycote.com). Users of the website can access recent announcements and copies of results presentations and can enroll to hear live presentations. On a regular basis, Bodycote's financial advisers, corporate brokers and financial public relations consultants provide the directors with opinion surveys from analysts and investing institutions following visits and meetings with the Group Chief Executive and Chief Financial Officer. The Chair and SID are available to discuss any issues not resolved by the Group Chief Executive and Chief Financial Officer. On specific issues, such as the review of remuneration packages, the Group has sought, and will continue to seek, the views of leading investors.

Where required, a director may seek independent professional advice, the cost of which is reimbursed by the Group. All directors have access to the Group Company Secretary and they may also address specific issues with the SID. In accordance with the Articles of Association, all newly appointed directors must submit themselves for election. All directors stand for yearly re-election. Non-Executive Directors, including the Chair, are appointed for fixed terms not exceeding three years from the date of first election by shareholders, after which the appointment may be extended by mutual agreement. A statement of the directors' responsibilities is set out on page 78. The Board also operates four committees. These are the Nomination Committee, the Remuneration Committee, the Audit Committee and the Finance Committee. All Non-Executive Directors (excluding the Chair) serve on each Board Committee.

The Board considers that P. Larmon, E. Lindqvist, I.B. Duncan and L. Chahbazi are all independent for the purposes of the Code. The Chair was also considered independent upon appointment.

In line with best practice provisions in the Pre-Emption Group Statement of Principles, the Board confirms that it does not intend to issue more than 7.5% of the issued share capital of the Group on a non-pre-emptive basis in any rolling three-year period.

**The Board's areas of focus in 2020 are expected to include:**

- The Group's culture
- Execution of strategic priorities
- Continued monitoring of financial and operational performance
- Continued strong focus on safety improvements
- Principal risks review
- Increased emphasis on sustainability

## Effectiveness

### Board evaluation

Following the external Board Evaluation in 2018, the Board agreed to undertake an internal evaluation in 2019. To ensure that all aspects of good governance are covered by the review, the Group Company Secretary distributed a tailored questionnaire to each member of the Board. Questions were framed under the following seven topics:

- Remit and objectives;
- Composition, training and resources;
- Corporate governance/risk management;
- Stakeholder engagement;
- Board meetings and visits;
- Board procedures and administration, and
- Evaluation and effectiveness.

At a meeting of the Nomination Committee in September 2019, the directors assessed the conclusions reached and are in the process of implementing a number of recommendations. Additional emphasis will be placed on risk management, strategy and operational matters. The Board evaluation covered the activities of the main Board and each of its Committees. Arising from the exercise, the Board concluded that its focus should remain on divisional growth strategies, technology development, risk and sustainability as well as continued training. The overall conclusion is that the Board is performing well and high governance standards have been adopted. The Executive Committee is strongly challenged by the Board when appropriate.

As in previous years, the Chair has assessed the performance of each Board member by conducting individual interviews and we can confirm that all directors continue to perform effectively and demonstrate commitment to their roles. The Executive Directors S.C. Harris and D. Yates will be appraised in March 2020.

Led by the Senior Independent Non-Executive Director, the directors carried out an evaluation of the Chair's performance in September 2019. The Board was satisfied with the Chair's commitment and performance.

### Proposals for re-election

The Board decided, in line with the Code, that all directors will retire annually and, other than in the case of any director who has decided to stand down from the Board, will offer themselves for re-election at the AGM. Accordingly, A.C. Quinn, S.C. Harris, E. Lindqvist, P. Larmon, I.B. Duncan, D. Yates and L. Chahbazi will stand for re-election at the AGM in May 2020.

The Board recommends to shareholders that they re-elect all the directors. If re-elected, Board members will serve for a period of six years which may be extended in certain circumstances.

The performance of each director was evaluated as indicated above and the Board confirms in respect of each that their performance continues to be effective and that each continues to demonstrate commitment to his or her respective role.

## Corporate governance statement continued

### Accountability

#### Internal control and risk management

In accordance with the FRC 'Guidance on Risk Management, Internal Control and Related Financial Business Reporting' the Board recognises that it is responsible for the Group's system of internal control and risk management. The system has been designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has embedded a continuous process for identifying, evaluating and managing the Group's significant risks, including risks arising out of Bodycote's corporate and social engagement. The Board's monitoring covers all significant strategic, financial, operational and compliance risks. It is based principally on reviewing reports from management and from Internal Audit (IA) to consider whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging these review responsibilities.

To meet updated guidance from the FRC a new process was implemented in 2019 to identify emerging risks. These risks are characterised by their high level of uncertainty both in terms of likelihood and potential impact and are therefore more difficult to manage or mitigate. The process, based around horizon scanning, has explored what the future might look like and seeks to identify early warning signals. Risks that have been considered by the Board have included climate change, new technologies, and cyber risks.

The Board is satisfied that the Group maintains an effective system of internal controls and that there are no significant deficiencies in the system. The system was in operation throughout 2019 and continues to operate up to the date of the approval of this report. The key elements of the Group's system of internal control that is monitored by the Board includes:

- A comprehensive financial planning, accounting and reporting framework
- A Group authority matrix that clearly defines the authority limits for those with delegated responsibility and specifies what can only be decided with central approval.
- Effective from the 1st January 2020 IA is co-sourced with BDO (previously Ernst & Young) to monitor the Group's internal control system. IA reviews are conducted on the basis of a risk-based plan approved annually by the Audit Committee. This includes risk-based visits to each division, shared service centres, and a sample of facilities. The findings and recommendations from IA are reported on a regular basis to the Executive and Audit Committees.

- An annual internal control self-assessment, with management certification, is undertaken by every Bodycote facility. The assessment covers the effectiveness of key financial, compliance and selected operational controls. The results are validated by IA through spot checks and are reported to the Executive and Audit Committees.
- Group Core Values and Group Policies (including the Code of Conduct, Group Authority Matrix and Finance Policies) are documented and are available to all employees via the Group's intranet system.
- The Chief Financial Officer, Group Financial Controller, President and Vice President of Finance for each division sign a letter of representation annually. This is to confirm the adequacy of their systems of internal controls, their compliance with Group Core Values and Group Policies, relevant laws and regulations, and that they have reported any control weaknesses and actual, or attempted, frauds or thefts through the Group's assurance processes.
- A Group-wide risk register and assurance map is maintained throughout the year to identify the Group's key strategic and operational risks. Any changes to these risks during the year are promptly reported to the Executive Committee and the Board.

During 2019, in compliance with provision 29 of the Code, management performed an assessment of its risk management processes for the purpose of this Annual Report. Management's assessment, which has been reviewed by the Audit Committee and the Board, included a review of the Group's key strategic, operational and emerging risks. The review was based on work performed by the Group Head of Risk and the Group's Risk and SHE Committee (by means of workshops, interviews, investigations, and by reviewing departmental or divisional risk registers). These risks have been reviewed throughout the year and no new risks have been added in 2019. Further information regarding the ways in which the principal business risks and uncertainties affecting the Group are managed is shown on pages 27 to 30.

By order of the Board:

#### U.S. Ball

Group Company Secretary  
12 March 2020

Springwood Court  
Springwood Close  
Tytherington Business Park  
Macclesfield  
Cheshire  
SK10 2XF



# Directors' report

## Directors' report

The directors are pleased to submit their report and the audited financial statements for the year ended 31 December 2019.

The Chair's statement, the Chief Executive's review, the Chief Financial Officer's report and all the information contained on pages 8 to 26 together comprise the Directors' report for the year ended 31 December 2019.

## Strategic report

The Strategic report is provided on pages 1 to 37 of this Annual Report. This is a review of the development of the Group's businesses, the financial performance during the year ended 31 December 2019, key performance indicators and a description of the principal risks and uncertainties facing the Group. The Strategic report has been prepared solely to assist the shareholders in assessing the Group's strategies and the potential of those strategies. It should not be relied on by any other party for any other purpose. Forward-looking statements have been made by the directors in good faith using information available up to the date of this report and such statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks. Since the end of the financial year, no important events affecting the business of the Group have occurred.

## Dividends

The Board has recommended a final dividend of 14.0p (2018: 13.3p) bringing the total ordinary dividend to 20.0p per share (2018: 19.0p). If approved by shareholders, the final dividend of 14.0p per share will be paid on 5 June 2020 to all shareholders on the register at the close of business on 24 April 2020.

During the year, the Group became aware of an issue concerning technical compliance with the Companies Act 2006 in respect of the declaration and payment of the 2018 interim dividend and 2018 special dividend. Although the Group had such distributable reserves at the time of declaration and payment, the Group had not lodged interim accounts with Companies House to show that each of the dividends were supported by sufficient distributable reserves. The Group's historical reported trading results and financial condition are entirely unaffected, but the Group proposes to put a resolution to shareholders at the Company's annual general meeting to rectify the position.

## Share capital

The Company's issued ordinary share capital as at 31 December 2019 was £33.1m. No shares were issued during the year. At the AGM on 24 May 2019, the shareholders authorised the Company to purchase up to 22,046,468 of its own shares. This authority expires at the conclusion of the forthcoming AGM to be held on 28 May 2020, at which time a further authority will be sought from shareholders.

## Capital structure

Details of the issued share capital are shown in note 22. The Company has one class of ordinary shares, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 27 and shares held by the Bodycote Employee Benefit Trust abstain from voting and waive dividend rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. The appointment and replacement of directors is governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles of Association may be amended by a special resolution of shareholders. The powers of the directors are described in the Corporate governance statement on page 40. Under the Articles of Association, the Company has authority to issue ordinary shares with a nominal value of £11,023,234.

There are also a number of other agreements that take effect, alter, crystallise or terminate upon a change of control of the Company following a takeover bid such as commercial contracts, bank loan agreements, property lease agreements, employment contracts and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole, and the directors are not aware of any agreements between the Company and themselves or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid except where specifically mentioned in this report.

## Directors

The current directors and their biographical details are listed on page 38 to 39 and all served throughout the year. In line with the UK Corporate Governance Code, all directors retired at the AGM in 2019 and stood for re-election by the shareholders. Going forward all directors will retire at the AGM and will stand for re-election by the shareholders, if they wish to continue to serve as directors of the Company. Accordingly, those directors retiring and offering themselves for re-election at the 2020 AGM are A.C. Quinn, S.C. Harris, D. Yates, I.B. Duncan, E. Lindqvist, P. Larmon and L. Chahbazi. The service agreements for Messrs S.C. Harris and D. Yates are terminable by 12 months' notice. The remaining directors do not have a service agreement with the Company and their appointments are terminable by six months' notice.

## Governance

# Directors' report continued

### Directors' interests in contracts and shares

Details of the Executive Directors' service contracts and details of the directors' interests in the Company's shares and share incentive plans are shown in the Board report on remuneration on pages 56 to 77. No director has had any dealings in any shares or options in the Company since 31 December 2019. Qualifying third party indemnity provision (as defined by section 234 of the Companies Act 2006) has remained in force for the directors for the year ended 31 December 2019 and, as at the date of this report, remains in force for the benefit of the current directors in relation to certain losses and liabilities which they may incur (or have incurred) to third parties in the course of their duties. Apart from these exceptions, none of the directors had a material interest in any contract of significance in relation to the Company and its subsidiaries at any time during the financial year.

### Potential conflicts of interest

During 2008 the duties owed by directors to a company were codified and extended by the Companies Act 2006 so that directors not only had to declare actual conflicts of interest in transactions as they arose, but also had a duty to avoid such conflicts whether real or potential. Potential conflicts of interest could arise where a single director owes a fiduciary duty to more than one organisation (a 'Situational Conflict') which typically will be the case where a director holds directorships in more than one company. In order to ensure that each director was complying with the duties, each director provided the Company with a formal declaration to disclose what Situational Conflicts affected him or her. The Board reviewed the declarations and approved the existence of each declared Situational Conflict up until September 2020 and permitted each affected director to attend and vote at Bodycote directors' meetings, on the basis that each such director continued to keep Bodycote's information confidential, and provided overall that such authorisation remained appropriate and in the interests of shareholders. Where such authorisation becomes inappropriate or not in the interests of Bodycote shareholders, the Chair or the Nomination Committee can revoke an authorisation. No such revocations have been made.

### Employment

The Group recognises the value that can be added to its future profitability and strength through the efforts of its employees. The commitment of employees to excel is key to the Group's continued success. Through their attendance at or participation in strategy, production, safety and health meetings at site level, employees are kept up to date with the performance and progress of the Group, the contribution to the Group made by their site, and are advised of safety and health issues. Employees are able to voice any concerns through the Group's anonymous and confidential Open Door Line, a phone line accessed in the local language. Approximately 3,600 Bodycote employees are connected to the Bodycote intranet, which improves knowledge of Group activities, and assists greatly with technology exchange and co-ordination. It is the Group's policy to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities, and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled, the Group, where practicable, will seek to continue the employment and arrange appropriate training. An equal opportunities policy is in operation in the Group.

### Stakeholder engagement

For details refer to pages 14 and 15.

### Greenhouse gas emissions

Details of greenhouse gas emissions are included within the Corporate responsibility and sustainability section of this report.

### Donations

There were no political contributions in 2018 or 2019.

### Shareholders

An analysis of the Company's shareholders and the shares in issue at 3 March 2020 together with details of the interests of major shareholders in voting shares notified to the Company pursuant to chapter 5 of the Disclosure and Transparency Rules are given on page 149.

### Auditor

In accordance with the provisions of section 489 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP (PwC) as auditor is to be proposed at the forthcoming Annual General Meeting. Each person who is a director at the date of approval of this Annual Report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This statement is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

### Annual General Meeting

The 2020 Annual General Meeting will be held on 28 May 2020 in accordance with the notice being sent to shareholders with this report.

By order of the Board:

#### U.S. Ball

Group Company Secretary  
12 March 2020

Springwood Court  
Springwood Close  
Tytherington Business Park  
Macclesfield  
Cheshire  
SK10 2XF

# Report of the Nomination Committee

Committee membership	No. of meetings 2019: 3	Main committee responsibilities
<b>Director</b> A.C. Quinn I.B. Duncan E. Lindqvist P. Larmon L. Chahbazi	<b>Attendance</b> <div>Icons removed</div> <div>Icons removed</div> <div>Icons removed</div> <div>Icons removed</div> <div>Icons removed</div>	<ul style="list-style-type: none"> <li>Regularly review the structure, size and composition (including the skills, knowledge, experience, and diversity) of the Board and make recommendations to the Board with regard to any changes.</li> <li>Give full consideration to succession planning for directors and other senior executives in the course of its work.</li> <li>Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.</li> </ul>

Dear Shareholders

I am pleased to introduce the Nomination Committee report for 2019. Board composition is a key focus for the Nomination Committee, ensuring that the Board has the right skills and experience to direct the company in the successful execution of its strategy.

The Committee will continue to focus on ensuring that the present and future composition of the Board is appropriate for the delivery of the Group's strategy and that all relevant UK Corporate Governance Code requirements continue to be met.

**A.C. Quinn**

Chair of the Nomination Committee

## Role of the Nomination Committee

The Nomination Committee is a sub-committee of the Board, whose principal purpose is to advise on the appointment and, if necessary, dismissal of executive and Non-Executive Directors. The Committee's terms of reference, which are listed on the Group's website, include all matters required by the UK Corporate Governance Code ('the Code'). Further information on the Code can be found on the Financial Reporting Council's website [www.frc.org.uk](http://www.frc.org.uk). The terms of reference are reviewed annually by the Group Company Secretary and the Chair, and any changes are then referred to the Board for approval. No changes were made to the terms of reference during the year.

## Key Activities

### Board composition/succession planning

- Reviewed and updated succession plans for the Board and senior management

### Diversity

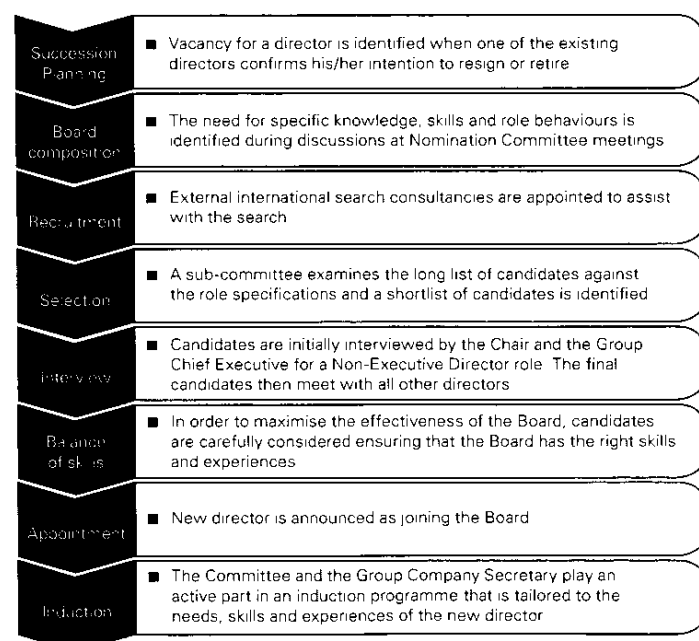
- Reviewed the Group's diversity policy on governance and evaluation

### Non-Executive Directors

- Reviewed continued independence of the Non-Executive Directors
- Reviewed the Non-Executive Director time commitments and overboarding

### Governance and evaluation

- Reviewed the Committee's Terms of Reference
- Evaluated the Committee's effectiveness
- Reviewed the performance of Executive Directors



## Composition of the Nomination Committee

As recommended by the Code, the Chair of the Board acts as the Chair of the Committee whose members also comprise the directors listed above. The Chair cannot chair the Committee when it is dealing with either the succession to the Chairship of the Group or the review of his or her own performance. Only members of the Committee have the right to attend the Committee meetings. Other individuals and external advisers may be invited to attend for all or part of any meeting when it is appropriate. The quorum necessary for the transaction of business is two.

The Group Company Secretary is secretary to the Committee

The Committee has the authority to seek any information that is required, from any officer or employee of the Company or its subsidiaries. In connection with its duties, the Committee is authorised by the Board to take such independent advice (including legal or other professional advice, at the Group's expense) as it considers necessary, including requests for information from, or commissioning investigations by, external advisers

## Governance

# Report of the Nomination Committee continued

### Director appointment policy and progress

The Committee has developed a formal rigorous and transparent procedure for the appointment of new directors. Prior to making any appointment, the Committee, having evaluated the skills, experience and diversity of the Board, determines the qualities and experience they seek and then prepares a detailed description of the role with a view to appointing the most appropriate candidate. The Committee uses open advertising or the services of independent external advisers to facilitate the search.

A long list of candidates is drawn up, from which an appropriate number will be selected for interview. Upon completion the Committee recommends to the Board the appointment of the preferred candidate.

### Board succession planning

There were no changes to the Board structure during the year.

As in previous years the Committee spent time during 2019 considering the important topic of succession planning across the business. The Committee received papers on Executive Director and senior management succession (this includes members of the Executive Committee and all senior management roles in the business). The plan identifies immediate successors for these roles and identifies candidates as potential successors to roles in the longer term. The Committee was satisfied that plans remain sufficiently robust to enable vacancies to be filled on a short to medium term basis while taking account of the continuing need to consider gender diversity.

The Committee acknowledges that in a business the size of Bodycote, it is not always possible to identify internal successors for all roles.

The Committee is confident that it has carried out its role effectively during the year and its work will help to ensure that a strong pipeline of talented individuals is available to support the Group and meet its future business objectives and fulfil its strategic goals.

Graph removed

### Main activities of the Nomination Committee

In 2019 the Committee formally met four times and reviewed the composition and skills of the Board, with a view to considering the current and future skills and experience that the Board might require.

The Committee discussed Board diversity and reviewed the performance of the Group Chief Executive and other senior executives. In particular, the need to broaden the Board membership with respect to gender, ethnicity and age was discussed. The Committee has sought to ensure that appointments are of the best candidates to promote the success of the Company and are based on merit, with due regard for the benefits of diversity on the Board. Further information concerning Board diversity can be found on page 43 as part of the Corporate governance statement. We are pleased to report that as of 1 January 2018 the female representation on the Board had reached 43%, and continued at 43% throughout 2019.

The Committee considered and authorised the potential conflicts of interest which might arise where a director has fiduciary responsibilities in respect of other organisations. The Committee concluded that no inappropriate conflicts of interest exist. The Committee also assigned the Chair to review and agree with the Group Chief Executive his personal objectives for the forthcoming year.

Following the external Board evaluation in 2018, the Board agreed to undertake an internal evaluation during 2019. Further details of the review can be found in the Corporate Governance section of the Annual Report. Recommendations arising from the 2018 Board evaluation have been addressed.

In December 2019 the Nomination Committee reviewed the Board's size and composition, the frequency of the process for Board and Committee meetings, and best practice for dealing with Board issues including drawing up a training and/or induction programme for the directors. The terms of reference of the Committee were reviewed in conjunction with the Model Terms of Reference issued by the Institute of Chartered Secretaries and Administrators. The biographical details of the current directors can be found on pages 38 and 39. The Committee, having reviewed their independence and contribution to Board matters, confirms that the performance of each of the directors standing for re-election at this year's AGM continues to be effective and demonstrates commitment to their roles, including independence of judgement and time commitment for Board and Committee meetings. Accordingly the Committee has recommended to the Board that all current directors of the Company be proposed for re-election at the forthcoming AGM.

As Chair of the Committee, I will be available at the AGM in May 2020 to answer questions relating to the work of the Committee.

On behalf of the Nomination Committee:

**A.C. Quinn CBE**

Chair of the Nomination Committee  
12 March 2020

# Report of the Audit Committee

Committee membership	No. of meetings 2019: 4 <small>icons removed</small>	Main committee responsibilities
<b>Director</b> I.B. Duncan E. Lindqvist P. Larmon L. Chahbazi	<b>Attendance</b> <div><small>icons removed</small></div> <div><small>icons removed</small></div> <div><small>icons removed</small></div> <div><small>icons removed</small></div>	<ul style="list-style-type: none"> <li>■ Encourage and safeguard the highest standards of integrity, financial reporting, financial risk management and internal controls.</li> <li>■ Monitor the integrity of the financial statements including annual and half-yearly reports, trading updates and any other formal announcements relating to its financial performance. Reviewing and reporting to the Board on significant financial reporting issues and judgements.</li> <li>■ Review the content of the Annual Report and advise the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.</li> <li>■ Monitor and review the adequacy and effectiveness of the Group's internal financial control and risk management systems including the robust assessment of both emerging and principal risks.</li> <li>■ Oversee the relationship and transition with the new external auditor including consideration of fees, audit scope, terms of engagement, ensuring compliance with policy for the provision of non-audit services and to make recommendations to the Board, subject to the approval by shareholders, on the appointment, reappointment or removal of the external auditor.</li> <li>■ Monitor and review the effectiveness of the Group's internal audit function and its key findings and trends arising, and the resolution of these matters.</li> <li>■ Review the adequacy and security of the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.</li> </ul> <p>The full terms of reference for the Committee can be found on the Group's website.</p>

## Introduction

I am pleased to present the 2019 report of the Audit Committee which describes how the Committee has carried out its responsibilities during the year. We have had a number of key topics to consider in 2019, most significantly:

- The implementation and adoption of IFRS 16
- Adoption of the 2018 UK Corporate Governance Code
- PricewaterhouseCoopers LLP appointment as the Group's new auditor following the audit tender in 2018
- Implementation of an emerging risk identification process

## Objective

The Committee continues to focus on the integrity of Bodycote's financial reporting, risk management and internal controls and on the quality of the external and internal audit processes. The Committee will continue to keep its activities under review as the regulatory environment changes. Its objective is to provide effective governance over the Group's reporting, including the adequacy of related disclosures, the management and oversight of the Group's systems of internal control, financial risks and the performance of internal audit as well as the appointment and evaluation of the external auditors.

## Committee membership and meetings

The members of the Audit Committee are all independent Non-Executive Directors. Their biographical details are shown on pages 38 and 39, and their remuneration on page 61. The Group Company Secretary is the secretary to the Audit Committee.

I.B. Duncan is Chairman of the Audit Committee. He is a Chartered Accountant with strong experience in senior finance roles including Chairman of several other listed company audit committees. The Board considers that I.B. Duncan has recent and relevant financial, accounting and sector experience required to Chair the Committee.

All members of the Committee have significant and widespread experience in both executive and non-executive capacities of multinational industrial companies and are considered to have competencies relevant to their duties.

The Audit Committee met four times during 2019 and in March 2020 and all members attended all the meetings. The Committee Chairman also invited the Board Chair, Group Chief Executive, Group Chief Financial Officer, Group Financial Controller and Group Head of Risk (who is responsible for internal audit) to attend all regular meetings. Other senior management from the Group were also invited, as appropriate, to attend meetings to provide a deeper level of insight into key issues. The Committee Chairman also invited the 2018 outgoing external auditor, Deloitte LLP ("Deloitte") to attend the March 2019 meeting and the 2019 external auditor PricewaterhouseCoopers LLP ("PwC") to attend every meeting. As part of the process of working with the Board to carry out its responsibilities and to maximise effectiveness, meetings of the Committee generally take place just prior to Board meetings.

I.B. Duncan also held preparatory meetings separately with the external auditor, the Group Chief Financial Officer, the Group Financial Controller and the Group Head of Risk prior to Committee meetings to review their reports and discuss issues in detail. Deloitte and PwC, the Group Head of Risk and the internal auditors (Ernst & Young LLP) met with the Audit Committee without the executives present.

## Governance

# Report of the Audit Committee continued

### Main activities of the Committee during the year

The Committee is responsible for reviewing the interim results and the annual report and financial statements before recommending them to the Board for approval.

At its meetings, the Committee focused on the following main areas:

#### Financial reporting

The primary recurring role of the Committee in relation to financial reporting has been to review, with management and the external auditor, the appropriateness and integrity of the interim and annual report and financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices including interpretation of reporting standards and the adoption of policies;
- the application and impact of significant judgements, accounting estimates and matters where there was significant discussion with the external auditor;
- the clarity of disclosures and compliance with International Financial Reporting Standards;
- the key points of disclosure and presentation to ensure the adequacy, clarity and completeness in the annual report and financial statements;
- whether the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's strategy, business model and performance;
- reviewing with both management and the external auditor to ensure audit scoping was appropriate and that the external auditor had applied the necessary level of professional scepticism in performing their work; and
- reviewing various materials to support the statements on risk management and internal control and related disclosures made in the annual report and financial statements on this matter.

Reports from management were reviewed on significant matters, including litigation, accounting, treasury and tax matters and also reports from the external auditor on the outcome of their work. A summary of the areas of focus considered by the Committee in respect of the 2019 consolidated financial statements is set out in the table below.

#### Fair, balanced and understandable

The Committee has reviewed the form and content of the interim and annual report and financial statements and a paper prepared by management setting out the approach taken in its preparation. The review included the processes for preparing the annual report, ensuring it contains complete and accurate information, and the reviews performed to ensure feedback was appropriately reflected (including internal and external reviews) to be able to confirm that the annual report is fair, balanced and understandable.

Based on the activities described above and on robust discussion with both management and the external auditor, the Committee was satisfied with the work performed and advised the Board that the annual report, taken as a whole, presents a fair, balanced and understandable view of the business and its performance for the year under review and that it provides the information necessary for shareholders to assess the Group's strategy, business model, position and performance.

In addition to these matters, the Committee considered the following significant topics impacting the financial statements:

Area of Focus	Actions
<p><i>Leases</i></p> <p>The Group has adopted IFRS 16 "Leases". The impact on the accounting policies and on the financial statements are discussed in more detail in our accounting policies and note 12 to the financial statements.</p>	<p>The Committee has considered a report from management in relation to the restated financial information and the updated accounting policy.</p> <p>The Committee also reviewed reports from management explaining the implementation and how leases are accounted for and disclosed in the financial statements and agreed the judgements and estimates to adopt IFRS 16. It also reviewed the disclosures and the restated information and satisfied itself that the restated financial information was appropriate.</p>
<p><i>Impairment of assets</i></p> <p>As set out in the accounting policies, the Group reviews the carrying amounts of tangible and intangible assets at least annually. Refer to note 9 of the financial statements.</p>	<p>The Committee considered the report from management describing potential impairment indicators of tangible and intangible assets and the outcomes of related impairment tests.</p> <p>The Committee reviewed and challenged the future forecasts underlying the value in use calculation, and the assumptions, particularly the discount rate and growth factors used in the discounted cash flow calculations for each cash generating unit, the sensitivity analysis applied, and the projected future cash flows used to support the carrying values of the assets.</p> <p>The Committee considered the adequacy of the disclosures provided. Details of sensitivity analysis applied to key assumptions used in the impairment review as well as conclusions are set out in note 9 to the Financial Statements.</p> <p>The Committee was satisfied with the carrying value of assets and goodwill and the related disclosures.</p>
<p><i>Restructuring, reorganisation and environmental provisions</i></p> <p>Assumptions and judgement are exercised in the development of restructuring, reorganisation and environmental provisions.</p>	<p>The Committee received reports from management and reviewed the basis and the completeness of the assumptions used to calculate the provisions and the appropriateness of disclosures in the Report, and concluded that the basis of preparation was appropriate. The Committee discussed with management the key judgements behind provisions, taking note of the range of possible outcomes, and agreed with their recommendation.</p>
<p><i>Going concern and viability statement</i></p>	<p>The Committee reviewed and challenged the validity of the going concern assumption and viability statement used in the preparation of the Annual Report, in particular considering the Group's forecast for profits and cash generation, its liquidity position, available borrowing facilities and covenant compliance. Sensitivity analysis was undertaken to understand the impact of changes to key variables. The Committee also examined potential impacts that Brexit may have on the above considerations and concluded that no material impact is expected.</p>
<p><i>Taxation</i></p> <p>The Group operates in a number of countries and is subject to reviews by different tax authorities in the ordinary course of business. A number of judgements are involved in calculating tax provisions and the level of deferred tax assets to be recognised.</p> <p>The Group is regularly subject to routine tax audits and provisions are made based on the tax laws in the relevant country and the expected outcomes of any negotiations or settlements.</p> <p>Recognition of deferred tax assets, relating to future utilisation of accumulated tax losses is dependent on future profitability and performance of the underlying business.</p> <p>Refer to notes 6 and 19 of the financial statements.</p>	<p>The Committee receives regular reports from management about new legislative developments that may impact the Group's tax positions.</p> <p>The Committee has focused on reviewing, understanding and challenging the Group's critical tax risks and management's assessment and valuation of these risks. The Committee has supported enhanced transparency over the Group's tax risks and strategy in external reporting. Key risks notably in the European Commission's State Aid decision, resolving Brexit implications and internal cross border funding arrangements have been reviewed and challenged including management's forecast of the future taxable profits of the relevant businesses. The Committee was satisfied with the Group's tax approach and with the accounting treatment and disclosure in respect of tax exposures.</p>
<p><i>Retirement benefits schemes</i></p> <p>There will often be a range of reasonable assumptions and judgements involved in determining pension liabilities in relation to the Group's defined benefit schemes.</p>	<p>Management took external professional advice in determining pension liabilities. The Committee reviewed and agreed the methods, assumptions used, and benchmarks, particularly in respect of inflation, the discount rate, life expectancy and the application of IFRIC 14 to the UK pension scheme, considering current norms and the sensitivity of the reported liability to changes in the assumptions.</p> <p>The Committee agreed the treatment and the corresponding disclosures on these matters. See note 29 of the financial statements.</p>

## Governance

# Report of the Audit Committee continued

### External audit

The Committee is responsible for managing the relationship with the Group's external auditor on behalf of the Board.

The Committee continues to review and make recommendations with regard to the reappointment of the external auditor each year. In making these recommendations the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditor's reappointment.

The Group last undertook a tender for external audit services during 2018 which led to the appointment of PwC at the May 2019 Annual General Meeting with Mr. Simon Morley as the lead audit partner.

The Group will continue the practice of requiring the lead partner to change every five years in order to protect independence and objectivity and provide a fresh challenge to the Group.

During the year, significant time has been spent on transition activities and the Committee is confident that the transition is complete. Transition activities included:

- Shadowing Deloitte through the 2018 year-end process;
- Planning workshops held with the Group;
- Review of Deloitte's working papers; and
- Detailed walkthrough tests of key processes and controls.

At the May meeting, PwC presented their audit plans for the interim review and year-end audit. During the October meeting, PwC provided an updated plan for their year-end audit. The Committee considered, challenged and agreed the scope and materiality to be applied to the Group audit and its components. The Committee considered carefully the scope in respect of smaller and more remote locations as well as emerging market locations and noted that the majority of local audits are to be undertaken by PwC. 2019 audit fees were agreed at £1.1m.

Key audit matters and the audit approach to these matters are discussed in the Independent Auditor's Report (pages 79 to 85), which also highlights the other significant matters that PwC drew to the Committee's attention.

### Assessment of effectiveness

The Committee has adopted a formal framework for the review of the effectiveness of the external audit process and audit quality which includes the following aspects:

- assessment of the engagement partner, other partners and the audit team;
- audit approach and scope, including identification of risk areas;
- execution of the audit;
- interaction with management;
- communication with, and support to; the Audit Committee;
- insights, management letter points, added value and reports; and
- independence, objectivity and scepticism.

An assessment questionnaire is completed by each member of the Committee, the Group Chief Executive, the Group Chief Financial Officer, and other senior finance executives. The feedback from the process is considered by the Audit Committee and provided to the external auditor and management. Having assessed the previous external auditor, Deloitte, in 2019, the Committee will assess PwC in 2020 following completion of the year-end audit. The full formal questionnaire is completed every three years with key areas being completed every year.

The Committee assessed the effectiveness of management in the external audit process by considering timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements and other documents provided for review by the external auditor and the Committee.

The Committee considered the FRC Audit Quality Review report on PwC dated July 2019. If the audit is selected for quality review, the Committee understands that any resulting reports will be sent to the Committee by the FRC. After considering the above matters, the Committee felt that the external audit had been effective. During 2019, the Group complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) order 2014.

### Non-audit services

The external auditor may be invited to provide services where their position as auditor renders them best placed to undertake the work. In order to safeguard the auditor's independence and objectivity, and in accordance with the FRC's Ethical Standard, the Group does not engage PwC for any non-audit services except where it is work that they must, or are clearly best-suited and are permitted to perform. Non-audit services cannot be awarded to the external auditor without prior approval from the Committee Chairman. Non-audit fees paid to the auditor are shown in note 3 and amounted to 9% (Deloitte: 2018 11%) of the audit fee.



### Independence

The independence of the external auditor has been confirmed by PwC at half year and was last confirmed again in March 2020. The Committee considered PwC's presentation and confirmed that it considered the auditor to be independent

### Internal audit

The internal audit plan for 2019 was presented to the Committee in October 2018. The plan takes account of the Group's strategic objectives and risks and provides the degree of coverage deemed appropriate by the Committee. The Committee reviewed and accepted the plan following discussions and challenge as to the scope and areas of focus. At each regular meeting the Group Head of Risk presented a report to the Committee on the status of the internal audit plan, points arising from audits completed and follow-up action plans to address areas of weakness. The status of these actions is monitored closely by the Committee until they are completed. The Committee also received reports on actual or suspected frauds and thefts by third parties and employees. None had any material financial impact on the Group and, where necessary, systems and procedures were altered to minimise the risk of recurrence.

The Group Head of Risk provides independent assurance over the key financial processes and controls in operation across the Group. The Group engaged Ernst & Young LLP ("EY") to provide internal audit services.

Additional assurance has been obtained through a control self-assessment. Internal auditors have received self-certification from every plant that internal controls have been complied with and noting any non-compliance. A summary of the results was presented to the Committee. The accuracy of returns is monitored by Internal Audit by verification visits to a random sample of sites.

The effectiveness of internal audit is reviewed and discussed annually with the Group Head of Risk and the EY engagement partner. Audit quality is assured through a detailed review of each report being carried out by the Group Head of Risk, and a summary of each report's findings being reviewed by the Audit Committee. The review confirmed that the internal audit function was independent and objective and remained an effective element of the Group's corporate governance framework.

Internal Audit services have been provided by EY since 2012. While this arrangement has worked satisfactorily for the last 7 years the Group decided to review the provision of this service. A tender exercise has been conducted which a number of firms, including EY, participated. All the invited firms presented their proposals to a senior management panel led by the Group Head of Risk. The panel recommended to the Audit Committee that BDO LLP should be appointed to provide Internal Audit Service for a three year period commencing January 2020.

### Risk management

The Committee reviewed the effectiveness of the Group's risk management and internal control systems through updates at each meeting from the Group Head of Risk who has responsibility for developing the Group's risk management and internal controls framework.

The Committee reviewed changes to the principal risks and mitigating actions identified by management and also implemented an emerging risk identification process which, although aligned with the Group's existing risk process, was performed and reported separately to the Committee. Refer to the Principal Risks and Uncertainties report on pages 27 to 30. The Committee also received regular reports on issues raised via the Open Door Line (an external independent service where employees may report matters of concern) and assessed both how such calls are dealt with and whether there was any indication of material risk. During 2019 there were 16 Open Door cases, all of which were investigated and closed during the year, with appropriate action taken where necessary.

### Internal control

At each meeting the Committee considered and challenged reports from the internal auditors on the effectiveness of internal controls and noted no significant weaknesses. The Committee also performed an annual review of the Group's internal control processes and considers the system to be effective and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting as issued by the FRC (September 2014).

### Committee evaluation

The Committee's activities formed part of an internal review of Board effectiveness which was undertaken in August 2019 and approved by the Board in October 2019. There were no material deficiencies noted in the review and directors indicated a high level of satisfaction with the work of the Committee. Based on this, and as a result of the work done during the year, the Committee has concluded that it has acted in accordance with its terms of reference and carried out its responsibilities effectively.

On behalf of the Audit Committee:

### I.B. Duncan

Chairman of the Audit Committee  
12 March 2020

## Governance

# Board report on remuneration

Committee membership	No. of meetings 2019: 4 <small>cons. approved</small>	Main committee responsibilities
<b>Director</b> E. Lindqvist I. B. Duncan P. Larmon L. Chahbazi	<b>Attendance</b> <div><small>cons. removed</small></div> <div><small>cons. removed</small></div> <div><small>cons. removed</small></div> <div><small>cons. removed</small></div>	<ul style="list-style-type: none"> <li>■ Responsibility for setting the remuneration policy for all executive directors, senior management and the Company's Chair.</li> <li>■ Recommend and monitor the level and structure of remuneration for senior management.</li> <li>■ Review workforce remuneration and related policies and the alignments of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.</li> <li>■ Review the ongoing appropriateness and relevance of the remuneration policy.</li> <li>■ Appoint remuneration consultants.</li> <li>■ Approve the design of and determine targets for executive directors' and other senior executives' performance-related pay schemes.</li> <li>■ Review the design of all share incentive plans for approval by the Board and shareholders. Determine whether awards will be made on an annual basis.</li> </ul>

## Chair's letter

As Chair of the Remuneration Committee ('the Committee') and on behalf of the Board of Directors, I am pleased to present our Board report on remuneration for the 2019 financial year, in line with the requirements of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

## Structure of report

The structure of our report is as follows:

- **Section A:** This describes how the existing policy, approved at the 2019 Annual General Meetings, was applied in 2019; and
- **Section B:** This sets out our remuneration policy. It is also available on our website at [www.bodycote.com/en/investors/reports-and-results/2019.aspx](http://www.bodycote.com/en/investors/reports-and-results/2019.aspx)

## The UK Corporate Governance Code

The revised UK Corporate Governance Code represents some of the most significant changes to the work of the Committee to occur in recent years. The Committee fully endorses the requirements and underlying intent of the Code and we will continue to ensure we operate in compliance with its requirements. Focusing on simplicity and strategic alignment is fundamental to our thinking, alongside a desire to create long-term alignment between management and the shareholder experience. We also recognise the importance of considering wider stakeholders – including our employees – in our decision making processes. The Committee is working together with the Company's human resources team to ensure the Committee can best support the Board in its new overarching responsibility to ensure workforce policies and practices are in line with culture and strategy, and will report on our approach in due course.

In developing the revised Policy we considered the provisions prescribed by the revised Code around Clarity, Simplicity, Risk, Predictability, Proportionality and Alignment to culture. We believe that our new policy fully and appropriately addresses each of these areas.

Key remuneration element of the code	Company position
Five-year period between the grant and realisation for share award	The 2020 BIP meets this requirement.
Phased release of share awards	The BIP ensures the phased release of share awards through annual grants.
Discretion to override formulaic outcomes	The remuneration policy and the scheme contain the ability to apply discretion for the bonus/DBP and the BIP.
Pension Alignment	New Executive Directors will be brought in at a pension contribution equivalent to the wider workforce in their country of residence. Provisions for Executive Directors will be brought in line with the wider workforce in their country of residence over the next three years.
Extended Malus and Clawback	The current malus and clawback provisions are in line with the suggested best practice included in the new code.
Post-termination holding requirement	A post-termination policy is not in place, but a partial policy based on the two-year holding period under the BIP and the three-year deferral under the DBP is in place.

## Business performance and incentive outcomes for 2019

Bodycote has delivered a robust performance in 2019 despite challenging markets. Strong performance in civil aerospace and emerging markets did not fully offset the impact of declines elsewhere. Nonetheless, the return on sales, at 18.7%, demonstrates the ability of the Group to adapt effectively to changes in business conditions.

We believe that the incentive payouts we have made to our Executive Directors reflect this robust performance in a difficult year and are aligned to the overall performance of the Company. As such, the Committee determined that no discretionary adjustments (either upward or downward) would be required from the formulaic outcomes

#### Annual bonus

The Group's headline operating profit declined 5% at constant currency rates to £134.3m. The definition of headline operating cashflow has changed in 2019, as referred to in the Chief Financial Officer's report on pages 25 to 26 and in note 1 to the financial statements on page 99. In 2019, the Executive Director's annual bonus was measured against the previous definition of headline operating cash flow, which at constant currency rates has increased by 3% to £132.1m, supporting our ability to return cash to our shareholders. As these measures are our core internal financial metrics they form the core annual bonus metrics. The annual bonus also contains a personal element (weighted to 13% of the total) that primarily reflects how our Executive Directors have delivered on our strategic goals, and in particular our investments in growth. Given the strength of our strategic implementation and the extent to which this has been reflected in financial performance, the outcome under the personal measure of 66% of maximum for the CEO and 60% of maximum for the CFO are appropriate in the context of the overall performance of the Business.

The annual bonus therefore paid out at 50.4% of maximum for the CEO and 49.6% of maximum for the CFO, of which 35% will be deferred into shares for three years, in line with our approved policy for bonus deferral.

#### Long-term incentive

The Company's principal long-term incentive, the Bodycote Incentive Plan (BIP) is based on performance against return on capital employed (ROCE) and earnings per share (EPS) targets over a three-year period. Our ongoing focus on operating efficiency, margins, and targeted investments in rapid growth markets has supported earnings development over the three-year period despite the challenging environment, resulting in an outcome of 100% of maximum under this measure. Strong returns have also been delivered, helped by the focus on capital investment in specialist markets, and ROCE performance was 68.8% of maximum.

#### Application of policy for 2020

We set out below a brief overview of our intended application of policy for 2020.

- **Base salaries:** The CEO lives and works in Prague, Czech Republic, which is the centre for European operations. The CFO lives and works in Nyon, Switzerland in our regional management office. The CEO and CFO received salary increases of 7.0% and 2.3% respectively, in line with the average increases awarded to the Czech Republic and Swiss employee populations. This is to reflect pay practices and salary inflation in the countries in which the Executive Directors reside. A 7% salary increase for the CEO, in part, seeks to ensure his salary is appropriately positioned within the market competitive range for FTSE companies of a similar size and complexity, and reflects his significant experience in the role.
- **Benefits:** There will be no changes to benefits provided to our Executive Directors.
- **Pension:** Contributions for the Executive Directors will reduce from 25.0% to 24.5% as of 2020. Contributions will then be reduced over the next two years so they are aligned with the company pension contributions of the wider workforce in the country that they live and work. The wider workforce in the Czech Republic receives company contributions of 23.5% of salary. In Switzerland the wider workforce receives company contributions of 23.5% from age 55. The Committee considers it appropriate to align the Executive Directors' pension provision with such levels, in order to reflect practices in the countries in which the Executive Directors reside. The Remuneration Policy Table on page 69 has been updated so that it is consistent with these changes.
- **Annual bonus:** The maximum bonus opportunity remains 200% of salary for the CEO and 150% of salary for the CFO, with 35% of any bonus paid being deferred in shares for three years. The measures and weightings used have been reviewed and we believe a bonus consisting of 77% headline operating profit, 10% headline operating cash flow and 13% personal objectives continues to enable the annual bonus to be aligned to the Company's strategy and ensures our executives are focused on delivery of improved profitability and control on working capital.
- **Bodycote Incentive Plan (BIP):** Award levels will remain 175% of salary for Executive Directors. Similarly, measures and weightings have been reviewed and we believe the equal focus on returns and earnings is strongly aligned with our strategic priorities. The growth of our business and our ability to deliver strong and sustainable returns to investors is based on delivery of an effective deployment of capital in rapid growth areas and on acquisitions, which ROCE and EPS continue to create alignment to.

I trust the information presented in this report enables our shareholders to understand both how we have operated our remuneration policy over the year and the rationale for our decision making. We remain fully committed to continuing an open and transparent dialogue with our shareholders. I would welcome your views on our policy, the content of this report or any other items you would like to discuss and I look forward to meeting you and answering any questions you may have at the AGM.

#### E. Lindqvist

Chair of the Remuneration Committee  
12 March 2020

This report has been structured to support the reader in quickly and easily accessing relevant information.

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Section B: Remuneration Policy	68

# Board report on remuneration continued

## Section A

### Remuneration at a glance

This introduction provides a high-level overview of the remuneration received by our Executive Directors. Full details can be found in the Annual Report on Remuneration.

	Key features	Purpose and link to strategy	Outcomes for 2019	Implementation for 2020
<b>Salary and fees</b>	<ul style="list-style-type: none"> <li>■ Base salaries are reviewed in January every year</li> <li>■ Salary reviews are based on role, experience, performance, internal increases and the external market</li> </ul>	<ul style="list-style-type: none"> <li>■ To award competitive salaries to attract and retain the talent required to execute the strategy while ensuring the Group pays no more than necessary</li> </ul>	<ul style="list-style-type: none"> <li>■ S.C. Harris received a salary of £558,181, an increase of 3%</li> <li>■ D. Yates received a salary of £402,751, an increase of 3%</li> <li>■ The average salary increase for all UK employees was 3%</li> </ul>	<ul style="list-style-type: none"> <li>■ S.C. Harris will receive a salary of £597,254, an increase of 7.0%</li> <li>■ D. Yates will receive a salary of £412,014, an increase of 2.3%</li> <li>■ Non-Executive Director fees will next be reviewed at the March 2020 meeting and the outcome will be disclosed in the following year's report</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>■ A range of cash benefits and benefits in kind</li> </ul>	<ul style="list-style-type: none"> <li>■ Provides market-competitive benefits at an appropriate cost</li> </ul>	<ul style="list-style-type: none"> <li>■ Benefits consist of company car, private medical insurance, life assurance and sick pay</li> </ul>	<ul style="list-style-type: none"> <li>■ No changes proposed</li> </ul>
<b>Pension</b>	<ul style="list-style-type: none"> <li>■ Contribution to the company's defined contribution scheme, or cash equivalent</li> </ul>	<ul style="list-style-type: none"> <li>■ Provides a market-competitive benefit in order to attract the talent required to execute the strategy and provide a market-competitive level of provision for post-retirement income</li> </ul>	<ul style="list-style-type: none"> <li>■ Legacy company contribution (or cash equivalent) of 25% of base salary for current Executive Directors</li> <li>■ Pension contributions for new Executive Directors are to be aligned to those applicable to other employees and will be set at the time of appointment</li> </ul>	<ul style="list-style-type: none"> <li>■ Phased reduction to 23.5% of salary by 1 January 2022</li> </ul>
<b>Annual Bonus</b>	<ul style="list-style-type: none"> <li>■ Maximum bonus opportunity of 200% and 150% of base salary for the CEO and CFO, respectively</li> <li>■ 35% of any bonus earned is deferred into shares for 3 years, conditional on continued employment</li> </ul>	<ul style="list-style-type: none"> <li>■ To incentivise delivery of corporate strategy on an annual basis and reward delivery of superior performance. The deferred portion of the bonus supports longer-term shareholder alignment</li> </ul>	<ul style="list-style-type: none"> <li>■ The 2019 annual bonus was based on three elements, group headline operating profit (77%), group headline operating cash flow (10%) and personal scorecard (13%)</li> <li>■ S.C. Harris and D. Yates received annual bonuses, as a percentage of max of 50.4% and 49.6%, respectively</li> </ul>	<ul style="list-style-type: none"> <li>■ No changes proposed</li> </ul>
<b>Bodycote Incentive Plan (BIP)</b>	<ul style="list-style-type: none"> <li>■ Annual grants at 175% of base salary, subject to a three-year performance period</li> <li>■ Beginning with the 2019 grant, awards will also be subject to a two-year holding period</li> </ul>	<ul style="list-style-type: none"> <li>■ To incentivise delivery of long-term strategic goals and shareholder value and aid retention of senior management</li> </ul>	<ul style="list-style-type: none"> <li>■ The BIP granted in 2017 and vesting in 2020 was based on ROCE (50%) and headline EPS (50%) resulting in 84.4% of maximum vesting</li> </ul>	<ul style="list-style-type: none"> <li>■ No changes proposed</li> </ul>
<b>Shareholding requirement</b>	<ul style="list-style-type: none"> <li>■ Executive Directors are required to build up a holding of 200% of base salary over five years. Shares awarded but not vested will not count.</li> </ul>	<ul style="list-style-type: none"> <li>■ To provide alignment of interest between participants and shareholders</li> </ul>	<ul style="list-style-type: none"> <li>■ Both Executive Directors exceed the minimum shareholding requirement, see page 65</li> </ul>	<ul style="list-style-type: none"> <li>■ No changes proposed</li> </ul>

**Bodycote  
Incentive Plan  
(BIP)**

The targets for the 2020 BIP awards are disclosed below. ROCE targets reflect the impact of IFRS 16 (leases).

Performance metric	BIP targets for 2020 award	
	Headline EPS	ROCE <sup>1</sup>
Weighting (% of total award)	50%	50%
Performance period	3 years	3 years
Threshold performance	44.0p	14.0%
Vesting level	0%	0%
Maximum performance	62.0p	19.5%
Vesting level	Full vesting	Full vesting
EPS underpin	37.4p	

<sup>1</sup> For the purposes of the BIP scheme, pre-tax ROCE is calculated using actual exchange rates.  
Capital Employed includes the goodwill existing as at the start of the performance period (1 January 2017) only

During the year, the Committee reviewed the BIP structure and measures in the context of our strategic priorities over the coming three years. The Committee determined that the current framework continues to appropriately support delivery of our strategic plan.

*Vesting of awards under the BIP is based on EPS and ROCE. These have been reviewed during the year and we continue to believe that the focus on earnings and returns is strongly aligned with our strategic priorities. The growth of our business and our ability to deliver strong and sustainable returns to investors is based on delivery of and effective deployment of capital in rapid growth areas and on acquisitions, which ROCE and EPS continue to create alignment to. This is referenced in more detail on page 25 of this Annual Report.*

Strategic report

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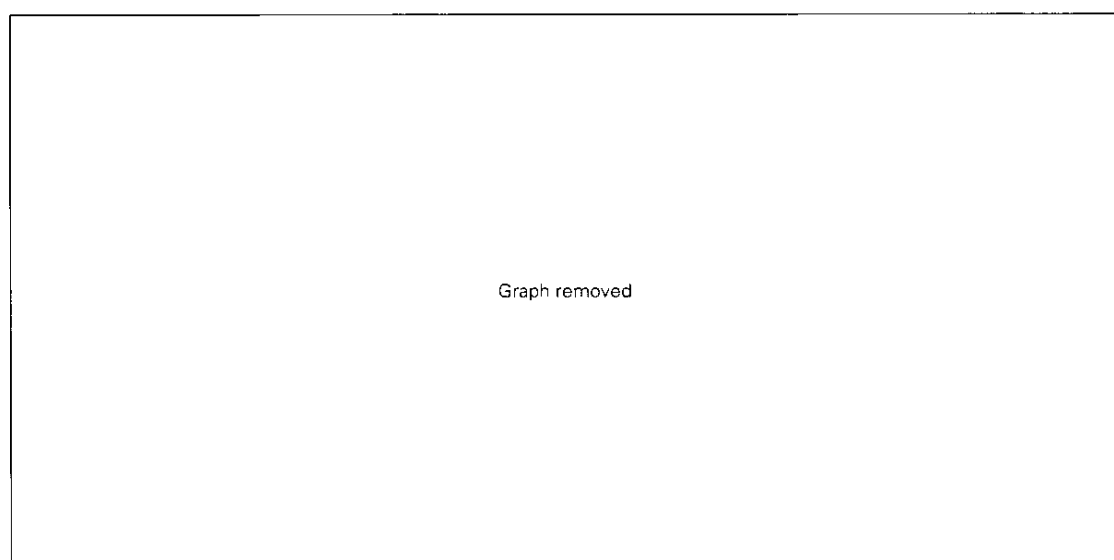
Additional information

## Governance

# Board report on remuneration continued

### Illustration of application of remuneration policy for 2020

The remuneration package for the Executive Directors is designed to provide an appropriate balance between fixed and variable performance-related components. The Committee is satisfied that the composition and structure of the remuneration package is appropriate, clearly supports the Company's strategic ambitions and does not incentivise inappropriate risk taking. This is reviewed on an annual basis. The chart below sets out illustrations of the impact of share price appreciation on the composition and value of each Executive Director's remuneration package, should they achieve minimum, at-target or maximum performance. This disclosure is in line with The Companies (Miscellaneous Reporting) Regulations 2018.



For the purposes of the above analysis, the following methodology has been used:

- Fixed elements comprise base salary and other benefits:
  - Base salary reflects the base salary as at 1 January 2020.
  - Benefits reflect benefits received in 2019 (including pension).
- For on-target performance, an assumption of 60% of annual bonus is applied and vesting of 50% of the maximum for the BIP.
- For the minimum, on-target and maximum basis bars no share price increase has been assumed or dividend reinvestment.
- Annual variable element is the annual bonus both cash and deferred shares.
- Long-term variable element is the BIP award and dividend equivalents.

## Annual report on remuneration

This section provides details of remuneration outcomes for Executive Directors who served during the financial year ended 31 December 2019. This section of the report is audited and subject to an advisory vote by shareholders at the 2020 AGM.

### Auditable section

#### Total single figure table

Incumbent	Financial year	Total salary/fees (£000)	Total pension (£000)	Total other benefits <sup>1</sup> (£000)	Annual bonus <sup>2</sup> (£000)	Total BiP (£000)	Share price gain on vesting of BiP between grant and vest date (£000)	Total CIP <sup>4</sup> (£000)	Total (£000)
<b>Executive Directors</b>									
S.C. Harris	2019	558	140	42	563	853 <sup>3</sup>	716	45	2,156
	2018	542	135	22	742	1,233 <sup>3</sup>	782	54	2,728
D. Yates	2019	403	101	27	300	634 <sup>2</sup>	532	33	1,465
	2018	391	98	17	394	–	–	–	900
<b>Non-Executive Directors</b>									
A. C. Quinn	2019	232	–	1	–	–	–	–	233
	2018	225	–	–	–	–	–	–	225
P. Larmon	2019	65	–	1	–	–	–	–	66
	2018	56	–	2	–	–	–	–	58
E. Lindqvist	2019	67	–	3	–	–	–	–	70
	2018	65	–	–	–	–	–	–	65
I.B. Duncan	2019	77	–	1	–	–	–	–	78
	2018	74	–	–	–	–	–	–	74
L. Chahbazi	2019	58	–	1	–	–	–	–	59
	2018	56	–	–	–	–	–	–	56

Notes accompanying the total single figure table

- 1 Other benefits consist of company car (or allowance), family level private medical insurance, life assurance cover and sick pay. Certain other expenses incurred in pursuit of bona fide business activities are, under UK tax regulations, treated as a taxable benefit in kind, and the directors have received grossed up compensation for this in order to leave him/her in a neutral position.
- 2 The 2019 figures relate to BiP awards made in 2017 with performance periods ending on 31 December 2019. Shares vested as the targets were achieved at 147.7% out of 175%. This includes dividend equivalents. For 2019 dividend equivalents for S.C. Harris were £92,469 and for D. Yates were £68,721. An estimated market price at vesting was used of £8.08 calculated as the three months' average from 1 October to 31 December 2019.
- 3 This included dividend equivalents. An estimated share price of £7.68 calculated as the three months' average from 1 October to 31 December 2018 was used to estimate the value in the 2018 Annual Report. This has now been updated with the share price of £8.26 at the close of markets on the vesting date of 11 March 2019.
- 4 The last CIP award was made in 2015 and vested in 2018. No further awards have been made.
- 5 35% of the annual bonus will be deferred in shares.

The base salaries of the Executive Directors are reviewed in January every year. As noted in the Chair's letter on page 56, the CEO and CFO received salary increases in line with the average increases awarded to the Czech Republic and Swiss wider workforce respectively. This is to reflect pay practices and salary inflation in the countries in which the Executive Directors reside. A 7% salary increase for the CEO, in part, seeks to ensure his salary is appropriately positioned within the market competitive range for FTSE companies of a similar size and complexity and reflects his significant experience in the role. The table below sets out the base salary figures for 2020 along with comparative figures for 2019.

Name	Position	Salary from 1 January 2019	Salary from 1 January 2020	Salary increase
S.C. Harris	Group Chief Executive	£558,181	£597,254	7.0%
D. Yates	Chief Financial Officer	£402,751	£412,014	2.3%

### Pension

S.C. Harris and D. Yates are entitled to a salary supplement in lieu of pension at a rate of 25% of basic salary. In addition, a death in service benefit of eight times basic salary is payable.

As noted in the Chair's letter on page 56, pension provision will reduce by 0.5% to 24.5% as of 2020. Contributions will then be reduced over the next two years so they are aligned with the company pension contributions of the wider workforce in the country that the Executive Directors live.

### Taxable benefits

The Group provides other cash benefits and benefits in kind to directors as well as sick pay and life insurance. These include the provision of company car (or allowance) and family level private medical insurance.

Name	Car/car allowance	Fuel	Healthcare	Other taxable benefits <sup>6</sup>
S.C. Harris	£24,238	£2,400	£14,868	–
D. Yates	£12,000	£1,200	£14,176	–

<sup>6</sup> Certain other expenses incurred in pursuit of bona fide business activities are, under UK tax regulations, treated as a taxable benefit in kind, and the director has received grossed up compensation for this in order to leave him/her in a neutral position.

# Board report on remuneration continued

## Incentive outcomes for 2019

### Annual performance related bonus

The table below provides the details of the annual bonus awards received in respect of the Group and individual performances in the 2019 financial year.











The annual bonus potential for the period to 31 December 2019 for Executive Directors was split 77% in respect of Group headline operating profit, 10% on Group headline operating cash flow and 13% on personal strategic objectives. These performance conditions and their respective weightings reflected the Committee's belief that any incentive compensation should be linked both to the overall performance of the Group and to those areas of the business that the relevant individual can directly influence.

Stretching targets were set in the context of the challenging market conditions we faced and the investments that were planned in the year. Following strong performance in 2019, the bonus paid out at 50.4% for the CEO and 49.6% for the CFO, 35% of the award will be deferred in shares, for both the CEO and the CFO. The performance targets and actual performance are set out below.

	% of award	Threshold	Target	Maximum	Actual performance achieved <sup>1</sup>	Outcome			
						S.C. Harris		D. Yates	
						% of max	% of salary	% of max	% of salary
Group headline operating profit	77%	£129.0m	£143.0m	£150.0m	£134.3m	41.4%	63.7%	41.4%	47.8%
Group headline operating cash flow	10%	£105.0m	£116.0m	£116.0m	£132.1m	100.0%	20.0%	100.0%	15.0%
Personal scorecard	13%					66.0%	17.2%	60.0%	11.7%
					Total	50.4%	100.9%	49.6%	74.5%

<sup>1</sup> Figures quoted are at constant currency rates

### Personal Scorecard

Executive Director	Stephen Harris	Link to strategy
<b>Overview</b>	For 2019 Stephen's objectives were: drive growth in emerging markets, drive growth in Specialist Technologies, progress Group strategy, organisation development and leadership including SHE, ERP design requirements completed and decision on ERP system made.	
<b>Key achievements in the year</b>	<ul style="list-style-type: none"> <li>■ As reflected in performance under our core EPS measure, the Group delivered a credible performance in 2019 in spite of significant headwinds in some of the Group's core markets sectors. The targets the Committee had agreed with the CEO were achieved.</li> <li>■ Specific focus areas for the CEO were the achievement of year-on-year growth in Specialist Technologies and emerging market revenues. In 2019 Specialist Technologies sales grew by 3% at constant currency rates on 2018 and emerging markets grew by 5% at constant currency rates. In both cases outperforming the objectives.</li> <li>■ Progress of Group strategy was achieved as the organic improvement of operations continued notwithstanding a tough macro environment. Two bolt-on acquisitions were undertaken during the year and one large Specialist Technologies acquisition was announced. Organisational development and leadership including SHE is clearly a critical part of the CEO's role and the Committee determined that he had effectively fulfilled this objective in the year.</li> <li>■ The Group is reviewing its Enterprise Resource Planning (ERP) programme that will ensure our IT systems support the effective and efficient operation of our business into the future. Progress required in 2019 was met.</li> </ul>	      
<b>Rating</b>	The Committee assessed achievement for all objectives with an overall rating of 66%	
<b>Executive Director</b>	<b>Dominique Yates</b>	
<b>Overview</b>	For 2019 Dominique's objectives were: drive and implement the transition plan for the Group Finance Team, define and deliver a design of the ERP solution for the Group, deliver the completed IR strategy and bed in the new auditors.	
<b>Key achievements in the year</b>	<ul style="list-style-type: none"> <li>■ The CFO was tasked with defining and implementing a new Group Investor Relations strategy in the year. This objective was achieved, and we believe that through this IR strategy the Group will maintain strong relationships and continue a productive two-way dialogue with our shareholders</li> <li>■ Succession planning features in the personal objectives for both our CEO and CFO, and as part of this the CFO was tasked with filling a number of key vacant finance roles across the business. Most roles were filled within the required timeframe and so this objective was mainly achieved.</li> <li>■ The CFO shared an objective with the CEO around the review of the Enterprise Resource Planning (ERP) programme. Progress required in 2019 was met.</li> <li>■ PwC LLP were appointed as auditors as of 1 January 2019 and have successfully taken over from Deloitte LLP.</li> </ul>	  
<b>Rating</b>	The Committee assessed achievement for all objectives with an overall rating of 60%.	



### Bodycote Incentive Plan (BIP)

BIP awards made in 2017 had a three-year performance period ending on 31 December 2019, with 50% of the award subject to satisfaction of a ROCE target and 50% subject to the headline earnings per share (EPS) target.

Over this period our share price has increased by 47.8%, demonstrating the strength of the returns we have made to shareholders. The threshold and maximum targets along with the vesting schedule are set out in the tables below.

	ROCE		Headline EPS	
	Performance target (pre IFRS16)	Vesting of element (% of maximum)	Performance target	Vesting of element (% of maximum)
Threshold performance	15.5%	0%	31.7p	0%
Maximum performance	23.0%	100%	52.0p	100%
<b>Performance achieved</b>	<b>19.4%</b>	<b>69%</b>	<b>52.1p</b>	<b>100%</b>

1. For the purposes of the BIP scheme, pre-tax ROCE is calculated using actual exchange rates. Capital Employed includes the goodwill existing as at the start of the performance period (1 January 2017) only.

If headline EPS at the end of the performance period was below 27p, then no awards would vest.

The table below sets out the 2017 BIP outcome for S.C. Harris and D. Yates.

### 2017 BIP outcome

S.C. Harris	84.4% of maximum opportunity
D. Yates	84.4% of maximum opportunity

The table below sets out a summary of shares vesting for BIP awards made in 2017 for S.C. Harris and D. Yates.

18 May	Award type	Grant date	Number of shares granted	End of performance period	% award vesting	Number of shares vesting	Vesting date
S.C. Harris	2017 BIP	18 May 2017	111,569	31 Dec 19	84.4%	94,164	16 Mar 20
D. Yates	2017 BIP	18 May 2017	82,916	31 Dec 19	84.4%	69,981	16 Mar 20

### Scheme interests awarded in the financial year

#### CIP awards granted during the year

No awards were made under the CIP – the final award was made in 2015 with vesting occurring in May 2018. This plan no longer features in the Company's policy.

#### BIP awards granted during the year

Awards consisting of conditional shares were granted to both Executive Directors, equivalent in value to 175% of their base salaries on 26 March 2019, and will vest after three years in March 2022. The performance period will end on 31 December 2021. Details of the awards are set out below. Awards are subject to continued employment and the achievement of ROCE and headline EPS growth performance targets, as summarised in the table below.

The Committee has reviewed the performance targets and these have been revised appropriately to ensure that they remain stretching targets which underpin the Group's objectives. Our long-term targets reflect the continued challenges in the wider commercial environment but the improved growth we expect to see following our emphasis on operational efficiency and the expansion of our footprint in rapid growth territories.

	ROCE (pre IFRS16)		Headline EPS	
	Performance target	Vesting of element (% of maximum)	Performance target	Vesting of element (% of maximum)
Threshold performance	15%	0%	56p	0%
Maximum performance	23%	100%	64p	100%

If headline EPS at the end of the performance period is below 47.6p, then no awards will vest. The Committee has decided that the ROCE figure of 23% is a robust aspiration for the Group in view of our expected programme of investments, recognising the potential for unintended consequences in terms of short-term capital underinvestment for the business. Dividend equivalents are payable in respect of those shares that vest.

## Governance

# Board report on remuneration continued

The number of shares that were awarded, at a grant price of £8.23, to the Executive Directors during the year is set out below.

Executive	Award type	Grant date	Number of shares	Market price at date of award	Face value at date of award
S.C. Harris	2019 BIP	26 March 2019	115,232	£8.23	£948,359
D. Yates	2019 BIP	26 March 2019	83,144	£8.23	£684,275

### Chair and Non-Executive Directors' fees

Chair of the Board and other Non-Executive Directors fees were as follows:

Individual	Roles	Fee for 2019	Fee for 2018	% increase in NED role fees
Eva Lindqvist	<ul style="list-style-type: none"> <li>■ Non-Executive Director</li> <li>■ Chair of Remuneration Committee</li> <li>■ Member of Audit, Remuneration and Nomination Committees</li> </ul>	£67,137	£65,182	3%
Ian Duncan	<ul style="list-style-type: none"> <li>■ Non-Executive Director</li> <li>■ Chairman of Audit Committee</li> <li>■ Member of Audit, Remuneration and Nomination Committees</li> <li>■ Senior Independent Director</li> </ul>	£76,647	£74,415	3%
Patrick Larmon	<ul style="list-style-type: none"> <li>■ Non-Executive Director</li> <li>■ Chair of Employee Engagement Groups</li> <li>■ Member of Audit, Remuneration and Nomination Committees</li> </ul>	£64,760	£55,949	16% <sup>1</sup>
Lili Chahbazi	<ul style="list-style-type: none"> <li>■ Non-Executive Director</li> <li>■ Member of Audit, Remuneration and Nomination Committees</li> </ul>	£57,627	£55,949	3%
Anne C. Quinn	<ul style="list-style-type: none"> <li>■ Non-Executive Chair</li> <li>■ Chair of Nomination Committee</li> <li>■ Member of Nomination Committee</li> </ul>	£231,750	£225,000	3%

<sup>1</sup> As Patrick Larmon is chairing the Employee Engagement Groups his fee was increased during 2019 to reflect the additional time commitment.

Non-Executive Director fees were increased for 2019 based on market benchmarking against Non-Executive Director fees in the FTSE 250 and other companies of similar size and complexity in line with the Policy approved at the 2019 AGM.

At 31 December 2019 the aggregate annual fee for all Non-Executive Directors, including the Chair, was £497,921, which is below the maximum aggregate fee allowed by the Company's Articles of Association of £1,000,000 p.a.

### Board changes in 2019

#### Payments for loss of office

No payments for loss of office were made in the year.

#### Payments to past directors

No payments to past directors were made during the year.

## Directors' shareholdings

As described in Section B: Directors' Remuneration Policy, the Board operates a shareholding retention policy under which Executive Directors and other senior executives are expected, within five years of appointment, to build up a shareholding in the Company. For the purposes of this requirement, only beneficially-owned shares and the net of tax value of deferred shares under the annual bonus (as they are not subject to further performance conditions) will be counted.

The shareholding requirement for the CEO is 200% of salary and for the CFO is 200% of salary (increased from 150% under our previous approved policy).

The interests in ordinary shares of directors and their connected persons as at 31 December 2019, including any interests awarded under the annual bonus or BIP, are presented below along with whether Executive Directors have met the shareholding guidelines. We note that shares under the annual bonus and the BIP are conditional on continued employment until vesting.

	Counted towards the shareholding requirement		Outstanding scheme interests (not counted towards shareholding requirement)	Shareholding requirement met <sup>2</sup>
	Beneficially owned	Deferred shares granted under the annual bonus <sup>3</sup>	Shares subject to performance conditions BIP <sup>1</sup>	
<b>Executive Directors</b>				
S.C. Harris (200% minimum holding requirement)	290,706	69,139	323,712	Yes
D. Yates (200% minimum holding requirement)	230,000	29,716	235,984	Yes
<b>Non-Executive Directors (No holding requirement)</b>				
A.C. Quinn (appointed 1/1/18)	20,000	–	–	n/a
E. Lindqvist	12,200	–	–	n/a
I.B. Duncan	–	–	–	n/a
P. Larmon	5,000	–	–	n/a
L. Chahbazi (appointed 1/1/18)	–	–	–	n/a

1. Figures relate to unvested awards under the BIP.

2. As at 31 December 2019.

3. Table shows 2018 and 2019 deferred shares. The number of deferred shares under the 2020 bonus plan can only be granted after the year-end closed period and will be shown in the 2020 Annual Report. GBP value of the 2020 deferred shares is £196,997 for S.C. Harris and £104,957 for D. Yates.

## Summary of outstanding share awards, including share awards granted during the year – Executive Directors

The interests of the Executive Directors in the Company's share schemes as at 31 December 2019 are as follows. Note that no CIP award has been made since the last award has been granted in 2015.

		Interests as at 1 January 2019	Awarded in year	Vested in year	Lapsed in year	At 31 December 2019	Market price at award date	Market value at date of vesting	Vesting date 2019 award
Bodycote	S.C. Harris	360,247	115,232	135,467	16,300	323,712	£8.23	£8.26	March 2022
Incentive Plan (BIP)	D. Yates	152,840	83,144	–	–	235,984	£8.23	–	March 2022
Deferred bonus	S.C. Harris	39,560	29,579	–	–	69,139	–	–	–
shares	D. Yates	14,013	15,703	–	–	29,716	–	–	–

Mid-market closing price of a share on the day before the BIP 2019 grant was £8.23. The face value of the award to S.C. Harris was £948,359. The face value of the award to D. Yates was £684,275.

The 2017 BIP award did vest at 84.4% out of 100%.

## End of auditable section

## Governance

# Board report on remuneration continued

### Fees retained for external Non-Executive Directorships

To broaden the experience of Executive Directors, the position of Non-Executive Director may be held in other companies, provided that permission is sought in advance. Any external appointment must not conflict with the directors' duties and commitments to Bodycote plc. S.C. Harris has held the position of Non-Executive Director of Mondi plc since 1 March 2011 and in accordance with Group policy he retained fees for the year of £97,016.

### Comparison of overall performance and pay

The chart below shows the value over the last ten financial years of £100 invested in Bodycote plc compared with that of £100 invested in the FTSE All Share Industrial index. The Committee has chosen this index as it is a broad market index of which Bodycote plc is a constituent and reflects the wider sector in which we operate. The points plotted represent the values at each financial year end.

Graph removed

The table below shows how total remuneration for the Group Chief Executive, S.C. Harris, developed over the last ten years.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single figure of remuneration £'000	906	3,252	3,840	3,089	1,803	771	875	2,280	2,728	<b>2,156</b>
Annual variable element award (as a % of maximum) opportunity	98%	95%	73%	46%	73%	20%	19%	98%	68%	<b>50%</b>
Long-term incentive vesting (as a % of maximum)	0%	100%	100%	99%	44%	0%	0%	48%	89%	<b>84%</b>

### Percentage change in remuneration of Group Chief Executive

The table below sets out the percentage change in the Group Chief Executive's remuneration from the prior year compared to the average percentage change in remuneration for the Senior Management population.

The senior management population is the most relevant and comparable population.

	Chief Executive Officer			Senior Management population Average % change
	2019 (£000)	2018 (£000)	% change	
Salary	558	542	3.0%	8.0%
Annual bonus	563	742	-24.1%	-33.5%
Benefits	42	22	90.9%	0.8%
Total	1,163	1,306	-10.9%	-11.2%

## Pay ratio of Group Chief Executive to UK average employee

The UK government has now introduced legislation requiring companies to publish the ratio of their Chief Executive to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees. We are disclosing the pay ratio on the required basis in this year's report as shown in the table below:

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	33:1	18:1	10:1

The table above has been calculated using the approach determined by Option B which is deemed the most appropriate methodology for Bodycote plc. The calculations for the relevant representative employees were performed as at 31 December 2019.

To ensure Option B provides a sufficiently accurate representation of the UK workforce, we have performed sensitivity analysis around the three quartiles. Our approach has been to consider the total pay and benefits for a number of employees centred around each quartile. This allows any anomalies that may arise when calculating the total pay and benefits for the full financial year (such as if an employee left part way through the year) to be adjusted or excluded. By taking an average of the remaining figures, this provides a robust representation of each quartile.

The total full-time equivalent pay and benefits for the relevant employees has been calculated based on the amount paid or receivable in respect of the financial year. The calculations are on the same basis as required for the CEO's remuneration for single total figure purposes. For pension-related benefits, employer pension costs have been estimated using the employer contribution rates applicable to the member's pension scheme. No other estimates or adjustments have been used in the calculation and no remuneration items have been omitted. For employees in this calculation employed on a part-time basis, their remuneration has been annualised to reflect the full-time equivalent.

£	25th percentile	Median	75th percentile
<b>Total pay and benefits</b>	£22,379	£41,424	£74,342
<b>Salary component</b>	£21,413	£38,757	£68,172

## Relative importance of pay spend

The table below shows the total expenditure in relation to staff and employee costs and distributions to shareholders in 2018 and 2019.

	2019 £m	2018 Restated £m	% change
Staff and employee costs	<b>280.6</b>	289.3	-3.0%
Distributions to shareholders	<b>74.7</b>	81.8	-8.7%

## Committee membership

During 2019 the Committee was chaired by E. Lindqvist. The Committee also comprised I.B. Duncan, P. Larmon and L. Chahbazi.

The Committee's full terms of reference are available on the Group's website. No Committee members have any personal financial interest (other than as a shareholder), conflict of interest, cross-directorships or day-to-day involvement in the running of the business. We set out below the members of the Committee, the number of meetings each Committee member attended during the year and the main responsibilities of the Committee.

## Committee activities

During 2019 the Committee met four times to consider, amongst other matters:

Theme	Agenda items
<b>Best practice</b>	<ul style="list-style-type: none"> <li>■ The Group's Remuneration Policy, discussions and feedback from the Group's AGM in 2019 and the Corporate Governance Code and Investment Management Association (IMA) guidelines on executive remuneration</li> <li>■ Review of the current UK corporate governance environment and the implications for the Group</li> </ul>
<b>Implementation Report</b>	<ul style="list-style-type: none"> <li>■ Consideration and approval of the Implementation Report to be put to shareholders and as summarised in Section A of the Board report on remuneration</li> </ul>
<b>Executive Directors' and senior executives' remuneration</b>	<ul style="list-style-type: none"> <li>■ Basic salaries payable to each of the Executive Directors</li> <li>■ The annual bonus and payments for the year ended 31 December 2019</li> <li>■ The annual bonus structure and performance targets for the year ended 31 December 2019</li> <li>■ The awards and vestings made under the Bodycote Incentive Plan ('BIP')</li> <li>■ Pension arrangements for senior executives</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>■ Consideration and approval of the Board report on remuneration</li> </ul>

## Governance

# Board report on remuneration continued

### Advisers to the Committee

Following the audit tender undertaken in Q4 2018, PwC was appointed as new external auditors by the Board as of 1 January 2019. Consequently PwC resigned as Remuneration Committee consultant on 31 December 2018. The Committee appointed EY as interim Remuneration Consultants as of 1 January 2019 until a beauty parade could be arranged during October 2019.

The Committee was advised by EY during 2019 on remuneration matters including the provision of advice on matters under consideration by the Committee, updates on good practice, legislative requirements and market practice. Following a competitive tender process, the Committee appointed Deloitte LLP as Remuneration Committee advisers as of 1 January 2020. EY's fees for the year, based on the quantity and complexity of the work undertaken, amounted to £22,100. EY also undertakes internal audit work for the Company. The Remuneration Committee is satisfied that the advice provided on executive remuneration is objective and independent, and that no conflict of interest arises as a result of these services. The Committee reviews the objectivity and independence of the advice it received from EY at a private meeting each year. Legal advice was provided by Eversheds and fees amounted to £nil. All fees are based on the quantity and complexity of work undertaken.

The Committee also received assistance from the Group Chief Executive and Group Company Secretary, although they do not participate in discussions relating to the setting of their own remuneration. The Committee in particular consulted with the Group Chief Executive and received recommendations from him in respect of his direct reports.

### Statement of shareholder voting

The table below displays the voting results on the remuneration resolution at the 2019 Annual General Meeting as well as the result of the Remuneration Policy at the 24 May 2019 AGM:

	2019 Board report on remuneration (% votes)	2019 Directors' Remuneration Policy (% votes)
Votes cast	81%	81%
For	98%	97%
Against	2%	3%
Number of abstentions	7,048	613,242

### E. Lindqvist

Chair of the Remuneration Committee  
12 March 2020

## Section B

### Directors' Remuneration Policy

#### Remuneration Policy

Bodycote's Executive Remuneration Policy is to attract and motivate our senior executive team to execute our strategy and deliver value to our shareholders while ensuring the Group pays no more than is necessary.

The Policy has been revised in order to ensure continued alignment between remuneration and the evolving strategic direction of our business, as well as to ensure alignment with the 2018 UK Corporate Governance Code.

Below is an explanation of how the Bodycote Remuneration Committee has addressed the principles prescribed by the 2018 UK Corporate Governance Code in determining the Executive Remuneration Policy, approved at the 2019 AGM.

UK Corporate Governance Code Provisions	How the Committee has addressed these
<b>Clarity</b> – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	The Committee is satisfied that the remuneration arrangements in the Policy are transparent, comprising simple incentive structures that are commonplace in the market and best practice remuneration provisions.
<b>Simplicity</b> – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	No significant structural changes to incentive plans were proposed. The Committee concluded that the operation of the deferred annual bonus and Bodycote Incentive Plan (BIP) would remain easy for stakeholders to understand given the prevalence of these structures in the FTSE market and that the rationale for their operation remains unchanged and is clearly set out within the Policy.
<b>Risk</b> – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	The Committee concluded that there are two principal approaches to mitigate these risks: to ensure that remuneration arrangements do not offer the potential for excessive rewards; and to ensure the Committee has recourse to recover sums where appropriate. As such, no increases to maximum incentive opportunities were proposed and the malus and clawback provisions for the annual bonus and Bodycote Incentive Plan (BIP) have been extended to include a provision for the action or conduct of a participant which results in reputational damage to the Group.

<b>Predictability</b> – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	The unpredictability of company performance, including share price performance, means that the Committee cannot provide certain future values of Executive Director remuneration. However, in order to provide a guideline range of outcomes possible under the Policy, the 'illustration of application of remuneration policy' chart on page 60 indicates the potential impact of share price appreciation on Executive Director pay outcomes for both on-target and maximum performance scenarios.
<b>Proportionality</b> – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	The Committee believes that the Policy table clearly sets out how each element of remuneration links to the delivery of strategy and that the disclosure of BIP performance targets provides a clear link between individual awards and the long-term performance of the Company. The Policy also provides the Committee with discretion to adjust incentive outcomes so that reward fairly and accurately reflects the performance of the Company over the relevant period.
<b>Alignment to culture</b> – incentive schemes should drive behaviours consistent with company purpose, values and strategy.	<p>The Committee assessed the incentive plans and considered that they were consistent with Bodycote's values:</p> <p><b>Honesty and Transparency:</b> The incentive designs are simple, transparent and in line with market practice, facilitating understanding by all stakeholders.</p> <p><b>Respect and Responsibility:</b> The Committee has recourse to recover sums where appropriate.</p> <p><b>Creating Value:</b> The incentives are calibrated to reward participants for delivering exceptional performance. The Committee reviews all outcomes for Executive Directors and has discretion to adjust outcomes where appropriate.</p>

This Policy is intended to apply for three years from the date of the 2019 Annual General Meeting and is set out below.

## Discretion

In line with the 2018 Corporate Governance Code provision for remuneration policies to enable the use of discretion to override formulaic outcomes, the Committee has discretion in several areas of Policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

## Executive Remuneration Policy

The table below sets out the key components of Executive Directors' pay packages, including why they are used and how they are operated in practice.

### Remuneration Policy Table

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
<b>Base salary</b> <i>To award competitive salaries to attract and retain the talent required to execute the strategy while ensuring the Group pays no more than is necessary.</i>	<p>Base salaries for Executive Directors are typically reviewed annually (or more frequently if specific circumstances necessitate this) by the Committee in December each year.</p> <p>Salary levels are set and reviewed taking into account a number of factors including:</p> <ul style="list-style-type: none"> <li>■ Role, experience and performance of the executive.</li> <li>■ The Company's guidelines for salaries for all employees in the Group for the forthcoming year.</li> <li>■ The competitiveness of total remuneration assessed against FTSE 250 companies and other companies of similar size and complexity, as appropriate.</li> </ul>	<p>While the Committee has not set a maximum level of salary, ordinarily, salary increases will not exceed the average increase awarded to other Group employees.</p> <p>Increases may be above this level in certain exceptional circumstances, which may, for example, include:</p> <ul style="list-style-type: none"> <li>■ Increase in scope or responsibility.</li> <li>■ A new Executive Director who is being moved to market positioning over time.</li> </ul> <p>In general an Executive Director with the same scope and role throughout the Policy period will retain the same salary other than potential changes in line with all other Group employees.</p>	None.

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# Board report on remuneration continued

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
<b>Benefits</b> <i>Provides market-competitive benefits at an appropriate cost.</i>	<p>The Company provides a range of cash benefits and benefits in kind to Executive Directors in line with market practice.</p> <p>These may include the provision of company car (or allowance), private medical insurance, short and long-term sick pay and death in service cover.</p> <p>The Company may also meet certain mobility costs, such as relocation support, expatriate allowances, temporary living and transportation expenses.</p> <p>Benefits provision will also extend to the reimbursement of taxable work-related expenses, such as travel.</p> <p>The provision of other benefits payable to an Executive Director is reviewed by the Committee on an annual basis to ensure appropriateness in terms of the type and level of benefits provided.</p> <p>In the case of non-UK executives, the Committee may consider providing additional allowances in line with relevant market practice, including expatriate benefits.</p>	<p>The Committee has not set a maximum level of benefit, given that the cost of certain benefits will depend on the individual's particular circumstances.</p> <p>However, benefits will be set at an appropriate level against market practice and needs for specific roles and individual circumstances.</p>	None.
<b>Pension</b> <i>Provides a market-competitive benefit in order to attract the talent required to execute the strategy and provide a market-competitive level of provision for post-retirement income.</i>	<p>The Group operates a defined contribution scheme. Executive Directors are provided with a contribution to this scheme or a cash allowance of equivalent value. Base salary is the only pensionable element of remuneration.</p> <p>The same general approach applies to all employees, although contribution levels vary by seniority.</p> <p>Pension contributions for new Executive Directors are to be aligned to those applicable to other employees and will be set at the time of appointment.</p>	<p>Pension contributions for current Executive Directors will be reduced to 23.5% of salary by 1 January 2022. This is so that they are aligned with the levels available to the wider workforce within the countries in which the Executive Directors live.</p> <p>Pension contributions for a new Executive Director will be aligned with the levels available to the wider workforce within the country in which the Executive Director lives.</p>	None.



Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
<b>Annual bonus</b> <i>To incentivise delivery of corporate strategy on an annual basis and reward delivery of superior performance. The deferred portion of the bonus supports longer-term shareholder alignment.</i>	<p>The level of bonus paid each year is determined by the Committee after the year end based on performance against targets.</p> <p>A portion of the annual bonus is paid in cash shortly after the financial year end with the remaining portion deferred for three years in Bodycote shares (see details below).</p> <p>Dividend equivalents are payable in respect of the shares which vest.</p> <p>35% of any bonus earned is deferred into shares for three years, conditional on continued employment until the vesting date.</p> <p>Malus provisions apply for the duration of the performance period and to shares held under deferral.</p> <p>Clawback provisions apply to cash amounts paid for three years following payment.</p> <p>Malus and/or clawback may be applied in the following scenarios:</p> <ul style="list-style-type: none"> <li>■ Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company;</li> <li>■ The assessment of any performance condition or condition was based on error, or inaccurate or misleading information;</li> <li>■ The discovery that any information used to determine the cash payment under the bonus or the number of shares subject to deferral was based on error, or inaccurate or misleading information;</li> <li>■ Action or conduct of a participant which amounts to fraud or gross misconduct; or</li> <li>■ Action or conduct of a participant which results in reputational damage to the Group.</li> </ul> <p>The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required.</p>	<p>The maximum potential is 200% of base salary for the CEO and 150% of base salary for the CFO and other Executive Directors</p> <p>At the threshold performance level there will normally be no more than 30% vesting. Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full.</p>	<p>The Committee considers the performance conditions selected for the annual bonus to appropriately support the Company's strategic objectives and provide a balance between generating profit and cash to enable the Group to pay a dividend, reward its employees and make future investments and achieve other strategic goals to drive long-term sustainable return.</p> <p>The weighting of the measures and specific targets are reviewed on an annual basis to ensure alignment to strategy and are set to be in line with budget. Information on measures and weights that will apply for specific years will be included in the relevant year's Annual Report on Remuneration.</p> <p>At least 70% of the bonus will be based on the achievement of Group financial targets.</p> <p>The Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate.</p> <p>Discretion may also be exercised in cases where the Committee believe that the bonus outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of bonus earned resulting from the application of the performance measures.</p> <p>Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report.</p> <p>The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the annual bonus plan in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs under the annual bonus.</p>

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# Board report on remuneration continued

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
<b>Bodycote Incentive Plan (BIP 2016)</b> <i>To incentivise delivery of long-term strategic goals and shareholder value and aid retention of senior management.</i>	<p>Awards will be granted annually under the Bodycote Incentive Plan subject to a three year vesting period and stretching performance conditions measured over three years. Awards granted from 2019 will also have a two-year holding period from the date of vest.</p> <p>Dividend equivalents are payable in respect of the shares which vest.</p> <p>The Committee retains the discretion in exceptional circumstances to adjust the vesting outcome or the targets for awards as long as the adjusted targets are no less stretching. In such an event the Committee will consult with major shareholders and will clearly explain the rationale for the changes in the report on remuneration.</p> <p>Discretion may also be exercised in cases where the Committee believes that the outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of the LTIP vesting resulting from the application of the performance measures.</p> <p>Malus provisions apply for the duration of the performance period.</p> <p>Clawback provisions apply to amounts for two years following vesting.</p> <p>Malus and/or clawback may be applied in the following scenarios:</p> <ul style="list-style-type: none"> <li>■ Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company;</li> <li>■ The assessment of any performance condition or condition was based on error, or inaccurate or misleading information;</li> <li>■ The discovery that any information used to determine the number of shares subject to an award was based on error, or inaccurate or misleading information;</li> <li>■ Action or conduct of a participant which amounts to fraud or gross misconduct, or</li> <li>■ Action or conduct of a participant which results in reputational damage to the Group.</li> </ul> <p>The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required.</p>	<p>The maximum face value of an award which may be granted under the Plan in any year is up to 175% of base salary for the Executive Directors.</p> <p>At the threshold performance level there will normally be no more than 0% vesting. Awards commence vesting progressively from this point with maximum performance resulting in awards vesting in full.</p>	<p>Awards vest based on performance over three years against performance measures chosen by the Committee to align with business and strategic priorities.</p> <p>The measures for Executive Directors are:</p> <ul style="list-style-type: none"> <li>■ 50% ROCE</li> <li>■ 50% Headline EPS</li> </ul> <p>In addition, the vesting of awards may only occur if Headline EPS is above a defined hurdle level.</p> <p>The Committee considers these performance conditions selected for the BIP to currently appropriately underpin the Company's strategic objectives. Due to the nature of the Company's activities the Committee consider ROCE to provide shareholders with an appropriate measure of how well the Company is performing and is being managed, while headline EPS provides a measure of the level of value created for shareholders. ROCE and headline EPS are our top two KPIs as shown on page 6 of the Annual Report.</p> <p>The Committee may adjust the performance measures attaching to awards and the weighting of these measures if it feels this will create greater alignment with business and strategic priorities.</p> <p>A significant change to the measures used would only be adopted following consultation with major shareholders.</p> <p>The targets for the performance measures are reviewed on an annual basis to ensure alignment to strategy and are set to be in line with budget. Details of performance targets will be included in the relevant year's Annual Report on Remuneration.</p>

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
<b>Shareholding requirement</b> <i>To provide alignment of interest between participants and shareholders.</i>	The Board operates a shareholding retention policy under which Executive Directors are expected, within five years from appointment, to build up a shareholding in the Company. The Committee has the power to introduce a post cessation of employment minimum shareholding requirement in line with the UK Corporate Governance Code and will review emerging market practice before determining the extent of any terms or conditions of any requirements.	Executive Directors are required to build up a holding of 200% of base salary.	None.

#### Notes to the Remuneration Policy Table

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out on pages 68 to 77 where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment being 'agreed' at the time the award is granted.

Executive Directors' remuneration is reviewed annually and takes into account a number of factors. The Company adopts a policy of positioning fixed pay for all its employees at a level which is competitive to market but which does not require the Company to pay any more than is necessary. Senior and high performing individuals at all levels and across all functions within the organisation are invited to participate in both annual and long-term incentive arrangements, which are similar to those offered to the Executive Directors to ensure reward strategy is calibrated to provide substantive reward only on achievement of superior performance.

#### Non-Executive Director (NED) Fee Policy

The Policy on Non-Executive Director (NED) and Chair fees is set out below.

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
<b>Fees for Non-Executive Directors</b> <i>To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.</i>	<p>The fees for the Non-Executives are determined by the Chair and the Group Chief Executive.</p> <p>The fee for the Chair is set by the Remuneration Committee.</p> <p>The Chair and Non-Executive fees are reviewed on an annual basis. When reviewing fees, the primary source of comparative market data is FTSE 250 companies and other companies of similar size and complexity, as appropriate.</p> <p>The fees for the Chair and Non-Executives are set at a level that will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. The fees reflect the time commitment and responsibilities of the roles.</p> <p>The Chair and Non-Executive Directors are not entitled to any pension or other employment benefits and, in line with the UK Corporate Governance Code, are not allowed to participate in any incentive plan.</p> <p>The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chair and may settle any tax incurred in relation to these.</p>	<p>Fees for Non-Executive Directors for the following year are set out in the Statement of Implementation of Policy on page 60.</p> <p>The Company's Policy is that the Chair and Non-Executive Directors receive a fixed fee for their services as members of the Board and its Committees. The fee structure may also include additional fees for chairing a Board Committee and/or further responsibilities (for example, Senior Independent Directorship).</p>	None.

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# Board report on remuneration continued

### Fees retained for External Non-Executive Directorships

To broaden the experience of Executive Directors, they may hold positions in other companies as Non-Executive Directors provided that permission is sought in advance. Any external appointment must not conflict with the Directors' duties and commitments to Bodycote plc.

### Statement of consideration of employment conditions elsewhere in the Group

The Company adopts a policy of positioning fixed pay for all its employees at a level which is competitive to the market but which does not require the Company to pay any more than is necessary. Senior and high-performing individuals at all levels and across all functions within the organisation are invited to participate in both annual and long-term incentive arrangements, similar to the executive directors to ensure reward strategy is calibrated to provide substantive reward only on achievement of superior performance.

The Committee does not consult directly with employees when formulating Executive Director pay policies. However, it does take into account information provided by the Human Resources function on pay and conditions across the Company, and considers these as part of its discussions and decision making, along with feedback from employee satisfaction surveys. In addition, the Board of Bodycote is developing its approach to engagement with the workforce in line with the guidance in the 2018 Corporate Governance Code and the results of this engagement will be available to the Remuneration Committee.

We recognise the Government's recent commentary in this area, and will ensure that our approach to consideration of employee views and pay and conditions across the Company reflect appropriate legislative and corporate governance requirements.

### Statement of consideration of Shareholders' Views

The Committee always welcomes the views of shareholders in respect of pay policy as well as those views expressed on behalf of shareholders by their respective proxy advisers. The Committee documents all remuneration related comments made at the Company's AGM and feedback received during consultation with shareholders throughout the year. Any feedback received is fully considered by the Committee.

In developing the current Remuneration Policy, the Remuneration Committee engaged extensively with the Company's key shareholders and their representative bodies. Through this process, the Remuneration Committee took on board the feedback received and refined the Remuneration Policy as appropriate to ensure it meets the expectations of our shareholders.

### Approach to Recruitment Remuneration

When recruiting new Executive Directors, the Company's Policy is to pay what is necessary to attract individuals with the skills and experience appropriate to the role to be filled, taking into account remuneration across the Group, including other senior executives, and that offered by other FTSE 250 companies and other companies of similar size and complexity. New Executive Directors will generally be appointed on remuneration packages with the same structure and pay elements as described in the Policy table on pages 69 to 73.

Component	Policy
<b>General</b>	The Company's Policy is to pay what is necessary to attract individuals with the skills and experience appropriate to the role to be filled.  The initial notice period may be longer than the Company's one year policy (up to a maximum of two years). However, this will reduce by one month for every month served, until the Company's Policy position is reached.
<b>Base salary</b>	Base salary levels will be set at an appropriate level to recruit the best candidate in consideration of the new recruit's existing salary, location, skills and experience and expected contribution to the new role, the current salaries of other Executive Directors in the Company and current market levels for the role.
<b>Other benefits</b>	Other benefits will be considered in light of the Policy in place for the other Executive Director(s). If it is in the best interests of the Company and shareholders, the Committee may consider providing additional benefits.
<b>Pension</b>	Pension contribution levels will be considered by the Committee in light of the new recruit's package as a whole, market practice at the time and in line with the new provision that Executive Director pension contributions will be in line with Bodycote contribution rates applicable to other employees.
<b>Annual bonus</b>	Normal awards will be made under the annual bonus plan in line with the Remuneration Policy. The Executive Director may be invited to participate in the bonus on a prorated basis in the first year of appointment.
<b>Long-term incentives</b>	Normal awards will be made under the BIP in line with the Remuneration Policy. The Executive Director may be invited to participate in 'in flight' BIP awards on a prorated basis when appointed.  The Company is required to set out the maximum amount of variable pay which could be paid to a new Director in respect of his/her recruitment. In order to provide the Company with sufficient flexibility in a recruitment scenario, the Committee has set this figure as 450% of base salary. This covers the maximum annual bonus and the maximum face value of any long-term incentive awards. This level of variable pay would only be available in exceptional circumstances, and in order to achieve such a level of variable pay, stretching targets would need to be met. For the avoidance of doubt, this 450% variable pay limit excludes the value of any 'buyout' payments or awards associated with forfeited awards.

Component	Policy
<b>Replacement awards</b>	For an external appointment, although there are no plans to offer additional cash and/or share-based payments on recruitment, the Committee reserves the right to do so when it considers this to be in the best interests of the Company and shareholders. Such payments may take into account remuneration relinquished when leaving the former employer and would reflect the nature, time horizons and performance requirements attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment. The Committee may make awards on hiring an external candidate to 'buyout' awards which will be forfeited on leaving the previous employer. Our approach to this is to carry out a detailed review of the awards which the individual will lose and calculate the estimated value of them. In doing so, we will consider the vesting period, the option exercise period if applicable, whether the awards are cash or share based, performance related or not, the company's recent performance and payout levels and any other factors we consider appropriate. If a buyout award is to be made, the structure and level will be carefully designed and will generally reflect and replicate the previous awards as accurately as possible. We will make the award subject to appropriate malus and clawback provisions in the event that the individual resigns or is summarily terminated within a certain time frame. An explanation will be provided at the time of recruitment of why a buyout award has been granted.
<b>Internal promotions</b>	For internal promotions any commitments made prior to appointment may continue to be honoured as the executive is transitioned to the new remuneration arrangements.

Shareholders will be informed of any Director appointment and the individual's remuneration arrangements as soon as practicable following the appointment.

Fee levels for a new Chair or new Non-Executive Directors will be determined in accordance with the Policy set out on page 73.

### Service Contracts

All Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

A summary of the key terms of the Executive Directors' service contracts is set out below:

	S.C. Harris, Group Chief Executive	D. Yates, Chief Financial Officer
<b>Date of service contract</b>	6 October 2008	1 November 2016
<b>Notice period</b>	12 months	12 months
<b>Remuneration</b>	<ul style="list-style-type: none"> <li>■ Annual base salary</li> <li>■ Potential for cash in lieu of pension</li> <li>■ Reimbursement of expenses (if satisfactory evidence provided)</li> <li>■ Private medical insurance</li> <li>■ Company car allowance</li> <li>■ Entitlement to receive an annual performance-related bonus award</li> <li>■ Entitlement to participate in a long-term incentive plan</li> </ul>	<ul style="list-style-type: none"> <li>■ Annual base salary</li> <li>■ Potential for cash in lieu of pension</li> <li>■ Reimbursement of expenses (if satisfactory evidence provided)</li> <li>■ Private medical insurance</li> <li>■ Company car allowance</li> <li>■ Entitlement to receive an annual performance-related bonus award</li> <li>■ Entitlement to participate in a long-term incentive plan</li> <li>■ Entitlement to a reasonable relocation package if D. Yates relocates within 30 months of starting date of 1 November 2016</li> </ul>
<b>Termination</b>	Company has right to terminate on payment of a termination payment with agreement of executive	Company has right to terminate on payment of a termination payment
<b>Non-competition</b>	During employment and for 12 months thereafter	During employment and for 12 months thereafter

Other than the contents of the contracts, there are no obligations that may give rise to remuneration.

Director	Date of initial appointment	Notice period
P. Larmon	13 September 2016	6 months
E. Lindqvist	1 June 2012	6 months
I.B. Duncan	17 November 2014	6 months
A.C. Quinn	1 January 2018	6 months
L. Chahbazi	1 January 2018	6 months

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# Board report on remuneration continued

The Non-Executive Directors of the Company (including the Chair) do not have service contracts. The Non-Executive Directors are appointed by letters of appointment. Each independent Non-Executive Director's and the Chair's term of office runs for a maximum three-year period.

The initial terms of the Non-Executive Directors' and the Chair's positions are subject to their re-election by the Company's shareholders at the next AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election. All Directors will be put forward for re-election by shareholders on an annual basis.

### Termination Remuneration Policy

It is the Company's Policy that Executive Directors have service contracts with a one-year notice period and terminable by one year's notice by the employer at any time, and by payment of one year's basic salary and other fixed benefits in lieu of notice by the employer. All future appointments to the Board will comply with this requirement.

The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Executive Directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid.

Component	Policy
<b>Compensation for loss of office in service contracts</b>	<p>Under the terms of the Group Chief Executive's contract, the Company may at its choice, in lieu of giving notice, terminate his service contract by making a payment equivalent to: one year's annual base salary, 25% of base salary in respect of all other remuneration and benefits (other than annual bonus and incentives) and annual bonus equal to the average bonus paid up to three years prior to the date of notice. For the purposes of transparency, if the CEO had left Bodycote in FY18, and the Company had chosen to make a compensation payment in lieu of giving notice, this would have comprised: £541,923 (one year of base salary) + £135,481 (25% of base salary) + £450,667 (three-year average bonus over FY15-FY17) = £1,128,070.</p> <p>Under the terms of the Chief Financial Officer's contract, the contract is terminable by one year's notice by the employer at any time, and by payment of one year's basic salary and other fixed benefits in lieu of notice by the employer.</p>
<b>Treatment of cash element of the bonus under Plan rules</b>	<p>If termination is by way of death, injury, illness, disability, redundancy, retirement or any other circumstances the Committee determines (a 'good leaver'), the level of bonus will be measured at the bonus measurement date. Bonus will normally be prorated for the period worked during the financial year.</p> <p>The Committee retains the discretion:</p> <ul style="list-style-type: none"> <li>■ to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders;</li> <li>■ not to prorate the bonus to time. The Committee's Policy is that it will prorate bonus for time. It is the Committee's intention to use its discretion to not prorate in circumstances where there is an appropriate business case which will be explained in full to shareholders.</li> </ul> <p>Under all other circumstances no bonus will be earned on cessation of employment (other than set out above in the legacy arrangements for the CEO).</p>
<b>Treatment of unvested deferred bonus awards under Plan rules</b>	<p>If termination is by way of death, injury, illness, disability, redundancy, retirement or any other circumstances the Committee determines (a 'good leaver'), deferred shares may be released to the participant at the normal vesting date.</p> <p>Under all other circumstances unvested awards will lapse on cessation of employment.</p> <p>The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> <li>■ to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders;</li> <li>■ to vest deferred shares at the end of the original deferral period or at the date of cessation. The Committee's Policy is that shares will vest on the original date of vesting. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation.</li> </ul>

<b>Treatment of unvested</b>	<p>On cessation of employment, awards under the BIP will lapse in full, unless the Committee determines that the individual is a good leaver (see above for definition). In instances where the Committee determines that award should not lapse in full, awards will normally vest at the normal vesting date, prorated for time served and subject to the achievement of the original performance conditions.</p> <p>The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> <li>■ to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders;</li> <li>■ to measure performance over the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and</li> <li>■ to prorate the maximum number of shares to the time from the date of grant to the date of cessation. The Committee's policy is that it will prorate awards for time. It is the Committee's intention to use discretion to not prorate in circumstances where there is an appropriate business case which will be explained in full to shareholders.</li> </ul> <p>In addition, awards granted from 2019 will be subject to a two-year holding period.</p>
<b>Exercise of discretion</b>	<p>In the event that an Executive Director leaves the Company, the Committee's policy for exit payments is to consider the reasons for cessation and consequently whether any exit payments other than those contractually required are warranted.</p> <p>Further, in the event of a compromise or settlement agreement, the Committee may agree payments it considers reasonable in settlement of legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or in other jurisdictions. The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements.</p>
<b>Change of control</b>	<p>On change of control the awards under the Company's incentive plans will generally vest subject to performance and time apportionment as determined by the Committee and in accordance with the rules of the relevant Plan.</p>

The remuneration package for the Executive Directors is designed to provide an appropriate balance between fixed and variable performance-related components. The Committee is satisfied that the composition and structure of the remuneration package is appropriate, clearly supports the Company's strategic ambitions and does not incentivise inappropriate risk taking and reviews this on an annual basis.

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# Directors' responsibilities statement

### Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' confirmations

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that it faces.



# Independent auditors' report to the members of Bodycote plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- Bodycote plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the annual report 2019 (the "Annual Report"), which comprise: the Group consolidated and Company balance sheets as at 31 December 2019; the Group consolidated income statement and Group consolidated statement of comprehensive income, the Group consolidated cash flow statement, and the Group consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies. Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

## Our audit approach

### Overview

Graphic removed

- Overall Group materiality: £6,200,000, based on 5% of profit before tax.
  - Overall Company materiality: £5,100,000, based on 1% of total assets.
- 
- Our audit included full scope audits of 17 components and audit procedures on one specific financial statement line item of a further component. Taken together the above procedures account for 78% of consolidated revenue, 70% of consolidated absolute profit before tax and 83% of consolidated total assets.
- 
- We assessed the risks of material misstatement in the financial statements and determined the following key audit matters for 2019.
- Uncertain tax positions (Group);
  - Impairment assessment of goodwill and other intangible assets (Group and Company); and
  - Adoption of IFRS 16, 'Leases' (Group).

## Financial statements

# Independent auditors' report continued

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to breaches of environmental regulations and health and safety regulations (see pages 28-29 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the UK Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates and judgements. The Group engagement team shared this risk assessment with the component auditors so that the component auditors could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's internal legal counsel, including consideration of potential instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported through the Group's whistleblowing helpline and the results of management's investigation of such matters; and
- Challenging assumptions and judgements made by management in its accounting estimates or judgements, in particular in relation to uncertain tax positions and its impairment assessment of goodwill.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<b>Uncertain tax positions (Group)</b> <p>The Group has operations in a number of geographical locations and as such is subject to multiple tax jurisdictions, giving rise to complexity in accounting for the Group's taxation.</p> <p>In particular, the interpretation of complex tax regulations and the unknown future outcome of any pending judgements by the tax authorities results in the need to provide against a number of uncertain tax positions. The Group undertakes financing activities between jurisdictions and non-financing cross-border transactions, which require judgement to determine the appropriate tax charge and any associated provisions, and for these reasons we considered uncertain tax positions to be a key audit matter.</p> <p>In addition, the Group adopted IFRIC 23, 'Uncertainty over income tax treatments' (IFRIC 23) in the financial year.</p> <p>Refer to notes 6 and 19, and the Audit Committee's views set out on page 53.</p>	<p>Our audit work, which involved taxation audit specialists at Group, included the assessment of the Group's uncertain tax positions. As part of our audit, we also involved transfer pricing experts to consider the appropriateness of the Group's assessment of its exposure to transfer pricing risks and related corporate tax provisions.</p> <p>Our assessment included reading correspondence with tax authorities to understand the current status of tax assessments and investigations and to monitor developments in ongoing disputes. We also read recent rulings by local tax authorities, as well as external tax advice received by the Group where relevant, to satisfy ourselves that the tax provisions had been appropriately recorded or adjusted to reflect the latest tax legislative developments.</p> <p>In assessing the adequacy of the tax provisions, we considered factors such as possible penalties and interest that could be imposed by the local tax authorities. We also determined whether the tax provisions were recognised in accordance with the relevant accounting standards.</p> <p>We considered the appropriateness of the related disclosures in note 6 and note 19 to the financial statements.</p> <p>Based on the procedures performed, we noted no material issues from our work.</p>

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment assessment of goodwill and other intangible assets (Group and Company)</b></p> <p>The Group has goodwill of £170 million as at 31 December 2019 (2018: £164 million).</p> <p>For the CGUs to which goodwill relates (which require an annual impairment test), the determination of the recoverable amount, being the higher of value in use (VIU) and fair value less costs of disposal (FVLCD), requires judgement and estimation by management. This is because the determination of a recoverable amount includes management's consideration of key internal inputs and external market conditions such as future market and pricing trends in those industries in which its customers operate, which impacts future cash flows, and the determination of the most appropriate discount rate. Therefore, we considered it to be a key audit matter.</p> <p>The Group and the Company also have software assets related to the Group's ERP solutions of £9.8 million (2018: £9.1 million) that are not yet available to use and are, therefore, not amortised.</p> <p>Refer to notes 9 and 10 of the Group financial statements, note 2 of the Company financial statements and the Audit Committee's views set out on page 53.</p>	<p>We obtained the Group's impairment analyses and tested the integrity of the calculations and corroborated the information to Board approved budgets and strategic plans. We also understood management's process for forecasting cash flows.</p> <p>We challenged management's key assumptions for profit and cash flow budgets by comparing them with third party forecast market data, where available. We also performed look back testing to understand how accurate management had been in its forecasting historically.</p> <p>We used our valuations experts to assess the reasonableness of the discount rates, by independently calculating a range for the weighted average cost of capital, and considered if the rate used by management was within a supportable range. Our valuations experts also compared management's long-term growth rate with economic forecasts.</p> <p>We obtained management's sensitivity analyses which showed the impact of reasonably possible changes to key assumptions and performed our own sensitivity analyses.</p> <p>On the software assets, we tested the costs capitalised in the year and considered management's plans for its future use of these ERP solutions.</p> <p>We also assessed the appropriateness of the related disclosures in notes 9 and 10 of the Group financial statements and note 2 of the Company financial statements.</p> <p>Based on the procedures performed, we noted no material issues from our work.</p>
<p><b>Adoption of IFRS 16, 'Leases' (Group)</b></p> <p>The Group adopted IFRS 16, 'Leases' on 1 January 2019 and applied it fully retrospectively. This new accounting standard requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments.</p> <p>Management has applied judgement in assessing whether the Group's arrangements contain a lease, determining the lease terms, calculating the discount rate and concluding whether any service or lease components of lease arrangements need to be separated. Therefore, we considered it to be a key audit matter.</p> <p>As at 31 December 2019 the Group has recorded a right-of-use asset of £73 million (2018: £74 million) and lease liabilities of £79 million (2018: £80 million). The depreciation charge recognised on the right-of-use assets was £15 million (2018: £14 million) and the interest on lease liabilities was £2 million (2018: £2 million). Refer to notes 12 and 31 and the Audit Committee's views set out on page 53.</p>	<p>We obtained the Group's calculation of the right-of-use asset, lease liability, depreciation charge and interest on the lease liability based on the lease data for the population of leases identified.</p> <p>With the support of our component teams, we performed procedures to assess the completeness of management's listing of the lease contracts in place, including reading new contracts and management meeting minutes and assessing expense accounts.</p> <p>We tested the accuracy of the lease data compiled by management by agreeing key inputs to the underlying arrangements to ensure the accuracy of key data points used in determining the IFRS 16 accounting entries.</p> <p>Our testing included an evaluation of the mathematical accuracy of the underlying calculations. We also involved our internal valuations experts to consider the appropriateness of the Group's assessment of the discount rates used in the lease calculations.</p> <p>Based on the procedures performed, we noted no material issues from our work.</p>

## Financial statements

# Independent auditors' report continued

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at components by us, as the Group engagement team, or component auditors operating under our instruction.

We identified one component as significant (as defined within ISAs (UK)) which, in our view, required an audit of its complete financial information, due to its financial significance to the Group. Outside of this component, we obtained full scope audit reporting from a further eight components, where we concluded that the component engagement leader is a Key Audit Partner (as defined under ISAs (UK)), and an additional eight components where full scope audits were performed. Together, these components were in 11 countries, representing the Group's principal businesses, and accounted for 78% of the Group's revenue, 70% of consolidated absolute profit before tax and 83% of consolidated total assets.

An audit of a specific financial statement line item was performed at a further component and central testing was performed on selected items, such as goodwill and uncertain tax positions, primarily to ensure appropriate audit coverage.

The components included within our scope of audit were determined based on the individual components' contribution to the Group's key financial statement line items (in particular revenue and profit before tax), and considerations relating to aggregation risk within the Group.

Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with them throughout the audit cycle. These interactions included attending certain component audit clearance meetings, as well as reviewing and assessing any matters reported. The Group engagement team also reviewed selected audit working papers for certain in-scope component teams, including the significant component and the further components where we concluded that the component engagement leader is a Key Audit Partner. In addition, given the extent of testing performed by our Czech Republic team at the Group's Prague Shared Services Centre, which supports the financial accounting for the majority of the Group's European businesses, a working paper review was also conducted of this team's work.

In addition, senior members of the Group engagement team visited component teams in the US and France and visited the Prague Shared Service Centre on a number of occasions. These visits included meetings with local management and with the local auditors.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	<b>Group financial statements</b>	<b>Company financial statements</b>
<b>Overall materiality</b>	£6,200,000.	£5,100,000.
<b>How we determined it</b>	5% of profit before tax.	1% of total assets.
<b>Rationale for benchmark applied</b>	Based on the benchmarks used in the Annual Report, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	The Company holds the Group's investments in subsidiary companies. The strength of the balance sheet is the key measure of financial health that is important to shareholders as this determines the Company's ability to pay dividends.

For each component in the scope of our Group audit, we allocated a materiality that was less than our overall Group materiality. The range of materiality allocated across components was between £500,000 and £3,750,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £310,000 (Group audit) and £255,000 (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK) we report as follows:

#### Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

#### Outcome

We have nothing material to add or to draw attention to.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

We have nothing to report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report, Directors' report and Corporate governance statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated)

Strategic report

Governance

Financial statements

Additional information

## Financial statements

# Independent auditors' report continued

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### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

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### Corporate governance statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate governance statement (on pages 40 to 46) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate governance statement (on pages 40 to 46) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

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### The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 31 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

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### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 78, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 53 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

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### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Directors' responsibilities statement set out on page 78, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditors-responsibilities](http://www.frc.org.uk/auditors-responsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

## Other required reporting

### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 24 May 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

**Simon Morley** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
12 March 2020

## Financial statements

# Consolidated income statement

For the year ended 31 December 2019

	Note	2019 £m	Restated <sup>1</sup> 2018 £m
<b>Revenue</b>	2	<b>719.7</b>	728.6
Cost of sales and overheads		(590.5)	(592.3)
Net impairment (losses)/gains on financial assets		(0.6)	0.2
<b>Operating profit</b>	2,3	<b>128.6</b>	136.5
Finance income		0.2	0.2
Finance costs	5	(4.9)	(4.5)
<b>Profit before taxation</b>		<b>123.9</b>	132.2
Taxation charge	6	(29.9)	(28.6)
<b>Profit for the year</b>		<b>94.0</b>	103.6
Attributable to:			
Equity holders of the parent		93.8	103.2
Non-controlling interests		0.2	0.4
		<b>94.0</b>	103.6
<b>Earnings per share</b>	8		
		<b>Pence</b>	Pence
Basic		<b>49.4</b>	54.2
Diluted <sup>2</sup>		<b>49.2</b>	53.8

1 A reconciliation of the restatement to the previously reported numbers is provided in note 31

2 The diluted EPS figure for 2018 has been re-presented to reflect certain dilutive share options

All activities have arisen from continuing operations.

# Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 £m	Restated <sup>1</sup> 2018 £m
<b>Profit for the year</b>	<b>94.0</b>	103.6
<b>Items that will not be reclassified to profit or loss:</b>		
Actuarial loss on defined benefit pension schemes	(2.0)	(0.8)
Tax on items that will not be reclassified	0.9	(0.5)
<b>Total items that will not be reclassified to profit or loss</b>	<b>(1.1)</b>	(1.3)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange (losses)/gains on translation of overseas operations	(26.4)	15.8
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(26.4)</b>	15.8
<b>Other comprehensive (expense)/income for the year</b>	<b>(27.5)</b>	14.5
<b>Total comprehensive income for the year</b>	<b>66.5</b>	118.1
Attributable to:		
Equity holders of the parent	66.4	117.9
Non-controlling interests	0.1	0.2
	<b>66.5</b>	118.1

1 A reconciliation of the restatement to the previously reported numbers is provided in note 31



# Consolidated balance sheet

At 31 December 2019

	Note	2019 £m	Restated <sup>1</sup> 2018 £m	Restated <sup>1</sup> 1 January 2018 £m
<b>Non-current assets</b>				
Goodwill	9	169.8	163.9	157.6
Other intangible assets	10	42.6	43.0	43.4
Property, plant and equipment	11	534.5	546.6	520.5
Right-of-use assets	12	73.3	73.7	67.9
Investment in associate	24	4.2	4.1	-
Deferred tax assets	19	6.1	9.1	9.8
Trade and other receivables	14	1.2	1.4	1.0
		<b>831.7</b>	<b>841.8</b>	<b>800.2</b>
<b>Current assets</b>				
Inventories	13	14.8	13.9	16.4
Current tax assets		15.7	7.0	12.8
Trade and other receivables	14	142.9	146.3	140.4
Cash and bank balances	15	22.0	38.5	41.0
Assets held for sale	16	-	1.8	2.1
		<b>195.4</b>	<b>207.5</b>	<b>212.7</b>
<b>Total assets</b>		<b>1,027.1</b>	<b>1,049.3</b>	<b>1,012.9</b>
<b>Current liabilities</b>				
Trade and other payables	20	127.4	140.4	138.4
Current tax liabilities		31.2	26.6	29.2
Borrowings	17	1.1	2.3	1.4
Lease liabilities	12	13.4	13.6	13.0
Provisions	21	4.0	4.7	8.7
		<b>177.1</b>	<b>187.6</b>	<b>190.7</b>
<b>Net current assets</b>		<b>18.3</b>	<b>19.9</b>	<b>22.0</b>
<b>Non-current liabilities</b>				
Lease liabilities	12	66.0	66.7	61.5
Retirement benefit obligations	29	17.9	16.8	15.2
Deferred tax liabilities	19	48.6	44.8	40.9
Provisions	21	9.5	11.9	11.0
Other payables	20	2.2	2.2	3.4
		<b>144.2</b>	<b>142.4</b>	<b>132.0</b>
<b>Total liabilities</b>		<b>321.3</b>	<b>330.0</b>	<b>322.7</b>
<b>Net assets</b>		<b>705.8</b>	<b>719.3</b>	<b>690.2</b>
<b>Equity</b>				
Share capital	22	33.1	33.1	33.1
Share premium account		177.1	177.1	177.1
Own shares		(11.6)	(14.8)	(7.2)
Other reserves		136.7	141.4	141.0
Translation reserves		37.9	64.2	48.2
Retained earnings		331.8	317.6	297.5
<b>Equity attributable to equity holders of the parent</b>		<b>705.0</b>	<b>718.6</b>	<b>689.7</b>
Non-controlling interests		0.8	0.7	0.5
<b>Total equity</b>		<b>705.8</b>	<b>719.3</b>	<b>690.2</b>

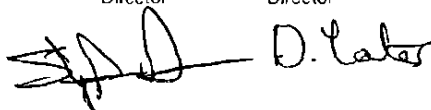
1 A reconciliation of the restatement to the previously reported numbers is provided in note 31

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 12 March 2020.

They were signed on its behalf by:

S.C. Harris  
Director

D. Yates  
Director



## Financial statements

# Consolidated cash flow statement

For the year ended 31 December 2019

	Note	2019 £m	Restated <sup>1</sup> 2018 £m
<b>Net cash from operating activities</b>	26	<b>177.3</b>	190.1
<b>Investing activities</b>			
Purchases of property, plant and equipment		(77.7)	(82.4)
Proceeds on disposal of property, plant and equipment and intangible assets		7.4	10.2
Purchases of other intangible assets		(1.0)	(1.8)
Acquisition of businesses, net of cash acquired		(19.1)	(8.3)
Disposal of businesses		–	0.7
<b>Net cash used in investing activities</b>		<b>(90.4)</b>	(81.6)
<b>Financing activities</b>			
Interest received		0.2	0.2
Interest paid		(4.7)	(4.3)
Dividends paid	7	(74.9)	(81.8)
Repayments of bank loans		(37.3)	(40.7)
Principal elements of lease payments		(14.4)	(14.4)
Own shares purchased		(6.0)	(10.6)
New bank loans raised		35.0	40.0
<b>Net cash used in financing activities</b>		<b>(102.1)</b>	(111.6)
<b>Net decrease in cash and cash equivalents</b>		<b>(15.2)</b>	(3.1)
<b>Cash and cash equivalents at beginning of year</b>		<b>36.2</b>	39.6
Effect of foreign exchange rate changes		(0.1)	(0.3)
<b>Cash and cash equivalents at end of year</b>	26	<b>20.9</b>	36.2

<sup>1</sup> A reconciliation of the restatement to the previously reported numbers is provided in note 31

# Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
1 January 2018, as previously reported	33.1	177.1	(7.2)	141.0	45.9	307.1	697.0	0.5	697.5
Impact of change in accounting policy	–	–	–	–	2.3	(9.6)	(7.3)	–	(7.3)
Restated balance at 1 January 2018	33.1	177.1	(7.2)	141.0	48.2	297.5	689.7	0.5	690.2
Net profit for the year	–	–	–	–	–	103.2	103.2	0.4	103.6
Exchange differences on translation of overseas operations	–	–	–	–	16.0	–	16.0	(0.2)	15.8
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(1.3)	(1.3)	–	(1.3)
<b>Total comprehensive income for the year</b>	–	–	–	–	16.0	101.9	117.9	0.2	118.1
Return of capital to shareholders and redemption of B shares	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Acquired in the year/settlement of share options	–	–	(7.6)	(3.4)	–	0.4	(10.6)	–	(10.6)
Share-based payments	–	–	–	3.8	–	–	3.8	–	3.8
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Dividends	–	–	–	–	–	(81.8)	(81.8)	–	(81.8)
<b>Restated balance at 31 December 2018</b>	<b>33.1</b>	<b>177.1</b>	<b>(14.8)</b>	<b>141.4</b>	<b>64.2</b>	<b>317.6</b>	<b>718.6</b>	<b>0.7</b>	<b>719.3</b>
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 gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(1.1)	(1.1)	–	(1.1)
<b>Total comprehensive income for the year</b>	–	–	–	–	(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	–	–	–	–	–	(74.7)	(74.7)	–	(74.7)
<b>31 December 2019</b>	<b>33.1</b>	<b>177.1</b>	<b>(11.6)</b>	<b>136.7</b>	<b>37.9</b>	<b>331.8</b>	<b>705.0</b>	<b>0.8</b>	<b>705.8</b>

Included in other reserves is a capital redemption reserve of £129.8m (2018: £129.8m) and a share-based payments reserve of £6.1m (2018: £10.8m). 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 31 December 2019, 1,405,555 (2018: 1,839,860) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 27).

Certain subsidiaries have taken an exemption to be audited. Refer to page 142 for further information.

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## Financial statements

# Group accounting policies

Year ended 31 December 2019

### Basis of accounting

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with IFRS as adopted by the European Union, and therefore the Group financial statements comply with Article 4 of EU IAS Regulation as adopted for use in the EU. There are no differences for the Group in applying IFRS as issued by the IASB and IFRS as adopted by the EU.

The Group has adopted Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee of the IASB (IFRIC). Individual standards and interpretations have to be adopted by the European Commission (EC) and the process leads to a delay between the issue and adoption of new standards and in some cases amendment by the EC.

International Financial Reporting Standards are subject to ongoing amendment by the IASB and subsequent endorsement by the EC and are therefore subject to change.

The financial statements have been prepared on the historical cost basis, with the exception of accounting for certain financial instruments and retirement benefit assets. Historical cost is generally based on the fair value of the consideration given up in exchange for the assets. The principal accounting policies adopted are set out below.

### Going concern

The directors have at the time of approving the financial statements a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Chief Financial Officer's report on page 24.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. A subsidiary is an entity controlled, directly or indirectly, by Bodycote plc. Control exists when the Group has power over the subsidiary, has exposure or rights to the variable returns from its involvement with a subsidiary and then holds the ability to use its power to affect its returns.

The results of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of profits and losses less any distributions made. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

## Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### Retirement benefit schemes

Accounting for retirement benefit schemes under IAS 19 (revised) requires an assessment of the future benefits payable in accordance with actuarial assumptions. The discount rate applied in the calculation of scheme liabilities is a key source of estimation uncertainty for the Group. The Group has taken the decision not to recognise an asset in relation to the surplus on the UK defined benefit pension scheme. Details of the accounting policies applied in respect of retirement benefit schemes are set out on page 93 and see note 29 on page 127 for further details.

No areas other areas of key sources of estimation uncertainty have been identified in relation to Brexit.

### Critical judgements in applying the Group's accounting policies

In the course of preparing the financial statements, certain judgements have been made in the process of applying the Group's accounting policies, in addition to those involving estimations (above), that have had a significant effect on the amounts recognised in the financial statements.

### Taxation

The Group operates in a number of countries and is subject to taxes in numerous jurisdictions. The recognition of a provision for taxes is a significant judgement which is based upon the interpretation of applicable tax legislation on a country-by-country basis and an assessment of the likely outcome of any open tax computations. Amounts provided are accrued based on management's interpretation of country-specific tax laws and the likelihood of settlement which may take several years to conclude. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences could have a consequent adverse impact on the Group's income statement in the period in which such determination is made. This includes outcomes where the provision is no longer required. Please refer to note 6 on page 106, note 19 on page 121 and note 30 on page 132 for further details.

Due to the uncertainty associated with such tax matters, a range of outcomes is reasonably possible, the extent of this range is difficult to define due to the nature of the risks, their inter-dependency and the numerous Tax Authorities involved, but is not expected to differ materially to the provisions recorded. Tax provisions as at 31 December 2019 totalled £15.3m (2018: £16.1m).

### Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred, in which case appropriate provision is made for impairment.

### Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to dispose.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

## Financial statements

# Group accounting policies continued

Year ended 31 December 2019

### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. If after restatement, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each cash-generating unit expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of a cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the units and then to assets of the unit on a pro-rata basis. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date and in subsequent years. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

### Revenue recognition

The Group predominantly has one revenue stream relating to customer specific thermal processing services with either identifiable customer contracts or specific terms and conditions and pricing specific performance obligations. Revenue is recognised net of discounts, VAT and other sales-related taxes. The Group's right to consideration equates to the value of the services provided, the transaction price of which is based upon pricing as agreed with the customer. In general, the services provided to the Group's customers consist of one performance obligation. Where multiple performance obligations are determined to exist in one transaction, the allocation of transaction price and delivery of services are considered on a case by case basis. The determination of the transaction price is based upon pricing as agreed with the customer. Revenue is recognised on completion of the services rendered.

In certain cases, the Group will use third parties as part of delivering customer contracts. When a third party is involved in providing goods or services, the Group determines if there is a Principal or an Agency relationship with that third party. Due to the nature of the contractual arrangements, it is initially assumed that the Group enters into a Principal relationship with third party contractors and thus recognises the related revenue on a gross basis with related costs included in cost of sales and overheads in the consolidated income statement. In some circumstances, third party work arranged for a customer of the Group could validly be considered as agency activity. In such a case, the revenue and related cost of sale is recorded in net revenue in the consolidated income statement on a net basis.

Other operating income represents scrap sales, asset sales and other items of operating income not provided in the normal course of business.

### Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period.

Exchange differences are recognised in the income statement in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see page 121); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation). These are recognised initially in the consolidated statement of comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling-denominated assets and liabilities.

### Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

### Operating profit

Operating profit is stated after charging restructuring costs, goodwill impairment, amortisation of acquired intangible assets and after the post-tax share of results of associates but before finance income and finance costs.

## Exceptional items

The Group considers exceptional items to be those which derive from events or transactions which are significant for separate disclosure by virtue of their size or incidence in order for the user to obtain a proper understanding of the Group's financial performance. These items include, but are not limited to, acquisition costs, impairment charges, reorganisation costs and profits and losses on disposal of subsidiaries and other one off items which meet this definition.

## Retirement benefit costs

Payments to defined contribution schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past-service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs within cost of sales and administrative expenses (see note 3) in its consolidated income statement. Curtailment gains and losses are accounted for as past-service cost.

Net-interest expense or income is recognised within finance costs (see note 5).

The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

## Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year or tax assessment adjustments made to prior years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset 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.

## Financial statements

# Group accounting policies continued

Year ended 31 December 2019

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, less their residual values, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	2%
Leasehold improvements	over the projected life of the lease
Fixtures and fittings	10%–20%
Plant and machinery	5%–20%
Motor vehicles	20%–33%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Assets in the course of construction are carried at cost, plus appropriate borrowing costs, less any recognised impairment loss. Depreciation commences when the assets are ready for their intended use.

### Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 (revised) Employee Benefits respectively; and
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment.

Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

### Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets under development are carried at cost (less any accumulated impairment losses) until available for use. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Amortisation of these assets is recognised in the Consolidated Income Statement on a straight-line basis over their estimated useful lives, on the following bases:

Software	10%–33%
Non-compete agreements	20%–33%
Customer relationships	7%–10%

Amortisation is recognised within administration expenses.



## Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to dispose and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## Inventories

Inventories are stated at the lower of cost and net realisable value and are accounted for on a first in, first out basis or, in some cases, a weighted-average basis, if deemed more appropriate for the business. For finished goods and work-in-progress, cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

## Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for trade receivables, which do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for expected credit losses and estimated irrecoverable amounts.

Trade receivables are initially recognised at fair value less allowance for impairments. A simplified lifetime Expected Credit Loss (ECL) model is used to assess trade receivables for impairment. ECL is the present value of all cash shortfalls over the expected life of a trade receivable. Expected credit losses are based on historical loss experience on trade receivables, adjusted to reflect information about current economic conditions and reasonable and supportable forecasts of future economic conditions. At the date of initial recognition, the credit losses expected to arise over the lifetime of a trade receivable are recognised as an impairment.

## Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

## Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value, net of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## Other financial liabilities

Other financial liabilities are not interest-bearing and are stated at their nominal value.

## Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

## Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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# Group accounting policies continued

Year ended 31 December 2019

### Derivative financial instruments

The Group uses derivative financial instruments, in particular foreign currency swaps and forward exchange contracts, to manage the financial risks arising from the business activities and the financing of those activities. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of derivative financial instruments.

Derivative financial instruments are initially recognised as assets and liabilities measured at their fair value on the balance sheet date. Changes in the fair value of any derivative instruments that do not fulfil the criteria for hedge accounting contained in IAS 39 Financial Instruments: Recognition and Measurement are recognised immediately in the income statement. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation and the effect of the adjustment is material in relation to the financial statements, its carrying amount is the present value of those cash flows.

### Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled employee benefits reserve.

### General information

Bodycote plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 39.

The nature of the Group's operations and its principal activities are included within the Group's strategic report.

Information on the Group's objectives, policies and processes are included within the Group's strategic report.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in pounds sterling, which is the functional and presentation currency of the Parent, Bodycote plc. Foreign operations are included in accordance with the policies set out in the Foreign Currencies accounting policy on page 92.

## Adoption of new and revised standards

In the current year, the following new and revised standards and interpretations have been adopted.

### ■ IFRIC 23      Uncertainty over Income Tax Treatments

The interpretation was issued in June 2017 and was implemented by the Group from 1 January 2019. The interpretation clarifies that if it is considered probable that a tax authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter. The Group has assessed the potential impact of the new interpretation and the application of IFRIC 23 on 1 January 2019 has not resulted in a material change to the provisions held for uncertain tax positions.

### ■ IFRS 16      Leases

From 1 January 2019 the Group has adopted IFRS 16, 'Leases' on a fully retrospective basis. The process of collecting lease information and calculating the financial impact on adoption of IFRS 16 has been performed at Group level. Refer to note 31 for restatement information. Right-of-use assets and lease liabilities recognised under IFRS 16 are presented separately on the face of the balance sheet. As at the balance sheet date the carrying value of right-of-use assets of £73.3m (31 December 2018 (restated): £73.7m; 1 January 2018 (restated): £67.9m) comprised: Land & buildings of £59.5m (31 December 2018 (restated): £56.4m; 2018 (restated): £51.5m); plant & machinery of £8.0m (31 December 2018 (restated): £10.3m; 1 January 2018 (restated): £9.0m); and other assets of £5.8m (31 December 2018 (restated): £7.0m; 1 January 2018 (restated): £7.4m).

The carrying value of lease liabilities in current liabilities at the balance sheet date is £13.4m (31 December 2018 (restated): £13.6m; 1 January 2018 (restated): £13.0m), and in non-current liabilities is £66.0m (31 December 2018 (restated): £66.7m; 1 January 2018 (restated): £61.5m). Following a review of lease arrangements, a dilapidation provision has been recognised in non-current liabilities at the balance sheet date of £2.3m (31 December 2018 (restated): £2.3m; 1 January 2018 (restated): £2.3m).

The carrying value of resulting deferred tax assets in non-current assets at the balance sheet date is £1.5m (31 December 2018 (restated): £1.6m; 1 January 2018 (restated): £1.6m).

Amounts recognised in respect of leases in the income statement during the year comprised: Right-of-use asset depreciation of £14.5m (2018 (restated): £14.4m); interest on lease liabilities of £2.4m (2018 (restated): £2.4m); and expenses relating to leases of low value assets and short leases of £1.8m (2018 (restated): £1.2m).

Amounts recognised in respect of leases in the consolidated cash flow statement during the year comprised: payments of capital elements of leases of £14.4m (2018 (restated) £14.4m), and payments of lease interest of £2.4m (2018: (restated) £2.4m).

The Group has adopted the following IFRS 16 accounting policy for leasing arrangements where it is the lessee:

To the extent that a right-of-control exists over an asset subject to a lease, with a lease term exceeding one year, a right-of-use asset, representing the Group's right to use the underlying leased asset, and a lease liability, representing the Group's obligation to make lease payments, are recognised in the Group's balance sheet at the commencement of the lease.

The right-of-use asset is initially measured at cost and includes the amount of initial measurement of the lease liability and any direct costs incurred, including advance lease payments and an estimate of the dismantling, removal and restoration costs required by the terms and conditions of the lease.

Depreciation is charged to the income statement to depreciate the right-of-use asset from the commencement date until the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term shall include the period of any extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The lease liability is measured at the present value of the future lease payments, including fixed payments less any lease incentives receivable, amounts expected to be payable by the Group under residual value guarantees and the exercise price of purchased options where it is reasonably certain that the option will be exercised, discounted using the interest rate implicit in the lease, if readily determinable. If the rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Finance charges are recognised in the income statement over the period of the lease.

Lease arrangements that are short-term in nature or in relation to low value assets are charged directly to the income statement when incurred. Short-term leases are leases with a lease term of 12 months or less and low value assets are defined as assets which have an underlying value of five thousand US dollars or less.

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# Notes to the consolidated financial statements

Year ended 31 December 2019

### 1. 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, headline operating cash conversion, net cash, net cash plus lease liabilities and return on capital employed (ROCE). These measures reflect the underlying trading performance of the business as they exclude certain non operational items, acquisition costs and amortisation of acquired intangible assets. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, to better represent the underlying performance of the business. The measures described above are also used in the target setting process for executive and management annual bonuses (headline operating profit and headline operating cash flow) and share schemes (headline EPS and return on capital employed). During the year the group made changes to the definition of headline EBITDA and its cash flow related APMs; refer to page 26 for further information.

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

	2019 £m	Restated 2018 £m
Operating profit	128.6	136.5
Add back:		
Amortisation of acquired intangibles	4.6	3.7
Acquisition costs	1.7	0.5
<b>Headline operating profit</b>	<b>134.9</b>	<b>140.7</b>

#### Return on sales

	2019 £m	Restated 2018 £m
Headline operating profit	134.9	140.7
Revenue	719.7	728.6
<b>Return on sales</b>	<b>18.7%</b>	<b>19.3%</b>

#### Headline profit before taxation

	2019 £m	Restated 2018 £m
Profit before taxation	123.9	132.2
Add back:		
Amortisation of acquired intangibles	4.6	3.7
Acquisition costs	1.7	0.5
<b>Headline profit before taxation</b>	<b>130.2</b>	<b>136.4</b>

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

	2019 £m	Restated 2018 £m
Operating profit	128.6	136.5
Depreciation and amortisation	84.2	80.1
Impairment of property, plant and equipment	–	1.8
Profit on disposal of property, plant and equipment	(4.4)	(1.7)
Share-based payments	1.1	3.8
Loss on disposal of businesses	–	0.6
Income from associate	(0.2)	–
<b>EBITDA</b>	<b>209.3</b>	<b>221.1</b>
Acquisition costs	1.7	0.5
Share-based payments	(1.1)	(3.8)
<b>Headline EBITDA</b>	<b>209.9</b>	<b>217.8</b>

## 1. Alternative performance measures (APMs) continued

### Headline tax charge

	2019 £m	Restated 2018 £m
Tax charge	29.9	28.6
Tax on amortisation of acquired intangibles	1.1	0.9
<b>Headline tax charge</b>	<b>31.0</b>	<b>29.5</b>

### Headline tax rate

	2019 £m	Restated 2018 £m
Headline tax charge	31.0	29.5
Headline profit before taxation	130.2	136.4
<b>Headline tax rate</b>	<b>23.8%</b>	<b>21.7%</b>

### Headline earnings per share

A detailed reconciliation is provided in note 8.

### Headline operating cash flow

	2019 £m	Restated 2018 £m
Headline EBITDA	209.9	217.8
Less:		
Net maintenance capital expenditure	(50.2)	(48.7)
Net working capital movement	(4.2)	(3.7)
<b>Headline operating cash flow</b>	<b>155.5</b>	<b>165.4</b>

### Free cash flow

	2019 £m	Restated 2018 £m
Headline operating cash flow	155.5	165.4
Less:		
Restructuring cash flows	(3.2)	(2.8)
Income taxes paid	(24.7)	(24.5)
Interest paid	(4.5)	(4.3)
<b>Free cash flow</b>	<b>123.1</b>	<b>133.8</b>

### Headline operating cash conversion

	2019 £m	Restated 2018 £m
Headline operating cash flow	155.5	165.4
Headline operating profit	134.9	140.7
<b>Headline operating cash conversion</b>	<b>115.3%</b>	<b>117.6%</b>

### Net cash and net cash plus lease liabilities

	2019 £m	Restated 2018 £m
Cash and bank balances	22.0	38.5
Bank overdrafts (included in borrowings)	(1.1)	(2.3)
<b>Net cash</b>	<b>20.9</b>	<b>36.2</b>
Lease liabilities	(79.4)	(80.3)
<b>Net cash plus lease liabilities</b>	<b>(58.5)</b>	<b>(44.1)</b>

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# Notes to the consolidated financial statements continued

Year ended 31 December 2019

## 1. Alternative performance measures (APMs) continued

### Return on capital employed

	2019 £m	Restated 2018 £m
Headline operating profit	134.9	140.7
Average capital employed <sup>1</sup>	762.4	743.5
<b>Return on capital employed</b>	<b>17.7%</b>	<b>18.9%</b>

<sup>1</sup> Average capital employed is defined as the average opening and closing net assets adjusted for net cash plus lease liabilities

### Revenue and headline operating profit at constant exchange rates

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

Year to 31 December 2019				
	ADE £m	AGI £m	Central cost and eliminations £m	Consolidated £m
Revenue	301.4	418.3	–	719.7
Constant exchange rates adjustment	(5.0)	(0.7)	–	(5.7)
<b>Revenue at constant exchange rates</b>	<b>296.4</b>	<b>417.6</b>	<b>–</b>	<b>714.0</b>
Headline operating profit	75.8	65.9	(6.8)	134.9
Constant exchange rates adjustment	(1.3)	0.4	0.3	(0.6)
<b>Headline operating profit at constant exchange rates</b>	<b>74.5</b>	<b>66.3</b>	<b>(6.5)</b>	<b>134.3</b>

## 2. 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 is therefore derived by reference to the preponderance of markets served.

## 2. Business and geographical segments continued

Group	ADE 2019 £m	AGI 2019 £m	Central costs and eliminations 2019 £m	Consolidated 2019 £m
<b>Revenue</b>				
Total revenue	301.4	418.3	–	719.7
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated central costs	76.8	65.6	–	142.4
Share-based payments (including social 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

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

	Western Europe 2019 £m	North America 2019 £m	Emerging markets 2019 £m	Total ADE 2019 £m
<b>Aerospace, Defence &amp; Energy</b>				
<b>Revenue</b>				
Total revenue	141.3	158.7	1.4	301.4
<b>Result</b>				
Headline operating profit prior to share-based payments	35.9	40.6	0.3	76.8
Share-based payments (including social 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
	Western Europe 2019 £m	North America 2019 £m	Emerging markets 2019 £m	Total AGI 2019 £m
<b>Automotive &amp; General Industrial</b>				
<b>Revenue</b>				
Total revenue	246.0	107.4	64.9	418.3
<b>Result</b>				
Headline operating profit prior to share-based payments	40.5	9.7	15.4	65.6
Share-based payments (including social 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

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Year ended 31 December 2019

## 2. Business and geographical segments continued

Group	Restated			Consolidated 2018 £m
	ADE 2018 £m	AGI 2018 £m	Central costs and eliminations 2018 £m	
<b>Revenue</b>				
Total revenue	288.0	440.6	–	728.6
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated central costs	69.7	87.2	–	156.9
Share-based payments (including social charges)	(0.3)	(3.3)	(1.8)	(5.4)
Unallocated central costs	–	–	(10.8)	(10.8)
Headline operating profit/(loss)	69.4	83.9	(12.6)	140.7
Amortisation of acquired intangible assets	(0.9)	(2.8)	–	(3.7)
Acquisition costs	–	(0.5)	–	(0.5)
Segment result	68.5	80.6	(12.6)	136.5
Finance income				0.2
Finance costs				(4.5)
Profit before taxation				132.2
Taxation				(28.6)
Profit for the year				103.6

Aerospace, Defence & Energy	Restated			Total ADE 2018 £m
	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	
<b>Revenue</b>				
Total revenue	137.7	149.1	1.2	288.0
<b>Result</b>				
Headline operating profit/(loss) prior to share-based payments	33.8	36.4	(0.5)	69.7
Share-based payments (including social charges)	0.1	(0.4)	–	(0.3)
Headline operating profit/(loss)	33.9	36.0	(0.5)	69.4
Amortisation of acquired intangible assets	0.2	(1.1)	–	(0.9)
Segment result	34.1	34.9	(0.5)	68.5

Automotive & General Industrial	Restated			Total AGI 2018 £m
	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	
<b>Revenue</b>				
Total revenue	272.0	106.5	62.1	440.6
<b>Result</b>				
Headline operating profit prior to share-based payments	58.3	12.2	16.7	87.2
Share-based payments (including social charges)	(2.5)	(0.6)	(0.2)	(3.3)
Headline operating profit	55.8	11.6	16.5	83.9
Amortisation of acquired intangible assets	(0.3)	(2.5)	–	(2.8)
Acquisition costs	–	(0.5)	–	(0.5)
Segment result	55.5	8.6	16.5	80.6



## 2. Business and geographical segments continued

### Other information

Group	ADE 2019 £m	AGI 2019 £m	Central costs and eliminations 2019 £m	Consolidated 2019 £m
Gross capital additions	27.5	49.6	4.8	81.9
Depreciation and amortisation	29.1	52.8	2.3	84.2
<b>Balance sheet</b>				
Segment assets	375.5	607.1	44.5	1,027.1
Segment liabilities	(82.4)	(171.8)	(67.1)	(321.3)
Segment net assets	293.1	435.3	(22.6)	705.8

	Western Europe 2019 £m	North America 2019 £m	Emerging markets 2019 £m	Total ADE 2019 £m
<b>Aerospace, Defence &amp; Energy</b>				
Gross capital additions	10.4	17.0	0.1	27.5
Depreciation and amortisation	13.1	15.9	0.1	29.1
<b>Balance sheet</b>				
Segment assets	181.5	189.2	4.8	375.5
Segment liabilities	(43.7)	(38.5)	(0.2)	(82.4)
Segment net assets	137.8	150.7	4.6	293.1

	Western Europe 2019 £m	North America 2019 £m	Emerging markets 2019 £m	Total AGI 2019 £m
<b>Automotive &amp; General Industrial</b>				
Gross capital additions	18.1	19.4	12.1	49.6
Depreciation and amortisation	27.4	15.3	10.1	52.8
<b>Balance sheet</b>				
Segment assets	289.2	182.2	135.7	607.1
Segment liabilities	(101.5)	(30.3)	(40.0)	(171.8)
Segment net assets	187.7	151.9	95.7	435.3

Group	Restated			Consolidated 2018 £m
	ADE 2018 £m	AGI 2018 £m	Central costs and eliminations 2018 £m	
Gross capital additions	31.3	68.6	3.1	103.0
Depreciation and amortisation	27.6	49.9	2.6	80.1
<b>Balance sheet</b>				
Segment assets	390.9	605.3	53.1	1,049.3
Segment liabilities	(84.4)	(185.4)	(60.2)	(330.0)
Segment net assets	306.5	419.9	(7.1)	719.3

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Year ended 31 December 2019

## 2. Business and geographical segments continued

	Restated			
	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	Total ADE 2018 £m
<b>Aerospace, Defence &amp; Energy</b>				
Gross capital additions	18.8	12.1	0.4	31.3
Depreciation and amortisation	12.4	14.8	0.4	27.6
<b>Balance sheet</b>				
Segment assets	189.9	194.7	6.3	390.9
Segment liabilities	(45.0)	(36.6)	(2.8)	(84.4)
Segment net assets	144.9	158.1	3.5	306.5

	Restated			
	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	Total AGI 2018 £m
<b>Automotive &amp; General Industrial</b>				
Gross capital additions	29.8	20.6	18.2	68.6
Depreciation and amortisation	28.1	13.4	8.4	49.9
<b>Balance sheet</b>				
Segment assets	305.2	189.9	110.2	605.3
Segment liabilities	(119.1)	(36.7)	(29.6)	(185.4)
Segment net assets	186.1	153.2	80.6	419.9

### Geographical information

The Group's revenue from external customers and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by country are detailed below:

	Revenue from external customers		Non-current assets			Restated 2018 £m
	2019 £m	2018 £m	2019 £m	As previously reported 2018 £m	Change in accounting policy 2018 £m	
USA	255.3	243.6	315.2	298.2	18.3	316.5
France	102.6	111.3	71.9	75.3	8.6	83.9
Germany	87.6	101.0	82.9	84.2	5.9	90.1
UK	62.3	58.7	96.5	91.9	8.5	100.4
Sweden	44.2	44.4	40.4	34.8	1.7	36.5
Netherlands	26.9	29.6	23.3	22.8	3.1	25.9
Others	140.8	140.0	194.2	147.7	30.3	178.0
	719.7	728.6	824.4	754.9	76.4	831.3

### 3. Operating profit

	2019 £m	Restated 2018 £m
Revenue	719.7	728.6
Cost of sales	(452.3)	(448.2)
Gross profit	267.4	280.4
Other operating income	14.4	13.2
Distribution costs	(21.6)	(20.2)
Administration expenses	(124.7)	(128.8)
Other operating expenses	(0.6)	(3.9)
Headline operating profit	134.9	140.7
Amortisation of acquired intangible assets	(4.6)	(3.7)
Acquisition costs	(1.7)	(0.5)
Operating profit	128.6	136.5

Further details of acquisition costs are included in the Chief Financial Officer's report on page 24.

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

	2019 £m	Restated 2018 £m
Net foreign exchange gain	(0.1)	(0.1)
Inventory expensed	52.9	55.6
Depreciation of property, plant and equipment	63.3	60.1
Depreciation of Right-of-use assets	14.5	14.4
Amortisation of other intangible assets	6.4	5.6
Gain on disposal of property, plant and equipment	(4.4)	(1.7)
Sub-lease rental income	–	(0.1)
Staff costs (see note 4)	280.6	289.3
Acquisition costs	1.7	0.5
Impairment loss/(gain) on trade receivables	0.6	(0.2)
Impairment of property, plant and equipment – recognised in operating profit	–	1.8

The analysis of auditors' remuneration on a worldwide basis is as follows:

	2019 £m	2018 £m
Fees payable to the auditor for the audit of the annual accounts	0.4	0.2
Fees payable to the auditor and its associates for other services:		
The audit of the Group's subsidiaries	0.7	0.7
<b>Total audit fees</b>	<b>1.1</b>	<b>0.9</b>
Audit related assurance services <sup>1</sup>	0.1	0.1
Other non-audit fees <sup>2</sup>	0.1	–
<b>Total fees payable to the auditor</b>	<b>1.3</b>	<b>1.0</b>

1 This includes £0.1m (2018: £0.1m) for the review of the half year report

2 Agreed upon procedures over adoption of IFRS 16

In addition to the amounts shown above, the predecessor auditor received fees of £7,700 in 2018 for the audit of the Group's pension schemes.

A description of the work of the Audit Committee is set out in the Audit Committee report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

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Year ended 31 December 2019

## 4. Staff costs

The average monthly number of employees (including executive directors) was:

	2019 Number	2018 Number
ADE:		
Western Europe	899	921
North America	810	851
Emerging markets	21	21
AGI:		
Western Europe	1,894	2,021
North America	926	971
Emerging markets	761	748
Shared services	223	225
Head office	39	36
	<b>5,573</b>	<b>5,794</b>

	2019 £m	Restated 2018 £m
Their aggregate remuneration comprised:		
Wages and salaries <sup>1</sup>	238.3	245.8
Social security costs	34.0	34.6
Pension costs	8.3	8.9
	<b>280.6</b>	<b>289.3</b>

<sup>1</sup> Following the adoption of IFRS 16, Leases, 2018 wages and salaries have been restated to reflect a £1.8m credit for vehicle leases

Included in wages and salaries are share-based payments (excluding social charges) resulting in a charge of £1.1m (2018: £3.8m).

Included in pension costs are £7.8m relating to defined contribution schemes (2018: £7.0m) and £0.5m relating to defined benefit schemes (2018: £1.9m).

Disclosure of individual directors' remuneration, share interests, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Listing Rules of the Financial Conduct Authority are shown in the tables in the Board report on remuneration on pages 56 to 77 and form part of these financial statements.

## 5. Finance costs

	2019 £m	Restated 2018 £m
Interest on bank overdrafts and loans	0.3	0.1
Interest on lease liabilities	2.4	2.4
Total interest expense	2.7	2.5
Net interest on the defined benefit pension liability	0.3	0.2
Other finance charges	1.9	1.8
Total finance costs	<b>4.9</b>	<b>4.5</b>

## 6. Taxation

	2019 £m	2018 £m
Current taxation – charge for the year	24.8	27.4
Current taxation – adjustments in respect of previous years	(3.9)	(0.4)
Deferred tax (see note 19)	9.0	1.6
	<b>29.9</b>	<b>28.6</b>

The Group uses a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements. The appropriate tax rate for this comparison is 25.9% (2018: 26.5%).

## 6. Taxation continued

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

	2019 £m	Restated 2018 £m
Profit before taxation	123.9	132.2
Tax at the weighted average country tax rate of 25.9% (2018: 26.5%)	32.1	35.0
Tax effect of expenses not deductible in determining taxable profit <sup>1</sup>	0.7	0.6
Impact of recognition or derecognition of deferred tax balances	(0.5)	(0.9)
Tax effect of other adjustments in respect of previous years:		
Current tax <sup>2</sup>	(3.9)	(0.4)
Deferred tax <sup>2</sup>	2.9	0.2
Effect of financing activities between jurisdictions <sup>3</sup>	(3.6)	(7.9)
Impact of trade and minimum corporate taxes	1.1	1.5
Effect of changes in statutory tax rates on deferred tax assets and liabilities	(0.1)	(0.1)
Other tax risk provision movements <sup>4</sup>	1.2	0.6
Tax expense for the year	29.9	28.6

Tax on items taken directly to equity is a credit of £0.5m (2018: charge of £0.7m).

- Those costs in various jurisdictions not deductible in calculating taxable profits
- 2019 and 2018 adjustments in current and deferred tax in respect of previous years relate mainly to changes in assumptions and outcomes in UK and overseas tax positions
- The Group is externally financed by a mix of cash flows from operations and short-term borrowings. Internally, operating subsidiaries are predominantly financed via intercompany loans. The effect is net of provisions based on management's estimation of tax risk relating to the potential disallowance of interest. £1.7m of interest deductions were restricted in the US in 2019 (2018: £2.2m) following the passing of the Tax Cuts and Jobs Act
- Includes provisions for local tax risks and non-financing cross border transactions

As part of the calculation of the tax charge, the Group recognises a number of tax risk provisions in respect of ongoing tax enquiries and in recognition of the multinational tax environment that Bodycote operates in where the nature of the tax positions that are taken is often complex and subject to change. Tax provisions totalling £15.3m were recognised at 31 December 2019 (2018: £16.1m). The provisions included are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. Management judgement is exercised to determine the quantum of the tax risk provisions based on an understanding of the appropriate local tax legislation, taking into consideration the differences of interpretation that can arise on a wide variety of issues including the nature of ongoing tax audits and the experience from earlier enquiries.

Note 30 to the accounts refers to a contingent liability in respect of the European Commission state aid investigation into the Group financing exemption in the UK controlled foreign company rules.

## 7. Dividends

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 13.3p (2017: 12.1p) per share	25.2	23.3
Special dividend for the year ended 31 December 2018 of 20.0p (2017: 25.0p) per share	38.1	47.6
Interim dividend for the year ended 31 December 2019 of 6.0p (2018: 5.7p) per share	11.4	10.9
	74.7	81.8
Proposed final dividend for the year ended 31 December 2019 of 14.0p (2018: 13.3p) per share	26.6	25.2
The Board is not recommending a special dividend for the year ended 31 December 2019 (2018: 20.0p).	—	38.3

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

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

During the year, the Group became aware of an issue concerning technical compliance with the Companies Act 2006 in respect of the declaration and payment of the 2018 interim dividend and 2018 special dividend. Although the Group had such distributable reserves at the time of declaration and payment, the Group had not lodged interim accounts with Companies House to show that each of the dividends were supported by sufficient distributable reserves. The Group's historical reported trading results and financial condition are entirely unaffected, but the Group proposes to put a resolution to shareholders at the Company's annual general meeting to rectify the position.

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Year ended 31 December 2019

## 8. Earnings per share

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

	2019 £m	Restated 2018 £m
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	93.8	103.2
	<b>Number</b>	<b>Number</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	189,921,112	190,289,981
Effect of dilutive potential ordinary shares		
Shares subject to performance conditions	794,287	1,449,664
Weighted average number of ordinary shares for the purpose of diluted earnings per share	190,715,399	191,739,645
	<b>Pence</b>	<b>Pence</b>
<b>Earnings per share:</b>		
Basic	49.4	54.2
Diluted <sup>1</sup>	49.2	53.8
	<b>£m</b>	<b>£m</b>
<b>Headline earnings</b>		
Net profit attributable to equity holders of the parent	93.8	103.2
Add back:		
Amortisation of acquired intangible assets (net of tax)	3.5	2.8
Acquisition costs (net of tax)	1.7	0.5
<b>Headline earnings</b>	99.0	106.5
	<b>Pence</b>	<b>Pence</b>
<b>Headline earnings per share:</b>		
Basic	52.1	55.9
Diluted <sup>1</sup>	51.9	55.5

<sup>1</sup> The diluted EPS figure for 2018 has been re-presented to reflect certain dilutive share options

## 9. Goodwill

	2019 £m	2018 £m
<b>Cost</b>		
At 1 January	225.2	218.8
Exchange differences	(4.9)	3.2
Recognised on acquisition of businesses	10.4	3.2
At 31 December	230.7	225.2
<b>Accumulated impairment</b>		
At 1 January	61.3	61.2
Exchange differences	(0.4)	0.1
At 31 December	60.9	61.3
<b>Carrying amount</b>	169.8	163.9

## 9. Goodwill continued

Goodwill acquired through business combinations is allocated to 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. Goodwill is allocated to the CGUs as follows:

	2019 £m	2018 £m
ADE:		
Western Europe	26.8	27.0
North America	47.9	48.4
AGI:		
Western Europe	27.6	24.3
North America	55.5	57.8
Emerging markets	12.0	6.4
	169.8	163.9

The Group tests goodwill at least annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined from value in use calculations and are the sum of the discounted cash flows. The key assumptions for those calculations are the discount rates and the growth rates in respect of future cash flows. Growth rates are determined by a combination of management forecasts of between two and four years together with a further estimate of cash flows into perpetuity using GDP Growth rates based on an 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 11.7% (2018: 9.8%) and 12.7% (2018: 10.8%).

The forecast cash flows reflect management's expectation of how sales and operating profit will develop at this point in the economic cycle reflecting management's experience of each cash generating unit's profitability at the forecast level of sales, and, as outlined in the Business review, these forecasts take into account the current and expected economic environment both in respect of geography and market sectors. Capital expenditure forecasts are based on historical experience and include expenditure necessary to maintain the projected cash flows from operations. The cash flows are adjusted for the expected working capital requirements to deliver the sales and the timing of converting operating profit into cash. GDP growth rates used to determine cash flows into perpetuity are in the range 2.3% (2018: 2.3%) and 5.4% (2018: 5.4%) depending on the geographical region of each cash generating unit.

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 two years and the rates used to discount the forecast cash flows for these cash generating units are shown below:

	Goodwill carrying value 2019 £m	Long term growth rate 2019 %	Discount rate 2019 %
Cash generating unit			
North America ADE	47.9	2.8	11.7
North America AGI	55.5	2.8	11.7
	Goodwill carrying value 2018 £m	Long term growth rate 2018 %	Discount rate 2018 %
Cash generating unit			
North America ADE	48.4	2.8	9.7
North America AGI	57.8	2.8	9.7

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 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. Sensitivity analyses of reasonably possible changes in the underlying assumptions for the cash generating units included: no sales growth beyond 2019; 2020 sales results 20% below budgeted expectations; and no long term GDP growth. None of these scenarios resulted in an impairment.

The Directors do not consider that there are any reasonable possible sensitivities for the business that could arise in the next 12 months that could result in a material impairment charge being recognised. The Directors have concluded that no impairment charge is required in 2019.

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Year ended 31 December 2019

## 10. Other intangible assets

	Software £m	Customer relationships £m	Non-compete agreements £m	Total £m
<b>Cost</b>				
At 1 January 2018	39.9	45.7	3.1	88.7
Exchange differences	0.4	1.8	–	2.2
Additions	1.8	–	–	1.8
Acquired on acquisition of businesses	–	3.0	–	3.0
Disposals	(0.6)	–	–	(0.6)
Derecognised on disposal of businesses	(1.0)	–	–	(1.0)
At 1 January 2019	<b>40.5</b>	<b>50.5</b>	<b>3.1</b>	<b>94.1</b>
Exchange differences	<b>(0.5)</b>	<b>(2.3)</b>	–	<b>(2.8)</b>
Additions	<b>1.0</b>	–	–	<b>1.0</b>
Acquired on acquisition of businesses (see note 23)	–	<b>5.7</b>	<b>0.1</b>	<b>5.8</b>
<b>At 31 December 2019<sup>1</sup></b>	<b>41.0</b>	<b>53.9</b>	<b>3.2</b>	<b>98.1</b>
<b>Amortisation</b>				
At 1 January 2018	16.6	25.6	3.1	45.3
Exchange differences	0.3	1.3	–	1.6
Charge for the year	1.9	3.7	–	5.6
Disposals	(0.6)	–	–	(0.6)
Derecognised on disposal of businesses	(0.8)	–	–	(0.8)
At 1 January 2019	<b>17.4</b>	<b>30.6</b>	<b>3.1</b>	<b>51.1</b>
Exchange differences	<b>(0.4)</b>	<b>(1.6)</b>	–	<b>(2.0)</b>
Charge for the year	<b>1.8</b>	<b>4.6</b>	–	<b>6.4</b>
<b>At 31 December 2019</b>	<b>18.8</b>	<b>33.6</b>	<b>3.1</b>	<b>55.5</b>
<b>Carrying amount</b>				
<b>At 31 December 2019</b>	<b>22.2</b>	<b>20.3</b>	<b>0.1</b>	<b>42.6</b>
At 31 December 2018	<b>23.1</b>	<b>19.9</b>	–	<b>43.0</b>

<sup>1</sup> Included in software assets are ongoing development costs related to the Group's ERP solutions. £9.8m (2018: £9.1m) of these costs are related to assets that are not yet available for use and are therefore not amortised. As such solutions become available for use they will be amortised according to Group policy



## 11. Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold improvements £m	Short leasehold improvements £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>							
At 1 January 2018	253.4	11.8	13.5	929.0	29.8	66.5	1,304.0
Additions	0.6	0.1	0.3	8.5	0.4	72.5	82.4
Acquisition of businesses	–	–	–	2.1	–	–	2.1
Exchange differences	5.8	–	0.4	21.7	0.6	1.9	30.4
Transfer to assets held for sale	–	–	–	(0.8)	–	–	(0.8)
Recategorisation	7.4	0.2	3.2	53.7	1.3	(65.8)	–
Disposals	(9.3)	(1.6)	(0.9)	(39.3)	(2.0)	(0.1)	(53.2)
Disposal of businesses	(0.3)	–	–	(0.6)	(0.4)	–	(1.3)
<b>At 1 January 2019</b>	<b>257.6</b>	<b>10.5</b>	<b>16.5</b>	<b>974.3</b>	<b>29.7</b>	<b>75.0</b>	<b>1,363.6</b>
Additions	0.2	0.6	–	3.7	0.4	64.2	69.1
Acquisition of businesses	–	–	–	7.7	–	0.2	7.9
Exchange differences	(12.5)	(0.4)	(0.7)	(44.7)	(1.4)	(3.2)	(62.9)
Transfer from assets held for sale	0.9	–	–	–	–	–	0.9
Recategorisation	4.7	0.6	1.4	64.3	1.2	(72.2)	–
Disposals	(2.5)	(0.1)	(1.0)	(23.1)	(2.2)	–	(28.8)
<b>At 31 December 2019</b>	<b>248.4</b>	<b>11.2</b>	<b>16.2</b>	<b>982.2</b>	<b>27.7</b>	<b>64.0</b>	<b>1,349.7</b>
<b>Accumulated depreciation and impairment</b>							
At 1 January 2018	115.0	5.0	7.7	632.1	23.7	–	783.5
Charge for the year	6.5	1.1	0.9	50.2	1.4	–	60.1
Impairment losses incurred	–	–	0.1	1.7	–	–	1.8
Exchange differences	2.6	–	0.2	15.1	0.4	–	18.3
Transfer to assets held for sale	–	–	–	(0.5)	–	–	(0.5)
Recategorisation	(0.1)	0.1	–	(0.1)	0.1	–	–
Eliminated on disposals	(4.3)	(1.6)	(1.0)	(36.6)	(1.9)	–	(45.4)
Eliminated on disposal of businesses	(0.1)	–	–	(0.4)	(0.3)	–	(0.8)
<b>At 1 January 2019</b>	<b>119.6</b>	<b>4.6</b>	<b>7.9</b>	<b>661.5</b>	<b>23.4</b>	<b>–</b>	<b>817.0</b>
Charge for the year	6.8	1.2	1.0	52.9	1.4	–	63.3
Exchange differences	(5.9)	(0.2)	(0.4)	(30.8)	(1.1)	–	(38.4)
Recategorisation	–	–	–	0.8	(0.8)	–	–
Eliminated on disposals	(1.9)	(0.1)	(1.0)	(22.7)	(1.0)	–	(26.7)
<b>At 31 December 2019</b>	<b>118.6</b>	<b>5.5</b>	<b>7.5</b>	<b>661.7</b>	<b>21.9</b>	<b>–</b>	<b>815.2</b>
<b>Carrying amount</b>							
<b>At 31 December 2019</b>	<b>129.8</b>	<b>5.7</b>	<b>8.7</b>	<b>320.5</b>	<b>5.8</b>	<b>64.0</b>	<b>534.5</b>
At 31 December 2018	138.0	5.9	8.6	312.8	6.3	75.0	546.6

At 31 December 2019 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.3m (2018: £3.1m).

In addition to the above, property, plant and equipment amounting to £nil (2018: £1.8m) has been classified as held for sale and is disclosed within current assets.

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## 11. Property, plant and equipment continued

The Group restructured various operations during 2018 and identified £1.8m of asset impairments. Asset impairments broken down by business segment in the prior year were as follows:

	2019 £m	2018 £m
ADE:		
Western Europe	–	0.1
North America	–	0.7
AGI:		
Western Europe	–	0.7
North America	–	0.3
	–	1.8

It is the Directors' view that there are no material differences between the fair value of the land owned and its carrying value in the balance sheet.

## 12. Leases

### As a lessee

Information about leases for which the Group is lessee is presented below:

### Amounts recognised in the balance sheet

	2019 £m	Restated 2018 £m	Restated 1 January 2018 £m
<b>Right-of-use assets</b>			
Land and buildings	59.5	56.4	51.5
Plant and machinery	8.0	10.3	9.0
Vehicles	5.7	6.9	7.3
Fixtures and fittings	0.1	0.1	0.1
	73.3	73.7	67.9

Additions to right-of-use assets during 2019 were £11.8m (2018: £18.8m)

### Lease liabilities

	2019 £m	Restated 2018 £m
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	15.9	17.0
One to five years	41.5	44.4
More than five years	62.0	59.6
<b>Total undiscounted cash flows</b>	119.4	121.0
<b>Total lease liabilities<sup>1</sup></b>	79.4	80.3
Current	13.4	13.6
Non-current	66.0	66.7

1. A reconciliation of the restatement to the previously reported numbers is provided in note 31

## 12. Leases continued

### Amounts recognised in the consolidated income statement

	2019 £m	Restated 2018 £m
<b>Depreciation of right-of-use assets</b>		
Land and buildings	7.9	7.5
Vehicles	3.5	3.8
Plant and machinery	3.0	3.0
Fixtures and fittings	0.1	0.1
	<b>14.5</b>	<b>14.4</b>
Interest on lease liabilities	2.4	2.4
Expenses relating to short-term leases	1.2	0.6
Expenses relating to leases of low value assets	0.6	0.6

The total cash outflow for leases in 2019 was £16.8m (2018: £16.8m).

Contracts may contain both lease and non-lease components such as administrative charges and taxes. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

#### As a lessor

The Group sub-leases a small number of properties. There were no material arrangements where the Group is the lessor.

## 13. Inventories

	2019 £m	2018 £m
<b>Raw materials</b>	<b>13.1</b>	<b>13.1</b>
Work-in-progress	1.8	1.1
Finished goods and goods for resale	0.4	0.4
Less: obsolescence provision	(0.5)	(0.7)
	<b>14.8</b>	<b>13.9</b>

## 14. Trade and other receivables

	2019 £m	2018 £m
<b>Amounts falling due within one year:</b>		
Amounts receivable for the supply of services	115.0	125.2
Allowance for expected credit loss	(4.8)	(5.1)
Net trade receivables	110.2	120.1
Other receivables	23.5	17.2
Prepayments	9.2	9.0
	<b>142.9</b>	<b>146.3</b>
<b>Amounts falling due after more than one year:</b>		
Trade and other receivables	1.2	1.4

The average credit period given to customers for the supply of services as at 31 December 2019 is 63 days (2018: 64 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £4.8m (2018: £5.1m). This allowance has been determined by reference to expected credit loss.

The carrying amount of trade and other receivables approximates their fair value.

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### 14. Trade and other receivables continued

Included in the Group's trade receivables balance are specific debtor balances with a carrying amount of £26.5m (2018: £30.3m) which are past due but not impaired at the reporting date. The Group has assessed these balances for recoverability and considers the credit quality intact.

The average credit terms offered to customers is 35 days, with a range from 12 days to 67 days.

Ageing analysis of net trade receivables:

	2019 £m	2018 £m
Trade receivables within terms	83.7	89.8
Ageing of past due but not impaired receivables:		
31–60 days	13.1	15.1
6–90 days	8.8	11.1
91–120 days	2.6	2.4
Greater than 120 days	2.0	1.7
	110.2	120.1

Movement in the allowance for expected credit loss:

	2019 £m	2018 £m
At 1 January	5.1	5.5
Impairment losses recognised	1.3	1.6
Amounts written off as uncollectable	(0.7)	(0.3)
Impairment losses reversed	(0.7)	(1.8)
Exchange differences	(0.2)	0.1
At 31 December	4.8	5.1

In determining the recoverability of a trade receivable the Group considers any change in the quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for expected credit loss.

Included in the allowance for expected credit loss are individually impaired trade receivables with a gross balance of £4.8m (2018: £6.2m). The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables:

	2019 £m	2018 £m
Less than 3 months	0.1	0.1
3–12 months	2.6	3.8
Over 12 months	2.1	2.3
	4.8	6.2

## 15. Cash and bank balances

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value. A breakdown of significant cash and bank balances by currency is as follows:

	2019 £m	2018 £m
US dollar	6.0	7.0
Euro	5.4	7.8
Sterling	4.8	14.9
Swedish krona	1.7	2.0
Chinese yuan	1.5	0.9
Mexican peso	0.9	2.8
Other	1.7	3.1
Total cash and bank balances <sup>1</sup>	22.0	38.5

<sup>1</sup> Refer to note 17 for an analysis of overdraft by currency

## 16. Assets held for sale

Included in Property, plant and equipment in the prior year were £1.8m of assets held for sale which consisted exclusively of land and buildings that were not currently in use by the Group. During the year assets held for sale in the ADE operating segment were sold and assets held for sale in the AGI operating segment were reclassified as no longer held for sale as a sale is no longer considered highly probable in the next 12 months. The assets held for sale in the prior year are analysed between operating segments as follows:

	2019 £m	2018 £m
ADE:		
North America	–	0.9
AGI:		
North America	–	0.9
	–	1.8

## 17. Borrowings

	2019 £m	2018 £m
Bank overdrafts	1.1	2.3
Weighted average interest rate paid	1.7%	1.3%
Analysis of bank overdrafts by currency:		
US dollar	1.0	2.2
Other	0.1	0.1
	1.1	2.3

Bank overdrafts are repayable on demand. No overdrafts are secured.

The Group holds a revolving credit facility in the amount of £230m. This unsecured facility commenced on 3 April 2017 and matures on 3 April 2022. The multi-currency drawings under this facility carry an interest rate of between 0.90% and 1.75% above LIBOR. The applicable margin at 31 December 2019 was 0.90% (2018: 0.90%).

At 31 December 2019, the Group's revolving credit facility had drawings of £nil (2018: £nil). During the year the Group utilised £35.0m (2018: £40.0m) under the committed facility which was subsequently repaid during the period.

All borrowings are classified as financial liabilities measured at amortised cost. Given their short term nature, the carrying amount of bank overdrafts approximate their fair value.

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## 17. Borrowings continued

### Other financial liabilities

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Less than 1 year 2019 £m	1-2 years 2019 £m	2-5 years 2019 £m	5+ years 2019 £m	Total 2019 £m
Non-interest bearing	65.4	1.1	0.1	1.0	67.6
Bank loans and overdrafts	1.1	–	–	–	1.1
Lease liabilities	15.9	14.5	27.0	62.0	119.4
Derivative financial instruments	1.4	–	–	–	1.4
	83.8	15.6	27.1	63.0	189.5

	Less than 1 year 2018 £m	Restated 1-2 years 2018 £m	2-5 years 2018 £m	5+ years 2018 £m	Total 2018 £m
Non-interest bearing restated <sup>1</sup>	79.0	0.9	0.2	1.1	81.2
Bank loans and overdrafts	2.3	–	–	–	2.3
Lease liabilities	17.0	14.4	30.0	59.6	121.0
Derivative financial instruments	0.9	–	–	–	0.9
	99.2	15.3	30.2	60.7	205.4

<sup>1</sup> The 2018 comparatives have been restated to exclude provisions as these are not considered to be financial liabilities.

Of the £1.1m (2018: £2.3m) bank loans and overdrafts outflows disclosed above, £nil (2018: £nil) of bank loans are drawn under the committed facility maturing on 3 April 2022. The overdrafts are on demand and some are part of pooling arrangements, which include offsetting cash balances. Of the £1.4m (2018: £0.9m) derivative financial instruments outflows disclosed above, £1.4m (2018: £0.9m) are matched by derivative cash inflows, therefore the net impact on the balance sheet is £nil (2018: £nil).

## 17. Borrowings continued

	Financing activities				Total £m
	Borrowings £m	Leases £m	Total liabilities from financing activities £m	Cash/bank overdraft £m	
Net cash at 1 January 2018 as previously reported	–	–	–	(39.6)	(39.6)
Impact of change in accounting policy	–	74.5	74.5	–	74.5
Net cash plus lease liabilities as at 1 January 2018 restated	–	74.5	74.5	(39.6)	34.9
Cash flows	–	(14.4)	(14.4)	3.1	(11.3)
New bank loans raised	40.0	–	40.0	–	40.0
Repayment of bank loans	(40.0)	–	(40.0)	–	(40.0)
Debt acquired on acquisition of businesses	0.6	–	0.6	–	0.6
Repayment of debt acquired on acquisition of business	(0.6)	–	(0.6)	–	(0.6)
Additions – leases	–	18.8	18.8	–	18.8
Foreign exchange adjustments	–	1.4	1.4	0.3	1.7
<b>Net cash plus lease liabilities as at 31 December 2018 restated</b>	<b>–</b>	<b>80.3</b>	<b>80.3</b>	<b>(36.2)</b>	<b>44.1</b>
Cash flows	–	(14.4)	(14.4)	15.2	0.8
New bank loans raised	35.0	–	35.0	–	35.0
Repayment of bank loans	(35.0)	–	(35.0)	–	(35.0)
Debt acquired on acquisition of businesses	2.3	–	2.3	–	2.3
Repayment of debt acquired on acquisition of business	(2.3)	–	(2.3)	–	(2.3)
Additions – leases	–	17.2	17.2	–	17.2
Foreign exchange adjustments	–	(3.7)	(3.7)	0.1	(3.6)
<b>Net cash plus lease liabilities as at 31 December 2019</b>	<b>–</b>	<b>79.4</b>	<b>79.4</b>	<b>(20.9)</b>	<b>58.5</b>

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## 18. Financial instruments

### (a) Financial instruments by category

The Group adopted IFRS 9, 'Financial instruments', on 1 January 2018 and in accordance with the transitional provisions in IFRS 9. The classification categories previously defined under IAS 39 were replaced in IFRS 9 with the categories 'amortised cost', 'fair value through the income statement' and 'fair value through other comprehensive income'.

Financial assets	Fair value hierarchy	At amortised cost 2019 £m	At fair value through profit or loss 2019 £m	At fair value through OCI 2019 £m	Total 2019 £m
Trade and other receivables		123.8	–	–	123.8
Derivative financial instruments	Level 2	–	–	–	–
Cash and cash equivalents		22.0	–	–	22.0
		145.8	–	–	145.8
Financial assets	Fair value hierarchy	At amortised cost 2018 £m	At fair value through profit or loss 2018 £m	At fair value through OCI 2018 £m	Total 2018 £m
Trade and other receivables		132.6	–	–	132.6
Derivative financial instruments	Level 2	–	–	–	–
Cash and cash equivalents		38.5	–	–	38.5
		171.1	–	–	171.1
Financial liabilities	Fair value hierarchy	At amortised cost 2019 £m	At fair value through profit or loss 2019 £m	At fair value through OCI 2019 £m	Total 2019 £m
Borrowings – loans and overdrafts		1.1	–	–	1.1
Lease liabilities	Level 3	79.4	–	–	79.4
Trade and other payables		62.2	–	–	62.2
Derivative financial instruments	Level 2	–	–	–	–
Other non-current liabilities	Level 2/3	2.2	–	–	2.2
		144.9	–	–	144.9
Financial liabilities	Fair value hierarchy	At amortised cost 2018 £m	At fair value through profit or loss 2018 £m	At fair value through OCI 2018 £m	Total 2018 £m
Borrowings – loans and overdrafts		2.3	–	–	2.3
Lease liabilities	Level 3	80.3	–	–	80.3
Trade and other payables		75.2	–	–	75.2
Derivative financial instruments	Level 2	–	–	–	–
Other non-current liabilities	Level 2/3	2.2	–	–	2.2
		160.0	–	–	160.0



## 18. Financial instruments continued

### (b) Fair value measurement

There have been no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

The carrying values of financial instruments at amortised cost as presented in the consolidated financial statements approximate their fair values.

### (c) Financial risk management

The Group's multinational operations expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk. Financial risk management policies are set by the Board. The Group's treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk. Treasury activities have the objective of minimising risk and treasury operations are conducted within a framework of policies and guidelines reviewed and authorised by the Board.

In accordance with its treasury policy, the Group does not use or hold derivative financial instruments for trading or speculative purposes. The Group may however use derivative instruments, for risk management purposes only, by specialist treasury personnel. The use of financial instruments, including derivatives, is permitted when approved by the Board, where the effect is to minimise risk for the Group. There has been no significant change during the financial year, or since the end of the year, to the types or scope of financial risks faced by the Group.

#### Liquidity risk

Liquidity risk is defined as the risk that the Group might not be able to settle or meet its obligations on time or at a reasonable price. Liquidity risk arises as a result of mismatches between cash inflows and outflows from the business. This risk is monitored on a centralised basis through regular cash flow forecasting, a strategic plan, an annual budget agreed by the Board each year and a quarterly re-forecast undertaken during the financial year. To mitigate the risk, the resulting forecast net bank cash/(debt) is measured against the liquidity headroom policy which, at the current net bank cash/(debt) levels, requires committed facilities (plus term loans in excess of one year) to exceed net debt by 50% (minimum facilities of £75m).

As at 31 December 2019, the Group had a committed but undrawn revolving credit facility of £230.0m (2018: £230.0m) which, together with net cash of £20.9m (2018: £36.2m), resulted in available funds of £250.9m (2018: £266.2m). The Group also uses uncommitted short-term bank facilities to manage short-term liquidity but these facilities are excluded from the liquidity headroom policy. The Group manages longer-term liquidity through its committed bank facilities and will, if appropriate, raise funds on capital markets.

As at 31 December 2019 the Group's principal committed bank facility of £230.0m had a maturity date of 3 April 2022 (2.3 years to maturity) and had drawings of £nil (2018: £nil).

Cash management pooling, netting and concentration techniques are used to minimise borrowings. As at 31 December 2019, the Group had gross cash of £22.0m (2018: £38.5m).

#### Credit risk

Credit risk primarily arises because a counterparty may fail to perform its obligations. The Group is exposed to credit risk on financial assets such as cash balances, derivative financial instruments and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of appropriate allowances for expected credit loss. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The quantitative analysis of credit risk relating to receivables is included in note 14.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Refer to section (d) for further disclosure of the Group's financial instrument risk management activities.

#### Interest rate risk

Interest rate risk arises on borrowings and cash balances (and derivative liabilities and assets) which are at floating interest rates. Changes in interest rates could have the effect of either increasing or decreasing the Group's net profit. Under the Group's interest rate management policy, the interest rates on each of the Group's major currency monetary assets and liabilities are managed to achieve the desired mix of fixed and variable rates for each major net currency exposure. The major interest rate risk is to UK rates but exposures also exist to rates in the USA and Europe. Measurement of this interest rate risk and its potential impact due to volatility on the Group's reported financial performance is undertaken on a monthly basis and the Board uses this information to determine, from time to time, an appropriate mix of fixed and floating rates.

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# Notes to the consolidated financial statements continued

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## 18. Financial instruments continued

### Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
- changes in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments.

Under these assumptions, a one percentage point fall or rise in market interest rates for all currencies in which the Group has variable net cash or net borrowings at 31 December 2019 would reduce or increase profit before tax by approximately £0.1m (2018: £0.3m). There is no significant impact on equity in the current or previous year.

### Currency risk

Bodycote has operations in 23 countries and is therefore exposed to foreign exchange translation risk when the profits and net assets of these entities are consolidated into the Group accounts.

Ninety-one per cent of the Group's revenues are in currencies other than sterling (EUR 37%, USD 34% and SEK 6%). Cumulatively over the year, sterling rates moved such that the sales for the year were £5.7m higher than if sales had been translated at the rates prevailing in 2018.

It is Group policy not to hedge exposure for the translation of reported profits.

The Group's balance sheet translation policy is not to actively hedge currency net assets. However, where appropriate, the Group will still match centrally held currency borrowings to the net assets. The Group principally borrows in sterling but also maintains debt in US dollars, euro and Swedish krona, consistent with the location of the Group's assets. The Group recognises foreign exchange movements in equity *for the translation of net investment hedging instruments and balances*.

Transactional foreign exchange exposures arise when entities within the Group enter into contracts to pay or receive funds in a currency different from the functional currency of the entity concerned. It has been Group policy to hedge exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of foreign exchange forward contracts. Even though approximately 91% of the Group's sales are generated outside the UK, the nature of the business is such that cross border sales and purchases are limited and immaterial for the Group.

### Currency sensitivity

Taking the 2019 sales by currency, a 10% weakening/strengthening in the 2019 cumulative average rates for all currencies versus sterling would have given rise to a +£73.0m/-£59.8m movement in sales respectively. The impact on headline operating profit is affected by the mix of losses and profits in the various currencies. However, taking the 2019 operating profit mix, a 10% weakening/strengthening in 2019 cumulative average rates for all currencies would have given rise to a +£14.4m/-£11.2m movement in headline operating profit.

### Interest risk sensitivity analysis

To represent management's best estimate of a reasonable range of potential outcomes, the Group has measured the estimated change to the income statement and equity of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates (of which the outcome would not have a material impact on the financial statements). This analysis is for illustrative purposes only. The sensitivity analysis excludes the impact of market risks on net post employment benefit obligations.

### Counterparty risk

Counterparty risk encompasses settlement risk on derivative financial instruments and money market contracts and credit risk on cash, time deposits and money market funds. The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure there is no significant concentration of credit risk. Group policy is to enter into such transactions only with counterparties with a long-term credit rating of A-/A3 or better. However, acquired businesses occasionally have dealings with banks with lower credit ratings. Business with such banks is moved as soon as practicable.

## 18. Financial instruments continued

### (d) Derivative financial instruments

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 unrecognised gains and losses were not material in either 2019 or 2018.

The following summarises the aggregate notional amount (aggregate face value) of all open contracts and their related fair values as of the balance sheet date:

	Contractual or notional amount 2019 £m	Fair value 2019 £m	Contractual or notional amount 2018 £m	Fair value 2018 £m
Currency forward foreign exchange contracts	1.4	–	0.9	–

In accordance with IFRS 7 Financial Instrument: Disclosures, the Group's financial instruments 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).

Fair value is determined using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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 (2018: nil).

All forward foreign exchange contracts are on demand or due within one year.

## 19. Deferred tax

The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation £m	Tax losses £m	Retirement benefit obligations £m	Other <sup>1</sup> £m	Total £m
At 1 January 2018, as previously reported	46.8	(2.0)	(4.5)	(7.6)	32.7
Impact of change in accounting policy	–	–	–	(1.6)	(1.6)
At 1 January 2018, restated	46.8	(2.0)	(4.5)	(9.2)	31.1
(Credit)/charge to the consolidated income statement	2.6	(0.5)	(0.6)	0.2	1.7
Debit to equity	–	–	0.5	0.2	0.7
Acquisition of businesses	–	–	–	0.9	0.9
Disposal of businesses	–	–	0.2	–	0.2
Transfers	(0.2)	–	0.1	0.1	–
Exchange differences	1.6	–	(0.1)	(0.3)	1.2
Effect of change in tax rate:					
Income statement	(0.1)	–	–	–	(0.1)
At 1 January 2019	50.7	(2.5)	(4.4)	(8.1)	35.7
Charge to the consolidated income statement	4.5	0.4	0.1	4.1	9.1
(Credit)/debit to equity	–	–	(0.9)	0.4	(0.5)
Acquisition of businesses	0.5	–	–	0.3	0.8
Transfers	–	0.1	–	(0.1)	–
Exchange differences	(2.7)	–	0.2	–	(2.5)
Effect of change in tax rate:					
Income statement	(0.2)	–	0.1	–	(0.1)
At 31 December 2019	52.8	(2.0)	(4.9)	(3.4)	42.5

1 Following the adoption of IFRS 16, Leases, deferred tax has been restated to reflect a £1.6m deferred tax asset within 'Other'

## Financial statements

# Notes to the consolidated financial statements continued

Year ended 31 December 2019

## 19. Deferred tax continued

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 £m	Restated 2018 £m
Deferred tax liabilities	48.6	44.8
Deferred tax assets	(6.1)	(9.1)
	42.5	35.7

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 has applied a more strict application of this netting for 2019 which has resulted in a restatement of the 2018 balances, reducing both the asset and the liability by £16.1m, to conform with the approach taken for 2019.

Other deferred tax assets relate to provisions recognised in the financial statements that are not yet deductible for tax purposes, in particular in relation to restructuring charges, share-based payments and local profit differences that are expected to reverse over time.

At the balance sheet date, the Group has unused tax losses of £19.8m (2018: £34.2m) available for offset against future profits.

A deferred tax asset has been recognised in respect of £7.3m (2018: £9.0m) of such losses, based on management forecasts of future taxable profits against which the assets can be recovered in the relevant jurisdictions. No deferred tax asset has been recognised in respect of the remaining £12.5m (2018: £25.2m) of such losses where there remains uncertainty over the timing of utilisation relating to future profitability. The majority of losses may be carried forward indefinitely.

The Group has capital losses of £55.8m (2018: £55.8m) which are not recognised for deferred tax as there is uncertainty over the timing of future suitable profits against which the losses could be utilised.

A deferred tax liability of £1.0m (2018: £0.5m) relating to the temporary differences on unremitted earnings of overseas subsidiaries has been recognised as the Group believes it is probable that these temporary differences will reverse in the foreseeable future. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

## 20. Trade and other payables

	2019 £m	2018 £m
<b>Amounts falling due within one year:</b>		
Trade payables	31.3	37.6
Other taxes and social security	28.8	24.8
Other payables	12.1	11.4
Accruals <sup>1</sup>	55.2	66.6
	127.4	140.4
	2019 £m	Restated 2018 £m
<b>Amounts falling due after more than one year:</b>		
Other payables	2.2	2.2

<sup>1</sup> Accruals include £28.0m (2018: £31.1m) of payroll related accruals

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases as at 31 December 2019 is 33 days (2018: 36 days).

The directors consider the carrying value of trade payables equal to their fair value.

## 21. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
31 December 2018, as previously reported	2.4	3.2	8.7	14.3
Impact of change in accounting policy	2.3	–	–	2.3
<b>At 31 December 2018, restated</b>	<b>4.7</b>	<b>3.2</b>	<b>8.7</b>	<b>16.6</b>

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
At 1 January 2019	4.7	3.2	8.7	16.6
Increase in provision	1.2	–	0.9	2.1
Release of provision	(0.3)	–	(0.2)	(0.5)
Utilisation of provision	(2.5)	(0.7)	(1.0)	(4.2)
Exchange differences	(0.1)	(0.1)	(0.3)	(0.5)
<b>At 31 December 2019</b>	<b>3.0</b>	<b>2.4</b>	<b>8.1</b>	<b>13.5</b>
Included in current liabilities				4.0
Included in non-current liabilities				9.5
				<b>13.5</b>

The restructuring provision relates to the costs associated with the closure of a number of Heat Treatment facilities over the last few years and the dilapidation of leases. Following the adoption of IFRS 16, Leases the Group retrospectively recognised a provision of £2.3m for the dilapidation of leased buildings at 1 January 2018.

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

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

Whilst the Group's use of chlorinated solvents and other hazardous chemicals continues to reduce, the Group remains exposed to contingent liabilities in respect of environmental remediation liabilities. In particular, the Group could be subjected to regulatory or legislative requirements to remediate sites in the future. However, it is not possible at this time to determine whether and to what extent any liabilities exist, other than for those recognised above. Therefore no provision is recognised in relation to these items.

## 22. Share capital

	2019 £m	2018 £m
<b>Issued and fully paid:</b>		
191,456,172 (2018: 191,456,172) ordinary shares of 17 3/11p each	33.1	33.1

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# Notes to the consolidated financial statements continued

Year ended 31 December 2019

### 23. Acquisition of businesses

During the year the Group acquired two facilities in Europe for total consideration of £20.0m. Individually the acquisitions are not expected to have a material impact on net profit.

The acquisitions were made to strengthen the Group's network and to enhance the process offering within its Western European and Emerging Markets segments. The acquisitions fit well with the Group's automotive and general industrial strategy.

The transactions have been accounted for as business combinations under IFRS 3 and are summarised below.

	2019 £m
<b>Fair value of net assets acquired:</b>	
Other intangible assets	5.8
Property, plant and equipment	7.9
Right-of-use assets	6.1
Inventories	0.2
Trade and other receivables	1.2
Trade and other payables	(1.9)
Cash and cash equivalents	0.5
Lease liabilities	(6.1)
Deferred tax liabilities	(1.7)
Current tax liabilities	(0.1)
Bank loans	(2.3)
	9.6
Goodwill	10.4
<b>Total consideration</b>	<b>20.0</b>
Satisfied by:	
Cash consideration	19.5
Deferred consideration	0.5
<b>Total consideration transferred</b>	<b>20.0</b>
<b>Net cash outflow arising on acquisition:</b>	
Cash consideration	19.5
Less: cash and cash equivalents acquired	(0.5)
	19.0

1 Acquisition related costs amounted to £1.7m (2018: £0.5m) of which £0.4m related to acquisitions made during the year

The businesses were acquired in June 2019 and contributed £3.8m revenue and £1.0m headline operating profit for the period between the dates of acquisition and the balance sheet date.

If the acquisitions had been completed on the first day of the financial year, Group revenue would have been £723.9m and Group headline operating profit attributable to equity holders of the parent would have been £136.2m.

#### Deferred payments on acquisitions

Payments totalling £0.1m (2018: £1.4m) were made during the year in respect of deferred consideration due on acquisitions made in 2016. The amounts were recorded in other payables at 31 December 2018.

### 24. Investment in associate

Set out below are the details of the Group's investment in Techmeta Engineering, being the only investment in an associate held by the Group. The entity is registered in France and has share capital consisting solely of ordinary shares of which the Group owns 49%, having made a disposal of 51% of the ordinary share capital in the prior year.

	2019 £m	2018 £m
Investment in associate	1.6	1.4
Loan receivable from associate	2.6	2.7
	4.2	4.1
<b>Profit after tax from continuing operations</b>	<b>0.2</b>	<b>–</b>

Prior to disposal in 2018 the Group provided an interest bearing credit facility of £3.6m to Techmeta Engineering repayable over 10 years. At the balance sheet date £2.6m (2018: £2.7m) remained outstanding.

## 25. Post balance sheet event

### Acquisition of businesses

Following the Group's strategy of strengthening core divisions through the acquisition of complementary businesses, Bodycote announced the agreement to purchase Ellison Surface Technologies ('Ellison') in December 2019 for gross consideration of £154m, to be settled through the Group's existing committed funding facilities.

Ellison's business generated revenues of £38m in 2018 leading to pro-forma EBITDA of £6m. Anticipated revenue for 2019 will be £44m with pro-forma EBITDA of £9m. Ellison employs approximately 400 people across six sites located across the United States, Canada, and Mexico.

Completion of the acquisition is expected in March 2020 pending confirmation of regulatory filing processes.

## 26. Notes to the cash flow statement

	2019 £m	Restated 2018 £m
Profit for the year	94.0	103.6
Adjustments for:		
Finance income	(0.2)	(0.2)
Finance costs	4.9	4.5
Taxation	29.9	28.6
Operating profit	128.6	136.5
Adjustments for:		
Depreciation of property, plant and equipment	63.3	60.1
Depreciation of right-of-use assets	14.5	14.4
Amortisation of other intangible assets	6.4	5.6
Profit on disposal of property, plant and equipment	(4.4)	(1.7)
Share-based payments	1.1	3.8
Income from associate	(0.2)	–
Impairment of property, plant and equipment	–	1.8
Loss on disposal of businesses	–	0.6
EBITDA (See note 1 on page 98)	209.3	221.1
Increase in inventories	(1.5)	(3.9)
Increase in receivables	(1.1)	(4.0)
(Decrease)/increase in payables	(2.1)	5.1
Decrease in provisions	(2.6)	(3.7)
Cash generated by operations	202.0	214.6
Income taxes paid	(24.7)	(24.5)
Net cash from operating activities	177.3	190.1
	2019 £m	2018 £m
Cash and cash equivalents comprise:		
Cash and bank balances	22.0	38.5
Bank overdrafts (included in borrowings)	(1.1)	(2.3)
	20.9	36.2

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## 27. Share-based payments

### Bodycote Incentive Plan (BIP)

The Company operates the BIP under which executive directors and senior executives receive a conditional award of Bodycote shares up to a maximum of 175% of base salary. Vestings of awards are based upon two performance measures, over a three year period.

Fifty percent of the award is subject to a return on capital employed (ROCE) performance condition and fifty percent of the award is subject to an earnings per share (EPS) performance condition.

In the event that threshold performance for both EPS and ROCE is not achieved, none of the conditional awards will vest.

The number of outstanding share awards is as follows:

	BIP 2019	BIP 2018
At 1 January	2,512,501	2,206,287
Granted during the year	691,088	1,043,457
Exercised during the year	(1,140,967)	(491,116)
Expired during the year	(164,448)	(246,127)
At 31 December	1,898,174	2,512,501
Average fair value of share awards granted during the year at date of grant (pence)	725.6	848.5
Fair value of awards granted during the year (£)	5,014,535	8,853,733

Exercise Price = £nil.

The inputs to the Black-Scholes simulation model, used to determine the charge to the income statement for BIP, are as follows:

	2019	2018
Weighted average share price (pence)	725.6	848.5
Weighted average exercise price (pence)	nil	nil
Expected life (years)	3.0	3.0
Expected dividend yields (%)	4.2	3.8
Average fair value of share awards granted during the year at date of grant (pence)	725.6	848.5
Fair value of awards granted during the year (£)	5,014,535	8,853,733

The Group recognised a total charge to the income statement of £1.1m (2018: £3.8m) related to equity-settled share-based payment transactions.

## 28. Related party transactions

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the Board of Directors, who are considered key management personnel of the Group, was as follows:

	2019	2018
Short-term employee benefits	2.4	2.6
Share-based payments	1.5	1.2
Pensions	0.2	0.2
	4.1	4.0

Further information about the remuneration of the individual directors is provided in the Board Report on Remuneration on pages 56 to 77.



## 29. Retirement benefit schemes

### Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for employees in the United Kingdom, France, Belgium, Canada and the United States of America. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The Group's employees in Denmark, Finland, Sweden, Italy, Slovakia, Switzerland and the Netherlands are members of state-managed retirement benefit schemes operated by the governments of each country. The relevant subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefit schemes is to make the specified contributions.

The total cost charged to income of £7.8m (2018: £7.0m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2019 contributions of £0.2m (2018: £0.2m) due in respect of the current reporting period had not been paid over to the schemes. In the prior year a £0.7m cost was recognised in relation to a one off Guaranteed Minimum Pension (GMP) equalisation charge as a result of the High Court ruling on 26 October 2018 in the landmark Lloyds Banking Group case on GMPs.

### Defined benefit schemes

The Group operated a number of pension schemes and provided leaving service benefits to certain employees during the year. The defined benefit obligation less fair value of assets at the end of the year and total expense recognised in the income statement are summarised below as follows:

#### Defined benefit obligation less fair value of assets

	2019 £m	2018 £m
UK Scheme	–	–
Non-UK Schemes	17.9	16.8
	17.9	16.8

#### Total expense recognised in the income statement

	2019 £m	2018 £m
UK Scheme	0.1	1.6
Non-UK Schemes	1.0	0.4
	1.1	2.0

### UK Scheme

The Group sponsors the Bodycote UK Pension Scheme ("the Scheme") which is a funded defined benefit arrangement for certain UK employees, and pays out pensions at retirement based on service, final pensionable pay and price inflation. The Scheme is funded by the Group and current employee members. The Scheme exposes the Company to actuarial risks such as longevity risk, interest rate risk and market (investment) risk.

The Scheme operates under UK trust law and the trust is a separate legal entity from the Group. The Scheme is governed by a board of trustees, composed of two member representatives, two employer representatives and one independent trustee. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies (e.g. investment, funding) together with the Group.

Funding of the Scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the Trustees and the Group. The actuarial valuation of the Scheme as at 6 April 2019 was completed by a qualified independent actuary and the results of this have been updated on an approximate basis to 31 December 2019.

The contributions made by the employer over the financial year have been £0.5m, comprising £0.1m in respect of benefit accrual and £0.4m in respect of ongoing expenses. During the year the Group has closed the UK scheme to new entrants.

The Group acknowledges that the recognition of pension scheme surplus is an area of accounting judgement, which depends on the interpretation of the wording of the Scheme Rules and the relevant accounting standard, IFRIC14. In the Group's view there is uncertainty over whether the wording of the Scheme Rules provides the Group with an unconditional right to a refund of surplus from the Scheme either on an ongoing basis or assuming the full settlement of Scheme liabilities. The Group's interpretation of the Scheme Rules is that there is significant judgement over whether the power to wind-up the Scheme is wholly within the Group's control as would be required under the terms of IFRIC14 in order to recognise a surplus on the balance sheet. Consistent with previous years, given this uncertainty the Group has adopted the provisions of IFRIC14 and the associated additional reporting requirements. As the Scheme is in surplus as at 31 December 2019 a restriction has been applied to the balance sheet, and the net surplus recognised on the balance sheet has been restricted to £nil (2018: £nil). As at 31 December 2019, the Group was not formally committed to paying any further deficit reduction contributions to the Scheme under the current Schedule of Contributions, and therefore no further liabilities have been recognised. The surplus not recognised at 31 December 2019 in relation to the UK scheme was £8.8m (2018: £10.8m).

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# Notes to the consolidated financial statements continued

Year ended 31 December 2019

## 29. Retirement benefit schemes continued

### Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2019 £m	2018 £m
Defined benefit obligation at start of year	100.2	109.9
Current service cost	0.1	0.6
Interest expense	2.6	2.4
Contributions by plan participants	–	0.1
Actuarial gains arising from changes in demographic assumptions	(0.6)	(0.7)
Actuarial losses/(gains) arising from changes in financial assumptions	12.1	(7.1)
Benefits paid, death in service insurance premiums and expenses	(7.5)	(5.7)
Past service (credit)/cost	(0.3)	0.7
Defined benefit obligation at end of year	106.6	100.2

### Reconciliation of opening and closing balances of the fair value of the assets

	2019 £m	2018 £m
Fair value of assets at start of year	111.0	117.5
Interest income	2.9	2.6
Return on scheme assets excluding interest income	8.8	(3.8)
Scheme administration expenses	(0.3)	(0.4)
Contributions by employer	0.5	0.7
Contributions by plan participants	–	0.1
Benefits paid, death in service insurance premiums and expenses	(7.5)	(5.7)
Fair value of assets at end of year	115.4	111.0

### Total expense recognised in the income statement

	2019 £m	2018 £m
Current service cost	0.1	0.6
Past service (credit)/cost	(0.3)	0.7
Net interest on the defined benefit asset	–	(0.1)
Scheme administration expenses	0.3	0.4
Total expenses	0.1	1.6

### Assets

	2019 Quoted £m	2019 Unquoted £m	2018 Quoted £m	2018 Unquoted £m
Bonds	89.5	9.8	78.9	9.8
Cash	2.9	–	9.1	–
Diversified credit funds	–	13.2	–	13.2
	92.4	23.0	88.0	23.0

None of the fair value of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

The Scheme's current strategic target is to allocate 70% of the investment portfolio to 'non-matching' asset classes, predominantly longer-term credit-based investments and 30% to a 'liability-matching' portfolio, comprising Liability Driven Investment ('LDI'), money market and shorter-term credit based investments. The LDI portion of the strategy has been put in place to reduce interest and inflation risk.

## 29. Retirement benefit schemes continued

### Assumptions

	2019 % per annum	2018 % per annum
RPI inflation	3.00	3.25
CPI inflation	2.20	2.45
Salary increases	n/a	3.00
Rate of discount	1.85	2.65
Allowance for pension in payment increases of RPI or 3% p.a. if less	2.43	2.41
Allowance for revaluation of deferred pensions	2.20	2.45

Mortality – current pensioners:

	2019 S2PxA YoB CMI 2018 1.5% long term trend	2018 S2PxA YoB CMI 2017 1.5% long term trend
Actuarial tables used		
Life expectancy for members currently aged 65	22.3	22.4

Mortality – future pensioners:

	2019 S2PxA YoB CMI 2018 1.5% long term trend	2018 S2PxA YoB CMI 2017 1.5% long term trend
Actuarial tables used		
Life expectancy at age 65 for members currently aged 40	24.0	24.2

	2019 All members commute 75% of maximum permitted	2018 All members commute 75% of maximum permitted
Cash commutation		

The weighted average duration of the defined benefit obligation at 31 December 2019 is approximately 18 years (31 December 2018: 18 years).

The defined benefit obligation at 31 December 2019 can be approximately attributed to the scheme members as follows:

- Active members: 0% (31 December 2018: 16%)
- Deferred members: 50% (31 December 2018: 35%)
- Pensioner members: 50% (31 December 2018: 49%)

All benefits are vested at 31 December 2019 (unchanged from 31 December 2018).

### Present value of defined benefit obligations, fair value of assets and deficit

	2019 £m	2018 £m
Present value of defined benefit obligation	106.6	100.2
Fair value of plan assets	(115.4)	(111.0)
Surplus in the Scheme	(8.8)	(10.8)
Adjustment relating to asset ceilings and minimum funding requirements	8.8	10.8
Net defined benefit asset before deferred tax	–	–

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## 29. Retirement benefit schemes continued

### Reconciliation of asset ceiling

	2019 £m	2018 £m
Restriction due to asset ceiling at beginning of period	10.8	5.2
Interest on asset restriction	0.3	0.1
Other changes in asset restriction	(2.3)	5.5
Restriction due to asset ceiling at end of period	8.8	10.8

The best estimate of contributions to be paid into the plan for the year ending 31 December 2020 is £0.4m.

### Amounts recognised in Other Comprehensive Income

	2019 £m	2018 £m
Return on scheme assets excluding interest income	8.8	(3.8)
Effects of changes in financial assumptions underlying the present value of the liabilities	(12.1)	7.1
Effects of changes in demographic assumptions underlying the present value of the liabilities	0.6	0.7
Gain/(loss) due to change in asset restriction	2.3	(5.5)
Total loss recognised in Other Comprehensive Income	(0.4)	(1.5)

### Impact of changes to assumptions

	2019 Increase £m	2019 Decrease £m	2018 Increase £m	2018 Decrease £m
0.25% change in discount rate	(4.9)	4.9	(4.3)	4.3
0.25% change in price inflation (and associated assumptions)	2.0	(2.0)	1.7	(1.7)
1 year change in life expectancy at age 65	4.3	(4.3)	3.2	(3.2)

The sensitivity table is based on an illustrative 0.25% change, although the assumptions may vary by greater amounts. Therefore, the Group considers the retirement benefit obligations a key source of estimation uncertainty.

### Combined non-UK disclosures

The Group operates defined benefit schemes in the USA and continental Europe.

In Europe the Group operates defined benefit pension, post retirement and long-service arrangements for certain employees in France, Germany, Italy, Turkey, Switzerland and Liechtenstein.

### Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2019 £m	2018 £m
Defined benefit obligation at start of year	26.3	27.3
Current service cost	0.7	0.7
Interest expense	0.5	0.4
Actuarial losses/(gains) arising from changes in financial assumptions	2.9	(1.1)
Experience gains on liabilities	(0.4)	(0.3)
Benefits paid, death in service insurance premiums and expenses	(1.4)	(1.0)
Employee contributions	0.1	0.1
Settlements	—	(0.6)
Exchange rate (gain)/loss	(1.2)	0.8
Defined benefit obligation at end of year	27.5	26.3

## 29. Retirement benefit schemes continued

### Reconciliation of opening and closing balances of the fair value of plan assets

	2019 £m	2018 £m
Fair value of assets at start of year	9.5	9.7
Interest income	0.2	0.1
Return on scheme assets excluding interest income	1.2	(0.7)
Contributions by employer	0.2	0.2
Contributions by employees	0.1	0.1
Benefits paid, death in service insurance premiums and expenses	(0.9)	(0.4)
Exchange rate (loss)/gain	(0.2)	0.5
Fair value of assets at end of year	10.1	9.5

### Total expense recognised in the income statement

	2019 £m	2018 £m
Current service cost	0.7	0.7
Net interest on the defined benefit liability	0.3	0.3
Settlements	–	(0.6)
Total expense	1.0	0.4

	Quoted £m	2019 Unquoted £m	Quoted £m	2018 Decrease £m
Equities	4.6	–	3.7	–
Insurance contracts	–	5.5	–	5.8
Total	4.6	5.5	3.7	5.8

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by the Group.

### Assumptions for 2019

	Salary increases % per annum	Rate of discount % per annum	Inflation % per annum	Pension increases % per annum
USA	n/a	3.0	n/a	n/a
France	2.5	0.7	1.5	1.0
Germany	2.5	1.3	n/a	1.8
Italy	2.5	0.7	1.5	n/a
Turkey	8.0	13.5	8.0	n/a
Liechtenstein	2.5	0.3	n/a	n/a
Switzerland	n/a	0.3	n/a	n/a

### Duration

The weighted average durations of the defined benefit obligations of the overseas schemes at 31 December 2019 range from 12 years to 18 years. The durations ranged from 11 years to 19 years as at 31 December 2018.

### Present value of defined benefit obligations, fair value of assets and deficit

	2019 £m	2018 £m
Present value of defined benefit obligation	27.5	26.3
Fair value of plan assets	(10.1)	(9.5)
Deficit in the schemes	17.4	16.8
Adjustment relating to asset ceilings and minimum funding requirements	0.5	0.0
Net defined benefit liability, before deferred tax	17.9	16.8

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2019 is that recognised in the balance sheet.

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Year ended 31 December 2019

## 29. Retirement benefit schemes continued

### Amounts recognised in Other Comprehensive Income

	2019 £m	2018 £m
Gain from experience on plan liabilities	0.4	0.3
Loss due to change in asset restriction	(0.5)	–
Return on scheme assets excluding interest income	1.2	(0.7)
Effects of changes in financial assumptions underlying the present value of the liabilities	(2.9)	1.1
Total (loss)/gain recognised in Other Comprehensive Income	(1.8)	0.7

The only funded plans are those operated in USA, France, Switzerland and Liechtenstein. The best estimate of contributions to be paid into the plans for the year ending 31 December 2019 is £0.2m.

### Sensitivities (changes to total defined benefit obligations)

	2019		2018	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	(1.0)	1.0	(0.9)	0.9
0.25% change in price inflation (and associated assumptions)	0.6	(0.6)	0.5	(0.5)

The sensitivity table is based on an illustrative 0.25% change, although the assumptions may vary by greater amounts. Therefore, the Group considers the retirement benefit obligations a key source of estimation uncertainty.

## 30. 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 against 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 to be approximately £21.6m (2018: £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.

### 31. Restatement of comparative information

The following tables summarise the impacts resulting from two restatements; being the adoption of IFRS 16 on the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and consolidated cash flow statement, and, the netting of deferred tax (refer to note 19). Refer to the Group accounting policies for a summary of the resulting impact of the adoption of IFRS 16.

#### Consolidated income statement

	Year ended 31 December 2018		
	As previously reported £m	Effect of restatement £m	As restated £m
<b>Revenue</b>	728.6	–	728.6
Cost of sales and overheads	(594.7)	2.4	(592.3)
Net impairment gains on financial assets	0.2	–	0.2
<b>Operating profit</b>	134.1	2.4	136.5
Finance income	0.2	–	0.2
Finance costs	(2.1)	(2.4)	(4.5)
<b>Profit before taxation</b>	132.2	–	132.2
Taxation charge	(28.6)	–	(28.6)
<b>Profit for the period</b>	103.6	–	103.6
Attributable to:	103.2	–	103.2
Equity holders of the parent	0.4	–	0.4
Non-controlling interests	103.6	–	103.6

The restatement of the financial statements following the adoption of IFRS 16 had nil impact on earnings per share and other comprehensive income.

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## 31. Restatement of comparative information continued

### Consolidated balance sheet

	Year ended 31 December 2018			1 January 2018		
	As previously reported £m	Effect of restatement £m	As restated £m	As previously reported £m	Effect of restatement £m	As restated £m
<b>Non-current assets</b>						
Goodwill	163.9	–	163.9	157.6	–	157.6
Other intangible assets	43.0	–	43.0	43.4	–	43.4
Property, plant and equipment	546.6	–	546.6	520.5	–	520.5
Right-of-use assets	–	73.7	73.7	–	67.9	67.9
Investment in associate	4.1	–	4.1	–	–	–
Deferred tax assets	23.6	(14.5)	9.1	24.5	(14.7)	9.8
Trade and other receivables	1.4	–	1.4	1.0	–	1.0
	<b>782.6</b>	<b>59.2</b>	<b>841.8</b>	<b>747.0</b>	<b>53.2</b>	<b>800.2</b>
<b>Current assets</b>						
Inventories	13.9	–	13.9	16.4	–	16.4
Current tax assets	7.0	–	7.0	12.8	–	12.8
Trade and other receivables	146.3	–	146.3	140.4	–	140.4
Cash and bank balances	38.5	–	38.5	41.0	–	41.0
Assets held for sale	1.8	–	1.8	2.1	–	2.1
	<b>207.5</b>	<b>–</b>	<b>207.5</b>	<b>212.7</b>	<b>–</b>	<b>212.7</b>
<b>Total assets</b>	<b>990.1</b>	<b>59.2</b>	<b>1,049.3</b>	<b>959.7</b>	<b>53.2</b>	<b>1,012.9</b>
<b>Current liabilities</b>						
Trade and other payables	140.4	–	140.4	138.4	–	138.4
Current tax liabilities	26.6	–	26.6	29.2	–	29.2
Borrowings	2.3	–	2.3	1.4	–	1.4
Lease liabilities	–	13.6	13.6	–	13.0	13.0
Provisions	4.7	–	4.7	8.7	–	8.7
	<b>174.0</b>	<b>13.6</b>	<b>187.6</b>	<b>177.7</b>	<b>13.0</b>	<b>190.7</b>
<b>Net current assets</b>	<b>33.5</b>	<b>(13.6)</b>	<b>19.9</b>	<b>35.0</b>	<b>(13.0)</b>	<b>22.0</b>
<b>Non-current liabilities</b>						
Lease liabilities	–	66.7	66.7	–	61.5	61.5
Retirement benefit obligations	16.8	–	16.8	15.2	–	15.2
Deferred tax liabilities	60.9	(16.1)	44.8	57.2	(16.3)	40.9
Provisions	9.6	2.3	11.9	8.7	2.3	11.0
Other payables	2.2	–	2.2	3.4	–	3.4
	<b>89.5</b>	<b>52.9</b>	<b>142.4</b>	<b>84.5</b>	<b>47.5</b>	<b>132.0</b>
<b>Total liabilities</b>	<b>263.5</b>	<b>66.5</b>	<b>330.0</b>	<b>262.2</b>	<b>60.5</b>	<b>322.7</b>
<b>Net assets</b>	<b>726.6</b>	<b>(7.3)</b>	<b>719.3</b>	<b>697.5</b>	<b>(7.3)</b>	<b>690.2</b>
<b>Equity</b>						
Share capital	33.1	–	33.1	33.1	–	33.1
Share premium account	177.1	–	177.1	177.1	–	177.1
Own shares	(14.8)	–	(14.8)	(7.2)	–	(7.2)
Other reserves	141.4	–	141.4	141.0	–	141.0
Translation reserves	61.9	2.3	64.2	45.9	2.3	48.2
Retained earnings	327.2	(9.6)	317.6	307.1	(9.6)	297.5
<b>Equity attributable to equity holders of the parent</b>	<b>725.9</b>	<b>(7.3)</b>	<b>718.6</b>	<b>697.0</b>	<b>(7.3)</b>	<b>689.7</b>
Non-controlling interests	0.7	–	0.7	0.5	–	0.5
<b>Total equity</b>	<b>726.6</b>	<b>(7.3)</b>	<b>719.3</b>	<b>697.5</b>	<b>(7.3)</b>	<b>690.2</b>



### 31. Restatement of comparative information continued

#### Consolidated cash flow statement

	Year ended 31 December 2018		
	As previously reported £m	Effect of restatement £m	As restated £m
Net cash from operating activities	173.3	16.8	190.1
Net cash used in investing activities	(81.6)	–	(81.6)
Net cash used in financing activities	(94.8)	(16.8)	(111.6)
<b>Net decrease in cash and cash equivalents</b>	<b>(3.1)</b>	<b>–</b>	<b>(3.1)</b>

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### Five year summary (unaudited)

	2019 £m	Restated 2018 £m	2017 <sup>1</sup> £m	2016 <sup>1</sup> £m	2015 <sup>1</sup> £m
<b>Revenue</b>	<b>719.7</b>	<b>728.6</b>	<b>690.2</b>	<b>600.6</b>	<b>567.2</b>
<b>Profit:</b>					
<b>Headline operating profit</b>	<b>134.9</b>	<b>140.7</b>	<b>123.9</b>	<b>99.6</b>	<b>102.1</b>
Amortisation of acquired intangible fixed assets	(4.6)	(3.7)	(4.5)	(4.5)	(4.2)
Acquisition costs	(1.7)	(0.5)	–	(0.6)	–
<b>Operating profit prior to exceptional items</b>	<b>128.6</b>	<b>136.5</b>	<b>119.4</b>	<b>94.5</b>	<b>97.9</b>
Reorganisation costs	–	–	–	–	(20.0)
<b>Operating profit</b>	<b>128.6</b>	<b>136.5</b>	<b>119.4</b>	<b>94.5</b>	<b>77.9</b>
Net finance costs	(4.7)	(4.3)	(2.4)	(2.6)	(2.9)
<b>Profit before taxation</b>	<b>123.9</b>	<b>132.2</b>	<b>117.0</b>	<b>91.9</b>	<b>75.0</b>
Taxation	(29.9)	(28.6)	(19.7)	(24.9)	(18.8)
<b>Profit after taxation</b>	<b>94.0</b>	<b>103.6</b>	<b>97.3</b>	<b>67.0</b>	<b>56.2</b>
Non-controlling interests	(0.2)	(0.4)	(0.2)	–	–
<b>Profit attributable to the equity holders of the parent</b>	<b>93.8</b>	<b>103.2</b>	<b>97.1</b>	<b>67.0</b>	<b>56.2</b>
Headline earnings per share (pence)	<b>52.1</b>	<b>55.9</b>	<b>49.2</b>	<b>37.0</b>	<b>39.5</b>
Dividend per share (pence)	<b>20.0</b>	<b>19.0</b>	<b>17.4</b>	<b>15.8</b>	<b>15.1</b>
Special dividend per share (pence)	–	20.0	25.0	–	10.0
<b>Assets employed</b>					
Intangible fixed assets	<b>212.4</b>	<b>206.9</b>	<b>201.0</b>	<b>206.7</b>	<b>175.2</b>
Property, plant and equipment	<b>534.5</b>	<b>546.6</b>	<b>520.5</b>	<b>509.0</b>	<b>429.6</b>
Other assets and liabilities	<b>17.4</b>	<b>9.9</b>	<b>(63.6)</b>	<b>(88.5)</b>	<b>(67.5)</b>
	<b>764.3</b>	<b>763.4</b>	<b>657.9</b>	<b>627.2</b>	<b>537.3</b>
<b>Financed by</b>					
Share capital	<b>33.1</b>	<b>33.1</b>	<b>33.1</b>	<b>33.1</b>	<b>33.1</b>
Reserves	<b>671.9</b>	<b>685.5</b>	<b>663.9</b>	<b>594.8</b>	<b>516.1</b>
<b>Shareholders' funds</b>	<b>705.0</b>	<b>718.6</b>	<b>697.0</b>	<b>627.9</b>	<b>549.2</b>
Non-controlling interests	<b>0.8</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>
Right-of-use assets	<b>79.4</b>	<b>80.3</b>			
Net cash	<b>(20.9)</b>	<b>(36.2)</b>	<b>(39.6)</b>	<b>(1.1)</b>	<b>(12.3)</b>
<b>Capital employed</b>	<b>764.3</b>	<b>763.4</b>	<b>657.9</b>	<b>627.2</b>	<b>537.3</b>
<b>Net assets per share (pence)</b>	<b>368.2</b>	<b>375.3</b>	<b>364.1</b>	<b>328.0</b>	<b>286.9</b>
<b>Return on capital employed (%):</b>					
Headline operating profit divided by the average of opening and closing capital employed <sup>2</sup>	<b>17.7</b>	<b>18.9</b>	<b>19.3</b>	<b>17.1</b>	<b>19.0</b>

1. Periods prior to the adoption of IFRS 16, Leases on 1 January 2018 have not been restated

2. In 2015 a one off adjustment to capital employed was made for an item of goodwill written off

# Company statement of financial position

At 31 December 2019

	Note	2019 £m	Restated 2018 <sup>1</sup> £m
<b>Fixed assets</b>			
Intangible fixed assets	2	21.5	22.3
Tangible fixed assets	3	0.1	0.1
Right-of-use assets	4	0.5	0.6
Investments in subsidiaries	5	391.0	391.0
Receivables	6	101.1	10.3
		<b>514.2</b>	<b>424.3</b>
<b>Current assets</b>			
Receivables	6	4.6	7.8
		<b>4.6</b>	<b>7.8</b>
<b>Current liabilities</b>			
Payables	7	(10.3)	(11.9)
<b>Net current liabilities</b>		<b>(5.7)</b>	<b>(4.1)</b>
<b>Total assets less current liabilities</b>		<b>508.5</b>	<b>420.2</b>
Payables: Amounts falling due after more than one year	7	(0.8)	(12.1)
<b>Net assets</b>		<b>507.7</b>	<b>408.1</b>
<b>Capital and reserves</b>			
Called-up share capital	9	33.1	33.1
Share premium account		177.1	177.1
Other reserves		124.8	126.3
Profit for the year		176.7	71.4
Accumulated (losses)/profit		(4.0)	0.2
<b>Shareholders' funds</b>		<b>507.7</b>	<b>408.1</b>

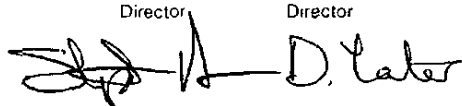
<sup>1</sup> The 2018 statement of financial position has been restated following the adoption of IFRS 16, Leases and the recharge of share based payment costs for scheme members employed by subsidiary companies. A reconciliation of the restatement to the previously reported numbers is provided in note 13.

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 12 March 2020.

They were signed on its behalf by:

S.C. Harris  
Director

D. Yates  
Director



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# Company statement of changes in equity

For the year ended 31 December 2019

	Called-up share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
1 January 2018, as previously reported	33.1	177.1	133.6	76.7	420.5
Impact of prior period restatement <sup>1</sup>	–	–	–	6.6	6.6
Impact of change in accounting policy <sup>1</sup>	–	–	–	(0.2)	(0.2)
<b>Restated balance at 1 January 2018<sup>1</sup></b>	<b>33.1</b>	<b>177.1</b>	<b>133.6</b>	<b>83.1</b>	<b>426.9</b>
Profit for the year	–	–	–	71.4	71.4
Actuarial loss on defined benefit pension schemes net of deferred tax	–	–	–	(1.3)	(1.3)
Total comprehensive income for the year	–	–	–	70.1	70.1
Dividends paid	–	–	–	(81.8)	(81.8)
Shares acquired	–	–	(10.6)	–	(10.6)
Share-based payments	–	–	3.8	–	3.8
Settlement of share options	–	–	(0.5)	0.2	(0.3)
<b>Restated balance at 31 December 2018<sup>1</sup></b>	<b>33.1</b>	<b>177.1</b>	<b>126.3</b>	<b>71.6</b>	<b>408.1</b>
Profit for the year	–	–	–	176.7	176.7
Actuarial gain on defined benefit pension schemes net of deferred tax	–	–	–	0.4	0.4
Total comprehensive income for the year	–	–	–	177.1	177.1
Dividends paid	–	–	–	(74.7)	(74.7)
Shares acquired	–	–	(6.0)	–	(6.0)
Share-based payments	–	–	1.1	–	1.1
Settlement of share options	–	–	3.4	(1.3)	2.1
<b>31 December 2019</b>	<b>33.1</b>	<b>177.1</b>	<b>124.8</b>	<b>172.7</b>	<b>507.7</b>

<sup>1</sup> The 2018 statement of financial position has been restated following the adopt on of IFRS 16, Leases and the recharge of share based payment costs for scheme members employed by subsidiary companies. A reconciliation of the restatement to the previously reported numbers is provided in note 13.

Details of dividends paid are set out in note 7 of the consolidated financial statements.

During the year, the Group became aware of an issue concerning technical compliance with the Companies Act 2006 in respect of the declaration and payment of the 2018 interim dividend and 2018 special dividend. Although the Group had such distributable reserves at the time of declaration and payment, the Group had not lodged interim accounts with Companies House to show that each of the dividends were supported by sufficient distributable reserves. The Group's historical reported trading results and financial condition are entirely unaffected, but the Group proposes to put a resolution to shareholders at the Company's annual general meeting to rectify the position.

Details of share-based payment transactions are set out in note 27 of the consolidated financial statements.

The other reserves are stated after deducting £11.6m (2018: £14.8m) relating to shares held in the Bodycote International Employee Benefit Trust. The Bodycote International Employee Benefit Trust holds Bodycote plc shares and satisfies awards made under various employee incentive schemes when issuance of new shares is not appropriate.

At 31 December 2019 1,405,555 (2018: 1,839,860) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust and, following recommendations by the employer, are provisionally allocated to satisfy awards under employee incentive schemes. The market value of these shares was £13.4m (2018: £13.4m).

Included in other reserves is £6.0m (2018: £10.8m) relating to a share option reserve and a capital redemption reserve of £129.8m (2018: £129.8m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

# Company accounting policies

## Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The financial statements have been prepared under the historical cost convention and in accordance with applicable law. The principal accounting policies are summarised below. In accordance with Section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the Company has not been presented.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements of Bodycote plc, which are publicly available.

## Going concern

The directors have at the time of approving the financial statements a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Chief Financial Officer's report on page 24.

## Investments

Investments are held at cost less provision for impairment. Any potential impairment is determined on a basis of comparing the carrying value of the investment against the higher of net assets or discounted future cashflows.

## Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period.

## Pension costs

The Company participates in a final salary defined benefit pension scheme in the United Kingdom which is funded by the payment of contributions to a separately administered trust fund. This is a defined benefit plan which shares the risks between entities under common control.

There is no contractual arrangement or policy for charging the net benefit cost between the entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. As such, the Company recognises the net defined benefit cost and the retirement benefit obligation as per the requirements of IAS 19 Employee Benefits, as described in further detail in the accounting policies of the consolidated financial statements on page 93.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

## Leases

The Company has adopted the following IFRS 16 accounting policy for leasing arrangements where it is the lessor:

To the extent that a right-of-control exists over an asset subject to a lease, with a lease term exceeding one year, a right-of-use asset, representing the Company's right to use the underlying leased asset, and a lease liability, representing the Company's obligation to make lease payments, are recognised in the Company's statement of financial position at the commencement of the lease.

The right-of-use asset is initially measured at cost and includes the amount of initial measurement of the lease liability and any direct costs incurred, including advance lease payments and an estimate of the dismantling, removal and restoration costs required by the terms and conditions of the lease.

Depreciation is charged to the Income Statement to depreciate the right-of-use asset from the commencement date until the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term shall include the period of any extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The lease liability is measured at the present value of the future lease payments, including any variable lease payments where applicable that depend on an index and the exercise price of purchased options where it is reasonably certain that the option will be exercised, discounted using the interest rate implicit in the lease, if readily determinable. If the rate cannot be readily determined, the lessee's incremental borrowing rate is used. Finance charges are recognised in the Income Statement over the period of the lease.

Lease arrangements that are short-term in nature or low value are charged directly to the Income Statement when incurred.

## Financial statements

# Company accounting policies continued

### Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on a straight-line basis, to reduce the carrying value to the estimated residual value at the point of sale, at the following annual rates:

Fixtures and fittings 10% to 20%

### Intangible fixed assets

Intangible fixed assets are stated at cost net of amortisation and any provision for impairment. Amortisation is provided on a straight-line basis over their estimated useful lives, at the following annual rates:

Software 10% to 33%

### Receivables

Receivables are initially recognised at fair value. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Per IFRS 9, a simplified lifetime Expected Credit Loss (ECL) model is used to assess receivables for impairment. An assessment regarding the ECL of these amounts has been made and the Company has identified that no allowance for expected credit losses is required. See details in note 6.

Amounts owed by subsidiary undertakings falling due after more than one year are classified as such according to the loan agreement in place until 30 June 2021. The interest rate for such facility was at LIBOR plus 1.35% margin in 2019.

### Payables

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Non-interest-bearing financial liabilities are stated at their nominal value. Trade payables are recognised at fair value.

The Company derecognises financial liabilities when, and only when, the Company obligations are discharged, cancelled or they expire.

Amounts owed to subsidiary undertakings falling due after more than one year are classified as such according to the loan agreement in place until 30 June 2021. The interest rate for such facility was at LIBOR plus 0.6% margin in 2019.

### Taxation

Current UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

### Related party transactions

The Company has taken advantage of the disclosure exemptions available under FRS 101 not to disclose transactions or balances with wholly-owned entities of the Group.

### Share-based payments

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled employee benefits reserve.

### Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty

In the course of preparing the Company's financial statements, no key sources of estimation uncertainty have been identified. Please refer to note 11 for judgements identified in relation to IFRIC 14.

# Notes to the company financial statements

Year ended 31 December 2019

## 1. Profit for the year

Bodycote plc reported a profit for the financial year ended 31 December 2019 of £176.7m (2018: £71.4m).

The auditor's remuneration for audit and other services is disclosed in note 3 of the consolidated financial statements.

Disclosure of individual directors' remuneration, share interests, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Listing Rules of the Financial Conduct Authority are shown in the tables in the Board Report on remuneration on pages 56 to 77 and form part of these financial statements.

## 2. Intangible fixed assets

	Software £m
<b>Cost</b>	
At 1 January 2019	31.5
Additions	0.8
<b>At 31 December 2019</b>	<b>32.3</b>
<b>Amortisation</b>	
At 1 January 2019	9.2
Charge for the year	1.6
<b>At 31 December 2019</b>	<b>10.8</b>
<b>Net book value</b>	
<b>At 31 December 2019</b>	<b>21.5</b>
At 31 December 2018	22.3

Included in software assets are ongoing development costs related to the Group's ERP solutions. £9.8m (2018: £9.1m) of these costs are related to assets that are not yet available for use and are therefore not amortised. As such solutions become available for use they will be amortised according to Group policy.

## 3. Tangible fixed assets

	Fixtures and fittings £m
<b>Cost</b>	
<b>At 1 January 2019 and 31 December 2019</b>	<b>0.9</b>
<b>Depreciation</b>	
<b>At 1 January 2019 and 31 December 2019</b>	<b>0.8</b>
<b>Net book value</b>	
<b>At 31 December 2019</b>	<b>0.1</b>
At 31 December 2018	0.1

## 4. Right-of-use assets

	Buildings and vehicles £m
<b>Cost</b>	
<b>At 1 January 2019 and 31 December 2019</b>	<b>2.3</b>
<b>Depreciation</b>	
At 1 January 2019	1.7
Charge for the year	0.1
<b>At 31 December 2019</b>	<b>1.8</b>
<b>Net book value</b>	
<b>At 31 December 2019</b>	<b>0.5</b>
At 31 December 2018	0.6

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# Notes to the company financial statements continued

Year ended 31 December 2019

## 4. Right-of-use assets continued

	2019 £m	Restated 2018 £m
<b>Lease liabilities</b>		
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	0.2	0.3
One to five years	0.5	0.7
<b>Total undiscounted cash flows</b>	<b>0.7</b>	<b>1.0</b>
Current	0.2	0.2
Non-current	0.5	0.6
<b>Total lease liabilities</b>	<b>0.7</b>	<b>0.8</b>

## 5. Investments in subsidiaries

	Shares £m
<b>Cost</b>	
<b>At 1 January 2019 and 31 December 2019</b>	<b>397.6</b>
<b>Provision for impairment</b>	
<b>At 1 January 2019 and 31 December 2019</b>	<b>6.6</b>
<b>Net book value</b>	
<b>At 31 December 2019</b>	<b>391.0</b>
At 31 December 2018	391.0

The following subsidiaries have taken advantage of an exemption from audit under section 479A of the Companies Act 2006. As the ultimate parent, Bodycote PLC has provided a statutory guarantee for any outstanding liabilities of this business. All subsidiary undertakings have been included in the consolidated financial statements of Bodycote plc as at 31 December 2019.

Bodycote Heat Treatments Limited  
Bodycote Surface Technology Limited  
Bodycote H.I.P. Limited  
Bodycote America Finance Limited  
Bodycote America Treasury Limited  
Bodycote Finance Limited  
Bodycote Finance UK Limited  
Bodycote International Limited  
Bodycote Investments  
Bodycote Nominees No.1 Limited  
Bodycote Pension Trustees Limited  
Bodycote HIP Germany Limited  
Bodycote Treasury Services Limited  
Bodycote Thermal Processing Mexico Limited  
Bodycote America Capital Limited

A full list of directly and indirectly owned subsidiary undertakings can be found on page 145.

## 6. Receivables

	2019 £m	Restated 2018 £m
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	1.9	6.5
Corporation tax	2.6	1.0
Other receivables and prepayments	0.1	0.3
	<b>4.6</b>	<b>7.8</b>
<b>Amounts falling due after more than one year:</b>		
Amounts owed by subsidiary undertakings <sup>1</sup>	101.1	10.0
Deferred taxation (note 8)	–	0.3
	<b>101.1</b>	<b>10.3</b>
	<b>105.7</b>	<b>18.1</b>

<sup>1</sup> An assessment regarding the ECL of these amounts has been made and the Company has identified that no allowance for expected credit losses is required based on their nature as either quasi equity or repayable on demand loans not exceeding the investee's liquid assets



## 7. Payables

	2019 £m	Restated 2018 £m
<b>Amounts falling due within one year:</b>		
Trade payables	–	0.6
Amounts owed to subsidiary undertakings	0.9	0.8
Other taxes and social security	0.9	1.1
Lease liabilities due within one year	0.2	0.2
Other payables	3.1	4.0
Accruals	5.2	5.2
	<b>10.3</b>	<b>11.9</b>
<b>Amounts falling due after more than one year:</b>		
Amounts owed to subsidiary undertakings <sup>1</sup>	0.3	11.5
Lease liabilities due after one year	0.5	0.6
	<b>0.8</b>	<b>12.1</b>

1 Intercompany loan to Bodycote Finance Limited

## 8. Deferred tax

The following are the deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation	Retirement benefit obligations £m	Other timing differences £m	Total £m
At 1 January 2018	0.1	(0.4)	0.4	0.1
(Debit)/credit to profit or loss	(0.4)	0.2	0.2	–
Credit to other comprehensive income	–	0.2	–	0.2
<b>At 1 January 2019</b>	<b>(0.3)</b>	<b>–</b>	<b>0.6</b>	<b>0.3</b>
Charge to profit or loss	(0.2)	(0.1)	(0.1)	(0.4)
Credit to other comprehensive income	–	0.1	–	0.1
<b>At 31 December 2019</b>	<b>(0.5)</b>	<b>–</b>	<b>0.5</b>	<b>–</b>

The classification of the Company's deferred tax assets has been updated for 2019 to reflect amounts which the Company has concluded are more appropriately identified as Accelerated Tax Depreciation. The values for 2018 have been restated on this basis.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £m	2018 £m
Net deferred tax asset	–	0.3

## 9. Called-up share capital

### Share capital:

#### Ordinary shares (allotted, called-up and fully paid)

	Number of shares	£m
At 1 January 2019	191,456,172	33.1
Allotted in the year	–	–
<b>At 31 December 2019</b>	<b>191,456,172</b>	<b>33.1</b>

Details of share options in issue on the Company's share capital and share-based payments are set out in note 27 of the consolidated financial statements.

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# Notes to the company financial statements continued

Year ended 31 December 2019

### 10. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £0.7m (2018: £9.1m).

### 11. Pension commitments

The Company participates in a final salary defined benefit scheme, the details of which are disclosed in note 29 of the consolidated financial statements. This is a defined benefit plan which shares the risks between entities under common control. There is no contractual agreement or policy for charging the net benefit cost between entities who participate in this scheme. The Company is considered to be the entity that is legally the sponsoring employer of this scheme. The net defined benefit costs are recognised as per the requirements of IAS 19 (revised) Employee Benefits.

The Company acknowledges that the recognition or not of a pension scheme surplus is an area of accounting judgement, which depends on the wording of the scheme rules and IFRIC 14. A pension surplus at 31 December 2019 of £8.8m (2018: £10.1m) has not been recognised. Full disclosures concerning the scheme as required by IAS 19 (revised) and IFRIC 14 are set out in note 29 of the consolidated financial statements.

The contributions made by the Company over the financial year to the defined contribution scheme amounted to £0.5m (2018: £0.3m). As at 31 December 2019, contributions of £nil (2018: £nil) due in respect of the current reporting period had not been paid over to the scheme.

### 12. Related party transactions

Other than payments made to directors, which are set out in the Board Report on Remuneration on pages 56 to 77, there are no other related party transactions to disclose. The Company has taken the exemption available under FRS 101 not to disclose transactions with wholly-owned subsidiary companies.

### 13. Restatement of comparative information

The following table summarises the impacts on the Company's statement of financial position resulting from the adoption of IFRS 16, Leases and the effects of pushing down share based payment costs incurred on behalf of subsidiary companies in prior years. For further details on the adoption of IFRS 16, Leases see note 31 of the consolidated financial statements.

#### Company statement of financial position

	As previously reported 2018	Effect of restatement	Restated at 2018
<b>Fixed assets</b>			
Intangible fixed assets	22.3	–	22.3
Tangible fixed assets	0.1	–	0.1
Right-of-use assets	–	0.6	0.6
Investments in subsidiaries	391.0	–	391.0
Receivables	2.9	7.4	10.3
	<b>416.3</b>	<b>8.0</b>	<b>424.3</b>
<b>Current assets</b>			
Receivables	7.8	–	7.8
	<b>7.8</b>	<b>–</b>	<b>7.8</b>
<b>Current liabilities</b>			
Payables	(14.3)	2.4	(11.9)
<b>Net current liabilities</b>	<b>(6.5)</b>	<b>2.4</b>	<b>(4.1)</b>
<b>Total assets less current liabilities</b>	<b>409.8</b>	<b>10.4</b>	<b>420.2</b>
Payables: Amounts falling due after more than one year	(11.5)	(0.6)	(12.1)
<b>Net assets</b>	<b>398.3</b>	<b>9.8</b>	<b>408.1</b>
<b>Capital and reserves</b>			
Called-up share capital	33.1	–	33.1
Share premium account	177.1	–	177.1
Other reserves	126.3	–	126.3
Profit for the year	67.7	3.7	71.4
Accumulated (losses)/profit	(5.9)	6.1	0.2
<b>Shareholders' funds</b>	<b>398.3</b>	<b>9.8</b>	<b>408.1</b>

# Subsidiary undertakings

## Incorporated in the UK

**Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF**

Bodycote America Capital Limited<sup>6</sup>  
Bodycote America Finance Limited<sup>6</sup>  
Bodycote America Treasury Limited<sup>6</sup>  
Bodycote Developments Limited<sup>2, 4</sup>  
Bodycote Finance Limited<sup>6</sup>  
Bodycote Finance UK Limited<sup>6</sup>  
Bodycote Heat Treatments Limited<sup>1</sup>  
Bodycote H.I.P. Limited<sup>1</sup>  
Bodycote HIP Germany Limited<sup>2</sup>  
Bodycote International Limited<sup>2</sup>  
Bodycote Investments<sup>6</sup>  
Bodycote K-Tech Limited<sup>2</sup>  
Bodycote Nominees No. 1 Limited<sup>2</sup>  
Bodycote Nominees No. 2 Limited<sup>2</sup>  
Bodycote Pension Trustees Limited<sup>6</sup>  
Bodycote Processing (Skelmersdale) Limited<sup>2, 4</sup>  
Bodycote Surface Technology Limited<sup>1</sup>  
Bodycote Thermal Processing Limited<sup>2</sup>  
Bodycote Thermal Processing Mexico Limited<sup>1</sup>  
Bodycote Treasury Services Limited<sup>6</sup> – ordinary and preference shares  
Expert Heat Treatments Limited<sup>2, 4</sup>  
Taylor & Hartley Fabrics Limited<sup>2</sup>

## Incorporated in Belgium

**Font Saint Landry 11, 1120 Brussels, Belgium**

Bodycote Belgium SA<sup>1</sup>

**Industrie Park Noord 7, 9100 Sint-Niklaas, Belgium**

Bodycote Hot Isostatic Pressing NV<sup>1</sup>

## Incorporated in Canada

**630 Newpark Boulevard, Newmarket ON L3X 2S2, Canada**

Bodycote Canada Property Inc.<sup>4</sup>  
Bodycote Thermal Processing Canada, Inc.<sup>1</sup>

**50 Queen Street North, Suite 1020, Kitchener ON N2H 6M2, Canada**

Bodycote Heat Treatment Canada, Inc.<sup>1</sup>

## Incorporated in China

**No. 68 Ningbo East Road, Taicang Economic Development Area, Taicang City, Jiangsu, China**

Bodycote Heat Treatments Technology (Taicang) Co., Limited<sup>1</sup>

**2012 Kehang Road, High Tech District, Jinan City, Shandong, China**

Bodycote (Jinan) Heat Treatments Technology Co., Ltd.<sup>1</sup>

**No.12 Building, No. 78, Gu Cheng Zhong Road, Yu Shan Town, Kunshan City, Jiangsu Province, China**

Bodycote (Kunshan) Heat Treatments Technology Co., Ltd.<sup>1</sup>

**No.B2-A, Wuxi National Hi-New Tech Industrial Development Z, Wuxi City, Jiangsu Province, 214028, China**

Bodycote Wuxi Technology Co., Ltd.<sup>1</sup>

## Incorporated in Czech Republic

**Liberec 30, Tanvaldska 345, PSC, 46311, Czech Republic**

Bodycote HT s.r.o.<sup>1</sup>

**Rohanske nabrezi 671/15, Karlin, 186 00, Praha 8, Czech Republic**

Bodycote SSC s.r.o.<sup>6</sup>

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# Subsidiary undertakings continued

### Incorporated in France

**Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France**

Bodycote Bourgogne SAS<sup>1</sup>  
Bodycote France Holdings SA<sup>2</sup>  
Bodycote Haute-Savoie SAS<sup>2</sup>  
Bodycote Lyon SNC<sup>3</sup>  
Bodycote Metz-Tessy SAS<sup>1</sup>  
Bodycote SAS<sup>1</sup>  
Bodycote Sud-Ouest SAS<sup>1</sup>  
HITEC SAS<sup>2</sup>  
Nitruvid SAS<sup>1</sup>

### Incorporated in Germany

**Schiessstrasse 68, 40549 Düsseldorf, Germany**

Bodycote Deutschland GmbH<sup>6</sup>  
Bodycote European Holdings GmbH<sup>3</sup>  
Bodycote Hirzenhain GmbH<sup>1</sup>  
Bodycote Specialist Technologies GmbH<sup>1</sup>  
Bodycote Specialist Technologies Deutschland GmbH<sup>1</sup>  
Bodycote VHK Vakuum-Härterei Köllner GmbH<sup>1</sup>  
Bodycote Wärmebehandlung GmbH<sup>1</sup>

### Incorporated in Ireland

**12 Merrion Square North, Dublin 2, Ireland**

Bodycote Ireland Finance DAC<sup>6</sup>  
Bodycote Ireland Treasury Limited<sup>6</sup>

### Incorporated in Jersey

**50 La Colomberie, St Helier, JE2 4QB, Jersey**

Bodycote Jersey Finance Limited<sup>6</sup>  
Bodycote Jersey Holdings Limited<sup>3</sup>

### Incorporated in Mexico

**Oficinas en el Parque Torre Baker & McKenzie, Piso 10, Blvd. Antonio L. Rodríguez 1884 Pte, Monterrey, NL, 64650, Mexico**

Bodycote de Mexico, S. de R.L. de C.V.<sup>1</sup>  
Bodycote de SLP, S. de R.L. de C.V.<sup>1</sup>  
Bodycote Testing de Mexico, S. de R.L. de C.V.<sup>2</sup>  
Bodycote Thermal Processing de Mexico, S. de R.L. de C.V.<sup>1</sup>  
Bodycote Thermal Processing de Mexico Servicios, S. de R.L. de C.V.<sup>6</sup>

### Incorporated in Sweden

**Box 209, 735 23, Surahammar, Sweden**

Bodycote Hot Isostatic Pressing AB<sup>1</sup>

**Box 353, 681 23, Kristinehamn, Sweden**

Bodycote Kristinehamn AB<sup>1</sup>

**Box 124, 424 23, Angered, Sweden**

Bodycote Sweden AB<sup>3</sup>  
Bodycote Thermotreat AB<sup>2</sup>  
Bodycote Värmebehandling AB<sup>1</sup>  
Bodycote Ytbehandling AB<sup>1</sup>

### Incorporated in USA

**12750 Merit Drive, Suite 1400, Dallas, TX 75251, USA**

Bodycote Americas, Inc.<sup>3</sup>  
Bodycote IMT, Inc.<sup>1</sup>  
Bodycote K-Tech, Inc.<sup>1</sup>  
Bodycote Syracuse Heat Treating Corporation<sup>1</sup>  
Bodycote Thermal Processing, Inc.<sup>1</sup>  
Bodycote USA, Inc.<sup>3</sup>

**1180 Enterprise Dr, Winchester, KY 40391, USA**

Bodycote Winchester, Inc.<sup>1</sup>

## Incorporated in other overseas countries

**Boehlerdurplatz 1, 8605 Kapfenberg, Austria**  
Bodycote Austria GmbH<sup>1</sup>

**Groethofstraat 27, 5916PA Venlo, Netherlands**  
Bodycote Hardingscentrum BV<sup>1</sup>

**Orczy ut 46, Budapest, H-1089, Hungary**  
Bodycote Hungary Hökezelő KFT<sup>1</sup>

**Kemalpasa OSB, Izmir Kemalpasa Asfaltı No:17/1, 35730 Kemalpasa-İZMİR, Turkey**  
Bodycote İstas Isıl İşlem Sanayi ve Ticaret AS (79.3% owned)<sup>1</sup>

**Gesällvägen 7, 01730 Vantaa, Finland**  
Bodycote Lämpökäsittely Oy<sup>1</sup>

**Wilgowa 65D, Czeszochowa, 42-271, Poland**  
Bodycote Polska sp z o.o.<sup>1</sup>

**Im alten Riet 123, 9494 Schaan, Liechtenstein**  
Bodycote Rheintal Wärmebehandlung AG<sup>1</sup>

**Matušková 48, Vlkánová, Banksá Bystrica, 976 31, Slovakia**  
Bodycote Slovakia s.r.o.<sup>1</sup>

**Avenue Perdtemps 23, 1260 Nyon, Switzerland**  
Bodycote (Suisse) SA<sup>6</sup>

**Via Moie 28, 25050, Rodengo Saiano, Italy**  
Bodycote Trattamenti Termici SpA<sup>1</sup>

**Brasov, str. Zizinului nr. 119, cod 500407, Romania**  
Bodycote Tratamente Termice SRL<sup>1</sup>

**Industribuen 16-18, 5592, Ejby, Denmark**  
Bodycote Varmebehandling A/S<sup>1</sup>

## Other:

### Incorporated in France

**Lieu-dit Champ Corbert, 74370, Metz Tassy, France**  
Techmeta Engineering SAS (49% Investment)

### Incorporated in USA

**13753 Otterson Court, Livonia, MI 48150, USA**  
Thixomat Technologies, LLC (13.9% Investment)

#### Classifications Key

1. Thermal processing company
2. Dormant
3. Holding company
4. Property holding company
5. Trustee
6. Provision of services to Group companies

Except where stated, these companies are wholly-owned subsidiaries and have only one class of issued shares.

It is agreed that the six German subsidiaries Bodycote European Holdings GmbH, Bodycote Hirzenhain GmbH, Bodycote Specialist Technologies Deutschland GmbH, Bodycote Specialist Technologies GmbH, Bodycote VHK Vakuum-Härtereı Köllner GmbH, and Bodycote Wärmebehandlung GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2018, and will not publish their annual financial statements according to Sec. 325 et seq. German Commercial Code.

It is also agreed that the Dutch subsidiary Bodycote Hardingscentrum BV makes use of the exemption under Article 403, paragraph 1 of Book 2 Dutch Civil Code and will not publish its annual financial statements.

The financial data of the above German and Dutch companies for 2019 are included in the consolidated annual accounts of Bodycote plc.

## Additional information

# 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 8.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales. Email: [Log on to help. shareview.co.uk](mailto:Log on to help. shareview.co.uk) (from here you will be able to email your query securely).

- Change of address
- Lost share certificates or dividend cheques
- Dividend mandates
- Amalgamation of holdings

Forms for some of these matters can be downloaded from the registrars' website [www.shareview.co.uk](http://www.shareview.co.uk). Shareholders can easily access and maintain their shareholding online by registering at [www.shareview.co.uk](http://www.shareview.co.uk). To register, shareholders will require their shareholder reference number which was recently provided. This is the 11 digit number found on recent dividend correspondence.

## Share 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](http://www.shareview.co.uk) for up-to-date commission rates.

## Dividend reinvestment plan (DRIP)

Equiniti's Dividend Re-investment Plan offers a convenient way for shareholders to build up their shareholding by using dividend payments to purchase additional shares. The plan is provided by Equiniti Financial Services Limited, part of Equiniti Group, which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack please call 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 8.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales. Alternatively go to [shareview.co.uk/info/drip](http://shareview.co.uk/info/drip).

It is important to remember that the value of shares and dividend payments can fall as well as rise and you may not recover the amount of money that you invest. Past performance should not be seen as indicative of future performance.

## Overseas shareholders

Equiniti provides a service to overseas shareholders that will convert sterling dividends into local currency at a competitive rate. Dividend payments will then be made directly into your local bank account. For more information log on to [www.shareview.co.uk/info/ops](http://www.shareview.co.uk/info/ops) where you will find the answer to any queries you have, as well as the full terms and conditions of the service. Alternatively please call 0333 207 5951 (+44 121 415 0804 if calling from outside the UK). Lines open 08.30am to 5.30pm (UK time), Monday to Friday excluding public holidays in England and Wales.

## Duplicate share register accounts

If you are receiving more than one copy of our report, it may be that your shares are registered in two or more accounts on our register of members. If that was not your intention you might consider merging them into one single entry. Please contact Equiniti, who will be pleased to carry out your instructions.

## Shareholder analysis

Analysis of share register as at 3 March 2020:

Holding range	Number of shareholders	%	Number of shares	%
1 to 1,000	832	42.8	347,561	0.2
1,001 to 10,000	720	37.1	2,271,893	1.2
10,001 to 100,000	203	10.4	7,427,720	3.9
100,001 to 500,000	110	5.7	25,203,678	13.1
500,001 and over	77	4.0	156,205,320	81.6
	1,942	100.0	191,456,172	100.0

Type of shareholders	% of shareholders	% of total shares
Directors' interests	0.3	0.4
Major institutional and corporate holdings	34.5	98.4
Other shareholdings	65.2	1.2
	100.0	100.0

As at 25 February 2020 the following voting rights in the Company had been notified in accordance with the Disclosure and Transparency Rules.

Name of shareholders	Number of shares	%
Aberdeen Standard Investments	20,713,353	10.8
Merian Global Investors (UK) Limited	12,793,356	6.7
Franklin Templeton Fund Management Limited	11,251,135	5.9
BlackRock Investments Management (UK) Ltd	7,871,689	4.1
The Vanguard Group, Inc.	7,759,508	4.1
Norges Bank Investment Management	7,216,481	3.8
Alantra Asset Management SGIIC, S.A.	6,907,267	3.6
Schroder Investment Management Ltd	6,862,536	3.6
Dimensional Fund Advisors, LP	6,487,186	3.4
Baillie Gifford & Co.	5,948,793	3.1

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# Company information

### Advisers

#### Auditor

PricewaterhouseCoopers LLP

#### Principal bankers

HSBC Bank plc, Barclays Bank PLC, The Royal Bank of Scotland plc, Svenska Handelsbanken AB, UniCredit Bank AG, ING Bank NV, Wells Fargo Bank, NA and KBC Bank NV.

#### Solicitors

Eversheds Sutherland (International) LLP, Herbert Smith Freehills LLP and DLA Piper UK LLP.

### Financial calendar

Annual General Meeting	28 May 2020
Final dividend for 2019	5 June 2020
Interim results for 2020	July 2020
Interim dividend for 2020	November 2020
Results for 2020	March 2021



#### **Cover image**

This image shows a photomicrograph of an S<sup>3</sup>P treated screw, and demonstrates the uniformity of the S<sup>3</sup>P treatment. S<sup>3</sup>P is used to harden stainless steels, without affecting corrosion resistance, and provides superior sliding wear and galling resistance and improved fatigue strength. For industrial and consumer fasteners, these properties provide staying power and smooth assembly and disassembly



[www.bodycote.com](http://www.bodycote.com)

For the online version of this report go to  
[www.bodycote.com/investors](http://www.bodycote.com/investors)

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Logo removed