

**Annual
Report
2020**

Bodycote plc

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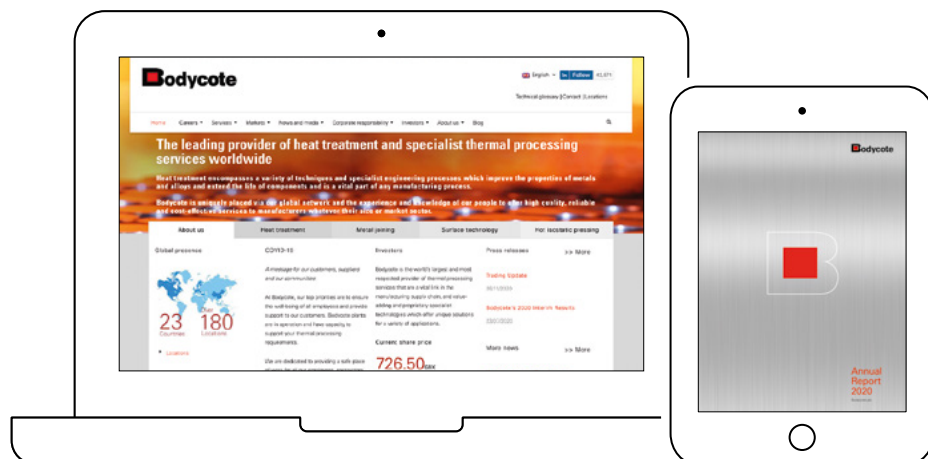
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www.bodycote.com/investors
for more information

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 partner 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.

With our breadth of solutions across multiple technologies, we create value through superior customer service 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.

Driving performance with our Core Values



Honesty and Transparency



We cultivate a culture of transparency, where honesty and integrity are at the foundation of our business and our relationships. Trust is at the heart of everything we do.



Respect and Responsibility



We behave individually and collectively with respect for each other, our stakeholders and the environment, conducting business responsibly, taking ownership of our actions.



Creating Value



We create value for our employees, customers and shareholders, and this is the very essence of Bodycote.

[+](#) Page 41 for more information

Understanding Bodycote

Our markets

Bodycote offers materials solutions for virtually every market sector, providing expertise across both classical heat treatment and specialist thermal processes. Bodycote addresses the markets we serve with our superior levels of service and unmatched ability to satisfy customers' needs. Bodycote supports many market sectors; however, we categorise our business into four major groups:



Aerospace and Defence



The aerospace market is highly complex; we primarily treat engine components and landing gear that rely on our solutions to improve performance. Our services provide thermal processing solutions across a wide range of applications which include commercial, business and military aircraft.

Bodycote operates an international network of quality accredited facilities, in support of prime aerospace manufacturers and their supply chains.



Energy



Using industry-leading thermal processing, we can extend the life of industrial gas turbines, power generation, and oil & gas components (onshore, offshore, and subsea) by reducing the wear caused to them through abrasion, erosion, and corrosion thus helping to minimise downtime.



Automotive



Focused on key components in the car, light truck, heavy truck, and bus markets, thermal processing delivers greater strength and durability.

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 multiple industry segments in our General Industrial business. These customers range from industrial machinery to agricultural equipment, construction, electronics, and medical equipment.

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

Our technologies

Bodycote's purpose is to support our customers in producing superior components. Our thermal processing services encompass a variety of heat treatment techniques and specialist technologies that 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.

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's 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, 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. The extended life of our customers' products also has a positive impact on the environment by reducing waste.



Specialist Technologies

A selection of highly differentiated, early-stage processes with high margins, significant market opportunities, and good growth prospects. Bodycote is either the clear market leader or one of the top players among a small number of 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 (S³P) Processes

Improves the strength, hardness, and wear resistance of stainless steels. Standard heat treatments negatively impact corrosion resistance of stainless steel, but our proprietary S³P can provide dramatically improved material properties while maintaining corrosion resistance.

Surface Technology

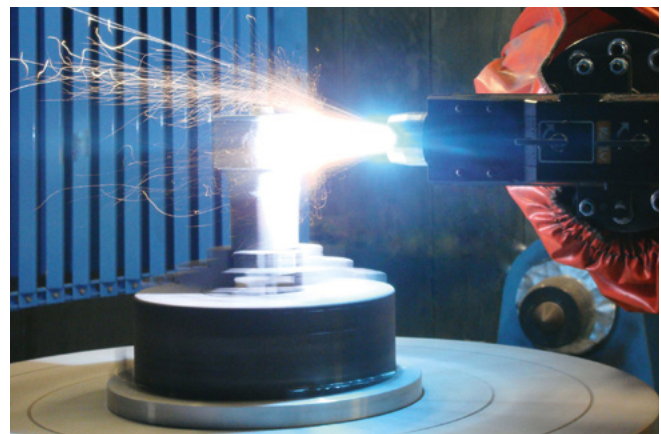
Enhances component life using ceramic and ceramic/metal coatings.

Low Pressure Carburising (LPC)

Obtains a hardened surface and a tough core under vacuum using a cleaner process than atmospheric carburising, providing improved wear resistance and fatigue life with less distortion.

Corr-I-Dur® (CiD)

Improves corrosion resistance and wear properties, and is primarily used as an environmentally friendly substitute for hard 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 165 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



> 165
facilities



4,747¹
employees



23
countries

Revenue by geography



● North America	37.9%
● Western Europe	51.3%
● Emerging Markets	10.8%

Revenue by market sector



● Aerospace and Defence	26.2%
● Energy	8.5%
● Automotive	26.5%
● General Industrial	38.8%

¹ At year end 2020.

North America

Bodycote is the largest provider of thermal processing services in North America by a significant margin with comprehensive network coverage. This network offers more than 60 facilities convenient to customers in all areas where manufacturing and technical industries are concentrated.



Revenue by market sector – £m

● Aerospace and Defence	45.6%
● Energy	8.2%
● Automotive	21.0%
● General Industrial	25.2%

61 facilities
1,610 employees

Western Europe

Bodycote operates more than 80 facilities in Western Europe and is the number one provider of thermal processing services, with by far the largest network and comprehensive service offering.



Revenue by market sector – £m

● Aerospace and Defence	16.0%
● Energy	10.3%
● Automotive	23.4%
● General Industrial	50.3%

83 facilities
2,289 employees

Emerging Markets

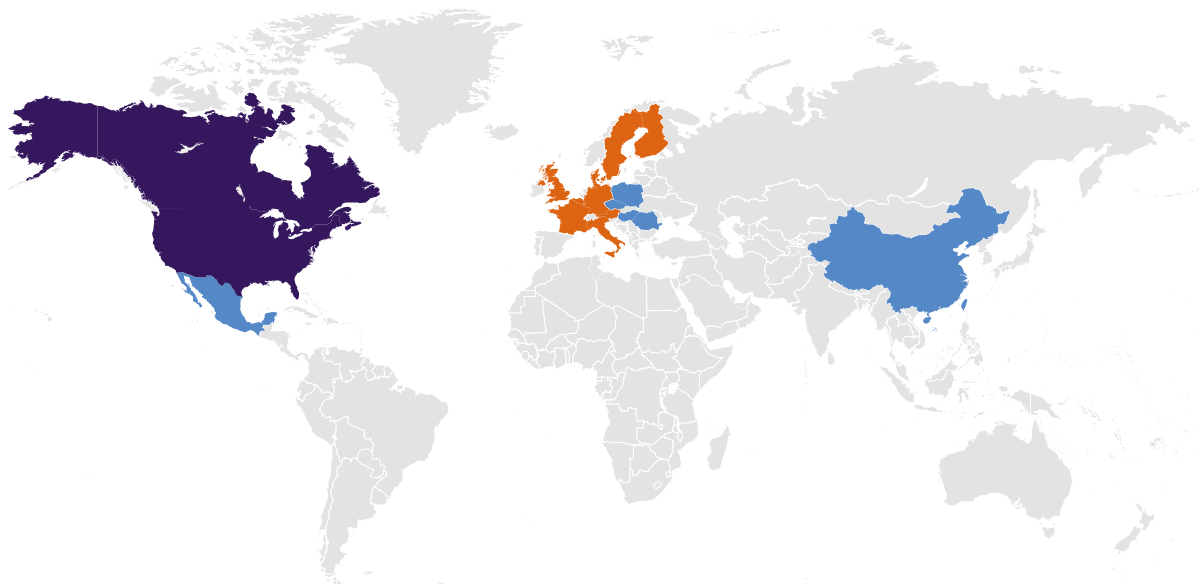
Bodycote has more than 25 facilities in Emerging Markets covering Eastern Europe, China, and Mexico. Bodycote is the number one thermal processing provider in Eastern Europe and is the leading Western provider in China.



Revenue by market sector – £m

● Aerospace and Defence	5.9%
● Energy	1.0%
● Automotive	61.5%
● General Industrial	31.6%

26 facilities
848 employees



Understanding Bodycote

Highlights

Highlights

Financial summary

	2020	2019
Revenue	£598.0m	£719.7m
Headline operating profit ¹	£75.3m	£134.9m
Headline EBITDA margin ¹	26.4%	29.2%
Headline operating margin ¹	12.6%	18.7%
Exceptional items ³	£(58.4)m	–
Free cash flow ¹	£106.1m	£123.1m
Basic headline earnings per share ^{1,2}	27.8p	52.1p
Ordinary dividend per share	19.4p	19.3p
Return on capital employed ¹	9.8%	17.7%

Additional statutory measures

Operating profit	£5.0m	£128.6m
Profit after tax	£0.8m	£94.0m
Net cash generated from operating activities	£139.1m	£177.3m
Basic earnings per share	0.2p	49.4p

- The health and wellbeing of our people remains our top priority
- Financial performance
 - Organic revenues declined 20%
 - Resilient headline EBITDA margin performance at 26.4% (2019: 29.2%)
 - Excellent free cash flow conversion¹ of 141% (2019: 91%)
 - Closing net debt of £23m after paying £96m of the consideration for Ellison
 - £36m of cash restructuring costs, generating £30m of annual savings by 2022
- Continued programme of strategic investment
- Structured to align with long-term megatrends in road transport electrification, point-to-point air travel, and the reducing use of fossil fuels
- Uninterrupted 30+ year track record of growing or maintaining dividend

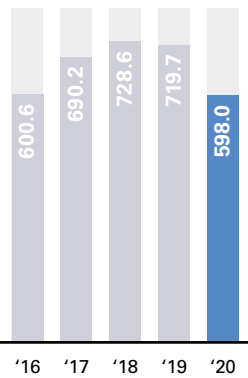
¹ The headline performance measures represent the statutory results excluding certain non-operational items. These are deemed alternative performance measures under the European Securities and Markets Authority guidelines. Please refer to note 1 to the financial statements on page 98 for a reconciliation to the IFRS equivalent.

² A detailed EPS reconciliation is provided in note 10 on page 110.

³ Detail of exceptional items is provided in note 6 on page 107.

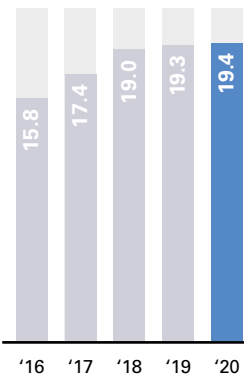
Financial highlights

Revenue £m



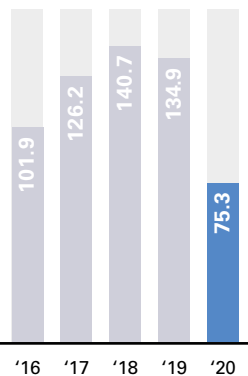
£598.0m

Dividend per share pence



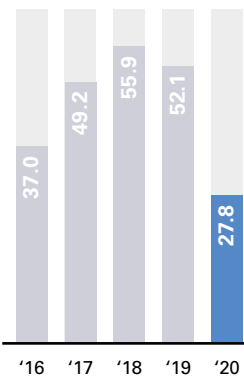
19.4p

Headline operating profit £m



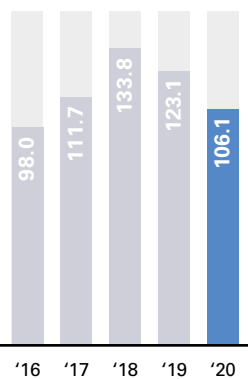
£75.3m

Headline earnings per share pence



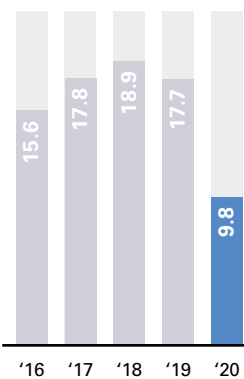
27.8p

Free cash flow £m



£106.1m

Return on capital employed %



9.8%

Understanding Bodycote

The investment case

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

Bodycote is the world's No.1 service provider of heat treatment and specialist thermal processing

Core business is resilient in a downturn despite inherent operational leverage, due to mixture of improvement, flexibility of workforce, diversity of end markets and geographic spread

Significant barriers to entry across majority of Bodycote's business which are practical, financial and technical in nature

Consistently strong margins and excellent free cash flow generation

Experienced management team with a clear strategy and proven track record of execution and delivery

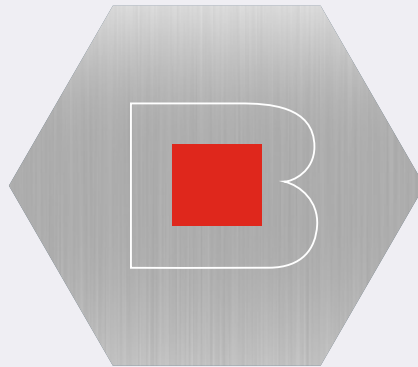
Highly cash generative business funding both investment and cash returns to shareholders

Specialist Technologies potential for higher margins and growth rates to become a larger proportion of the Group

Well positioned for the future

Plentiful investment opportunities to drive margins and returns

Resilient Classical Heat Treatment is robust in downturns



Key investment strengths

Experienced management team with a strategy in place to further enhance margins and growth through:

- Increasing the relative size of Specialist Technologies with its superior margins and higher growth characteristics
- Investment in growth and localisation opportunities in emerging/high growth markets
- Further improving the mix in parts of the Classical Heat Treatment business
- Investment in structural end market growth opportunities
- Investment in acquisitions and greenfield sites
- Strategy can accommodate widely differing market outcomes

Robust balance sheet strength through:

c.£400m

invested in capacity growth in last five years

>£250m

returned to shareholders in last five years

2020

restructuring has accelerated the improvement in the quality of the business

What you can expect?

Specialist Technologies

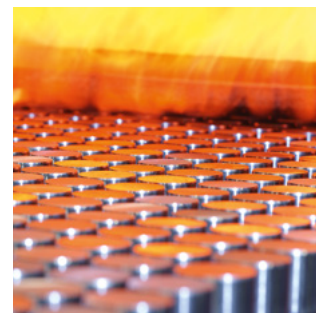
28% of Group revenue – higher margin and growth businesses; expected to consistently outperform Classical Heat Treatment



Classical Heat Treatment

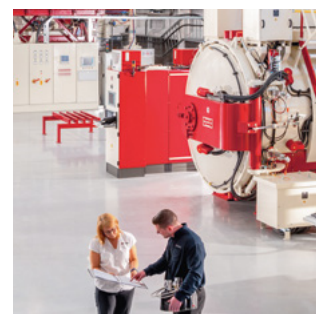
should perform ahead of the market, driven by:

- Increasing demand for improved materials
- Investment in emerging/high growth markets



Selected acquisitions

- 9 key acquisitions in the last five years, including Ellison Surface Technologies



All on top of underlying Industrial Production growth



Chair's statement



We have taken further steps to ensure that our sustainability activities, with a particular emphasis on climate change, are more widely understood by both customers and investors as well as our entire employee population.

A. C. Quinn CBE
Chair

Overview

In 2020, the world and Bodycote faced unusual times as markets reacted to the global pandemic. While the world underwent a significant downturn in demand, I am pleased to report that management responded quickly, implementing both disaster recovery scenarios and restructuring plans very successfully. While these plans had not been generated with a global pandemic in mind, our preparedness for the kind of rapid change that we experienced was evident, and the end result was a highly commendable performance. While Bodycote did initially take advantage of the UK government's COVID-19 Job Retention Scheme for employees that were furloughed, these monies were repaid to the government as soon as it was evident that we had stabilised the business and cash flows would continue to be strong.

Dividend

The Board is proposing a final dividend of 13.4p, which will be paid on 4 June 2021, subject to shareholder approval at the 2021 Annual General Meeting (AGM). This brings the total ordinary dividend for 2020 to 19.4p (2019: 19.3p) costing £25.5m which continues Bodycote's 30+ year uninterrupted track record of paying dividends and reflects the Board's confidence in the Group's future earnings and cash flow potential, despite the lower earnings achieved in 2020.

Sustainability

We have raised our emphasis on ESG, taking a continuous improvement approach to refining our ESG credentials. We aim 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. We have taken further steps to ensure that our sustainability activities, with a particular emphasis on climate change, are more widely understood by both customers and investors as well as our entire employee population. We expect to see the results of this activity in the coming year.

People

In 2020, engaging with employees took on a new dimension as most of the year required social distancing and severely limited cross-border travel. The Board fully utilised video conferencing for its meetings and for keeping in close contact with the Executive Directors throughout the year. Together with my Board colleagues, we were pleased to have 'virtual' meetings with a variety of

employees and senior managers throughout the year. We were able to engage in subjects pertinent to the situation of the business, including employee engagement and the application of the Group's strategy.

Board and governance

The Board places great importance on the constant development of its understanding of the business. It is also attentive to its obligations under the corporate governance code, and we continued to ensure we address these obligations throughout the year.

As Chair, one of my roles is to ensure that the Board members possess relevant, complementary skills that add value to Bodycote's stakeholders. During the year, I was pleased to have Kevin Boyd join the Board as a Non-Executive Director. Kevin joined in September 2020, and is a member of the audit, remuneration and nomination committees. Kevin was most recently the Chief Financial Officer of Spirax-Sarco Engineering plc. I am pleased to have him on the Board to complement our skills. I am confident that the Bodycote Board remains well-positioned to meet our governance duties. By maintaining high standards of corporate governance, we are able to enhance business performance, underpinned by our strategy and the business model. The approach to governance is set by the Board and implemented by our Executive Committee, and effective and robust governance remains a strong pillar supporting the sustainable success of the Group.

Shareholders

Shareholder meetings took place almost exclusively via video calls during the year. I look forward to engaging with you during the coming year, either personally or virtually. Our AGM will take place in May 2021, and we will adhere to the government guidelines for gatherings at that time.

Summary

2020 was a challenging year for the Group in a number of our key market sectors. Nevertheless, the resilient Group performance has proven the agility of the operations and reinforces the dynamism of our strategy.

A.C. Quinn CBE Chair
12 March 2021

Chief Executive's review



I am immensely proud of the fortitude and resilience shown by our people as they continued to deliver first-class service to our customers under the most trying conditions.

S. C. Harris
Group Chief Executive

Full Year commentary

As the COVID-19 pandemic hit, the critical need to safeguard the wellbeing of our employees drove an immediate, large scale mobilisation of resources across the Bodycote Group. I am pleased to see how effective the measures we took have been and I would like to acknowledge the remarkable performance of the global, and many local, management teams involved in this unprecedented effort. This year has been hugely challenging for our employees. Not only have they been confronted with the impact on their personal lives from the COVID-19 pandemic and all its consequences, but they have also had to deal with significant changes in the working environment and organisation. I am immensely proud of the fortitude and resilience shown by our people as they continued to deliver first-class service to our customers under the most trying conditions.

We responded quickly, implementing disaster recovery scenarios and restructuring plans successfully. These plans had not been generated with a global pandemic in mind but our preparedness for the kind of rapid change that we experienced was evident.

Results overview

It is hard to imagine a set of circumstances that could be more testing than those encountered in 2020. The fall in demand that occurred in the second quarter led to an unprecedented drop in revenues that was significantly greater than even the worst points of the global financial crisis in 2008 and 2009. The acquisition of Ellison during the year did help to ease the fall in revenues, though they still declined by 16.9% (compared with 2019) to £598.0m (16.6% at constant currency). The organic constant currency revenue decline was 20%.

The headline EBITDA margin of 26.8% (excluding Ellison) was only 2.3% lower than 2019 and still above 2016 and 2017 levels. Moreover, the 12.6% headline operating margin in 2020 (2019: 18.7%) is similar to the peak achieved in the decade prior to 2009. This noteworthy result is not just a reflection of management's cost control activities during the year but is also testament to the transformation that has taken place since 2009 in both the quality of Bodycote's business and the flexibility of the cost base.

Headline operating profit decreased to £75.3m (2019: £134.9m), while, after taking account of the exceptional charge of £58.4m, the statutory result was an operating profit of £5.0m. The Group delivered strong free cash flow of £106.1m (2019: £123.1m) and

ended the year with net debt (excluding lease liabilities) of £23m after paying £96m in connection with the Ellison acquisition.

With significant trade receivables on our balance sheet and a much lower level of trade payables, there is a natural cash flow hedge as revenues decline and the level of outstanding trade receivables also declines. As a result, the cash flow performance of the business has been strong during 2020 and we achieved free cash flow conversion of 141% (2019: 91%). Net cash from operating activities was £139m (2019: £177m).

Basic headline earnings per share for the Group were 27.8p (2019: 52.1p). Basic earnings per share were 0.2p (2019: 49.4p), reflecting the exceptional charges taken in the year.

Revenues and margins

In reviewing the 2020 performance, it should be noted that business trends varied sharply through the year. These trends were normal until the third week of March, when significant government restrictions started to be implemented around the world in response to COVID-19. These restrictions had an immediate and severe impact on demand throughout the second quarter, followed by a gradual improvement in most end markets during the second half of the year. Thus, the year-on-year quarterly organic revenue declines were -6%, -33%, -24%, and -18% for Q1 through Q4 respectively.

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

Our AGI and ADE businesses experienced contrasting fortunes during the year and emerged with starkly different short-term outlooks.

In AGI, automotive revenues dropped by more than 50% in Q2 as OEMs closed their facilities; they recovered significantly in the second half as facilities came back on stream. Coupled with sequential quarterly improvement in the general industrial business in H2, it meant that, by the end of the year, our AGI business in the developed markets was experiencing only single digit revenue declines versus the final quarter in 2019. Given the scale of action taken to address our cost base, we succeeded in offsetting the impact from the short-term operating leverage and, by the end of the year, were able to post higher margins in most parts of this business compared with the previous year. AGI revenues in the

Chief Executive's review continued

Emerging Markets fared even better with Q4 revenues achieving growth of over 16%. In total, our second half headline operating margin for the AGI business as a whole was flat on 2019, at 15.0%, almost double that of the first half margin of 8.4% and despite the H2 decline in revenues of 11.5%.

The situation in ADE was quite different. Organic civil aerospace revenues reduced through the year which, coupled with weak energy demand, meant that we experienced revenue declines of more than 30% throughout the second half. While we have taken swift action on costs in the ADE business, the scale of the revenue decline was significantly greater than the short-term cost mitigation actions that we were able to take. As a result, ADE headline operating margins declined significantly to 8.5% in the second half. During the second half, we implemented further cost saving measures which will be finally completed in 2021. These will help the business' profitability, but we have taken the strategic decision not to materially change the aerospace footprint as we expect the civil aerospace market to recover significantly in due course. As a result, a return to the ADE margins in the mid-20%^s, that was achieved prior to 2020, is likely in late 2022 and beyond, even though civil aerospace volumes are not anticipated to recover above 2019 levels until 2023/2024.

Also noteworthy in terms of profit development is the fact that our Specialist Technologies businesses represented 48% of Group operating profit during the year, up from 38% in 2019. This is a natural consequence of the fact that the revenue performance was relatively better across these businesses when compared with our Classical Heat Treatment businesses, and margins in Specialist Technologies, which are higher, declined by similar absolute percentages to Classical Heat Treatment.

Market sectors

Automotive revenues declined 20% in the year, to £159m. The drop in revenues in the Western European and North American markets were both similar in percentage terms, although the shape by quarter was different. Compared with Western Europe, North America experienced a more severe decline in Q2 but recovered more strongly in the second half. Emerging Markets recovered strongly through Q3 and Q4, posting 5% year-on-year growth in the second half.

General Industrial revenues declined 11% to £232m. This decline was broad based across our developed markets, with circa 20% declines in the tooling, industrial machinery, construction, and agriculture market segments offset by electronics, medical and general manufacturing which grew significantly in the second half. Emerging Markets' revenues increased 15% during the second half of the year.

Aerospace & Defence organic revenues declined 29%. Aerospace and defence did not experience the same immediate contraction as the automotive and general industrial segments but ended up weaker. Civil aerospace revenues stabilised at a decline of 43% in both Q3 and Q4, including the benefit of the contribution to revenues from Ellison. Ellison was acquired at the beginning of Q2 2020.

Energy, which now represents only 8% of Bodycote's entire business, had revenues of £51m, down 18%. The North American onshore oil & gas business, which is primarily driven by the Permian Basin, declined significantly in response to the lower activity there. Subsea oil & gas fared relatively better given the longer life of subsea projects. Industrial Gas Turbines (IGT) and Power Generation revenues also declined significantly.

Specialist Technologies

Bodycote has, for many years, been expanding its "Specialist Technologies" activities. These are differentiated, early stage

processes with high margins, large market opportunities and good growth prospects. Bodycote is either the clear market leader or one of the top players among few competitors. These technologies are embedded into both the ADE and AGI businesses and address multiple market sectors. Boosted by the contribution from the Ellison acquisition, Specialist Technologies constituted 30% of Bodycote's revenues in the second half of the year. Revenue declined 5% to £168.7m for the full year. Bodycote's AGI focused Specialist Technologies' revenues grew 8% during the second half, which compares very favourably with the 12% second half decline in the combined automotive and general industrial Classical Heat Treatment revenues. Bodycote's ADE focused Specialist Technologies' revenues naturally fared worse, given the more negative end market performance in the civil aerospace and energy market sectors, with organic revenues declining 33% during the second half. However, this still represented outperformance compared with the 40% decline in the comparable organic aerospace, defence, and energy Classical Heat Treatment revenues.

Emerging Markets

Investment in Emerging Markets continues to be a strategic priority. Our growing presence in Emerging Markets is concentrated in the automotive sector with the balance in general industrial. Our Emerging Market footprint is in Eastern Europe, China and Mexico. After a sharp fall in the second quarter, revenues benefited from the recovering automotive market sector. Indeed, Emerging Markets revenues grew in the second half to leave total revenues (excluding the contribution from Ellison) for the full year flat on 2019, despite a decline in our Mexican revenues (which are largely dependent on developments in the US car & light truck market). China recorded strong second half revenues to deliver double digit growth for the full year. In total, Emerging Markets' revenues constituted almost 11% of total Group revenues for the first time, and, for the second half of the year, represented more than 12% of total Group revenues.

Cost reductions and restructuring

During the year, semi variable costs such as energy and industrial gases were successfully reduced in line with the revenue reductions. The most significant cost input for Bodycote's business is labour, which represents circa 40% of sales. Full Time Employees (FTEs) were reduced by 18% (1,020 FTEs). A large proportion of these positions will be replaced as revenues return, albeit in the form of temporary labour. However, the strategic restructuring programme that was initiated in late 2019 and expanded during 2020 will result in permanent structural savings in infrastructure once completed. The programme was largely completed in 2020.

The restructuring programme is more than a reaction to the immediate situation. The expansion of the programme in 2020 represents an acceleration of what we would have done in any event over a longer period of time, with the financial rationale being boosted as a result of the decline in revenues. The goal is not simply to reduce cost and increase flexibility. It is also to align our business to the long trends mega trends of electrification of road vehicles, point to point travel in civil aerospace, and the transition away from fossil fuels.

The first phase of the restructuring programme was focused on reducing the capacity serving internal combustion engines (ICE) vehicles in Western Europe and increasing electric vehicle (EV) exposure in Eastern Europe. It improves Bodycote's geographic and customer footprint in line with the shift in production underway by the OEMs and their Tier 1 suppliers. This part of the programme includes 15 site closures and three new facilities in Eastern Europe. Redundant capacity in Western Europe has been transferred to Eastern Europe or repurposed for serving customers in the general industrial markets.

The second phase extension to the programme in turn consists of two parts:

- The consolidation of aerospace capacity to improve efficiency, as well as rebalancing the market exposure away from wide bodies in favour of narrow bodies.
 - This part of the programme includes one plant closure in North America, one in Belgium and two in the UK, and equipment has been transferred to other plants. Total aerospace capacity has been retained in order to serve this market as it recovers, and in the meantime, capacity that is underutilised is being targeted at the medical, electronics and other general industrial markets that use the same processes as the aerospace market.
- The consolidation of North American legacy, facilities serving the automotive, general industrial, oil and gas markets.
 - This part of the programme includes seven plant closures and the construction of two new facilities. Both of the new plants opened in the first quarter of 2021.

In total, we have either closed or announced the closure of 26 of our facilities during the year. Of the new facilities, two were already operational in 2020 and all five will be operational by the end of 2021.

The Group entered 2021 in a stronger position, with capacity concentrated where demand will be greatest and with larger more flexible facilities that can be operated more efficiently whatever the level of demand.

The exceptional restructuring charge associated with the redundancies and closures totals £52m, including £36m of cash costs (of which, only c£10m was spent in 2020). Once the restructuring programme has been fully implemented, we expect to see net permanent annual costs savings of approximately £30m per annum, £20m of which will materialise in 2021 and the balance in 2022. The benefit in 2020 was negligible as the structural savings generated were offset by the inefficiencies associated with the plant closures.

Strategic progress

Bodycote's strategy is based on improving the overall quality of the business and focusing investment to drive long-term profitable growth.

An important part of the Group's strategy has been to ensure flexibility in the cost base, so that the business can react quickly in response to a downturn. Observers of our business will know that the closure and opening of facilities is a part of normal business-as-usual activity at Bodycote and, over time, this has formed an important part of the activity which has improved the quality of the business. The restructuring announced during the year clearly represented a significantly different pace of footprint change from the norm. The main strategic themes we have accelerated are:

- A much better alignment of capacity to serve the electrification of road transport.
- A shift of capacity toward the more fuel efficient and longer range narrow body aircraft and away from high passenger capacity wide body aircraft. Narrow body aircraft are anticipated to grow at a rate that is significantly above the growth trend in revenue passenger kilometres as point to point travel becomes more efficient and flexible. High passenger capacity has historically been used for hub to hub transport with passengers transiting to short haul single aisle aircraft at the hub. This logistics model has been under threat for some time, putting downward pressure on demand for wide body aircraft.
- Downsizing our capacity serving the fossil fuel sectors.

We have continued to invest in our Specialist Technologies, which are another key pillar of the Group's strategy, reflecting their superior returns and growth potential.

We are also driving growth in our Emerging Markets' business, which has grown its share of our overall business considerably over the years. Indeed, opportunities continue to abound and the investment pipeline in support of these opportunities remains strong.

In implementing the restructuring, the business has retained virtually all of its physical capacity and capabilities but now is better aligned with the opportunities for growth. As a result, we believe that we have made a step change in improving the sustainability and underlying financial performance quality of the business, which will be reflected in the Group's results for the years to come.

Growth through acquisition is another important part of our strategy. Given the circumstances in 2020, I am pleased with the integration and performance of the Ellison acquisition, which has strengthened our Specialist Technologies. I am confident that this is a sound acquisition for us and will go from strength to strength as civil aerospace revenues return to growth.

In 2020, Bodycote has taken action to document and communicate current initiatives associated with the broader impacts we have on the environment, the communities where we operate, our employees, shareholders, and society as a whole. Bodycote summarises our approach to Environment, Social and Governance (ESG) as 'Our approach to sustainability'.

Summary and outlook

Bodycote weathered the adversity of 2020, generating a headline EBITDA margin of 26.4%, a headline operating margin of 12.6% and producing a strong free cash flow conversion of 141% (£106 million).

Looking ahead, markets are recovering, though the uncertain timeline for recovery in the civil aerospace market clouds the short-term outlook for this part of the business. Nonetheless, our restructuring programme is now largely complete, resulting in a higher quality business aligned to the growth opportunities we are seeing. The Board is confident that Bodycote is well placed to drive growth and take advantage of the upturn in activity across all of its markets as they strengthen.

S.C. Harris
Group Chief Executive
12 March 2021

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 a minimal environmental impact.

Strategic priorities	Objectives
<p>1 Safety and environment</p>	At the foundation of our business is the provision of a safe working environment for our employees, and to operate with minimal environmental impact.
<p>2 Driving operational improvement</p>	Continuous improvement of business processes and systems which make us more efficient and responsive.
<p>3 Capitalising on and investing in our Specialist Technologies</p>	Delivering unique solutions that provide customers with innovative, high value-added products to meet the changing needs within component manufacturing.
<p>4 Investing in Emerging Markets</p>	Expanding with our customers in rapid growth countries with an emphasis on Eastern Europe, Mexico, and China.
<p>5 Investing in structural growth opportunities</p>	We invest in markets with long-term structural opportunities such as the civil aerospace market.
<p>6 Acquisitions</p>	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 values

Honesty and Transparency



Creating Value

Respect and Responsibility

We cultivate a culture of transparency, where honesty and integrity are at the foundation of our business and our relationships. Trust is at the heart of everything we do.

We behave individually and collectively with respect for each other, our stakeholders and the environment, conducting business responsibly, taking ownership of our actions.

We create value for our employees, customers and shareholders, and this is the very essence of Bodycote.

Core markets

Aerospace and Defence



Energy



Automotive



General Industrial



Our business model

Our business model focuses on ensuring we are the supplier of choice for customers' thermal processing needs.

We provide essential solutions to customers...

Our thermal processing services simplify customer manufacturing by reducing their non-core activities. Bodycote adds value while reducing the impact on the environment by operating more efficiently. Our global network of engineers and metallurgists collaborate with customers to solve complex challenges, enhance operational efficiencies and help improve product performance.

A Global network

– A global network of more than 165 market-focused facilities in 23 countries.
See our global network on pages 4-5

Unmatched expertise

– With 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.

See managing our people on pages 40-42

Scale and investment

– Bodycote's scale enables continuous yet focused investment, both in the latest processes and in the most efficient and environmentally friendly equipment.

See Chief Executive's review on pages 11-13

Customer focus

– Building strong customer relationships through local service expertise; the scope of Bodycote's network enables us to specialise at individual locations and provide comprehensive backup for our customers more effectively than competitors.

– We secure service-specific agreements with our customers providing protection from supply disruption, leveraging Bodycote's unique facility network.

See business review on pages 22-23

– Unique opportunities for the transfer of knowledge, skills and technology across the network.

See our customer component journeys throughout the strategic report

utilising our strategic competitive advantages...

and focusing on service and quality...

Service and expertise

– We provide highly efficient, cost-effective services to the highest quality standards through strategic investment in people and the latest technology, equipment and quality systems.

– Bodycote's extensive facilities and expertise mean that projects can extend beyond customers' in-house capabilities, combining identification and provision of technical solutions to deliver value-adding material properties with a lower environmental and often lower cost.

Quality

– Bodycote's quality management systems, validated by major engineering OEMs, have been developed to meet the requirements of international and national accrediting bodies.

– Our facilities hold industry and customer approvals appropriate to the services they offer and the markets they serve.

creating value for customers, Bodycote and our investors.

For our customers

- Value-adding services
- Global supplier meeting multiple processing needs
- Access to entire Bodycote knowledge base and expertise
- Cost and environmental benefits versus inhouse 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

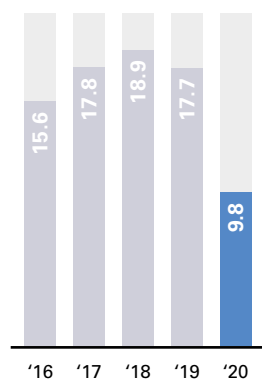
For our investors

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

Measuring progress

Our key performance indicators

Return on capital employed (%)



Performance

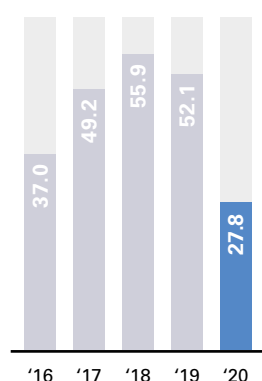
Return on capital employed declined by 7.9 percentage points during the year, down from 17.7% to 9.8%

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).

Headline earnings per share (pence)



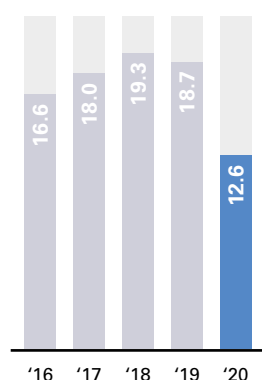
Performance

Headline earnings per share decreased by 24.3p (47%) from 52.1p to 27.8p.

Definition

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

Headline operating margin (%)



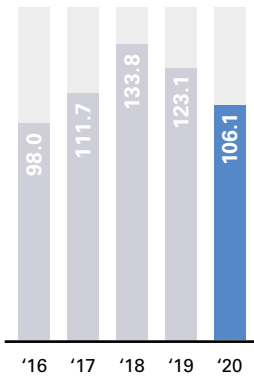
Performance

Headline operating margin declined by 6.1 percentage points during the year, from 18.7% to 12.6%. Headline operating profit decreased by 44% from £134.9m to £75.3m, while revenue decreased by 17% from £719.7m to £598.0m.

Definition

Headline operating profit as a percentage of revenue.

Free cash flow (£m)



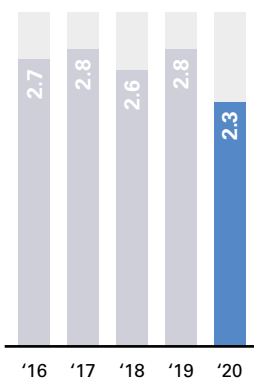
Performance

Free cash flow for the Group was £106.1m (2019: £123.1m). This was 141% of headline operating profit (2019¹: 91%).

Definition

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

Total Reportable Case Rate (TRC)



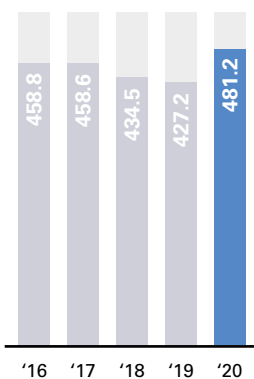
Performance

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 decreased to 2.3 this year (2019: 2.8). Further details are included in the Environmental, Social and Governance (ESG) section on page 42.

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.

Carbon footprint (tonne CO₂e/£m sales normalised¹)



Performance

On a normalised basis, the carbon footprint increased by 13% from 427.2 tonnes per £m sales to 481.2 tonnes per £m sales. Further details are included in the Environmental, Social and Governance (ESG) section.

Definition

Carbon footprint is defined as tonnes of CO₂ equivalent emissions divided by £m revenue. CO₂ 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

Our stakeholders

How and why we engage

Engagement undertaken	Reason for engagement	Stakeholders' key interests
Investors		
<ul style="list-style-type: none"> – Annual Report and accounts/Annual General Meeting – 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 – Meetings throughout the year with existing and prospective banking partners – Press releases (including LSE announcements) – Addressing regular analysts' enquiries 	<p>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.</p>	<ul style="list-style-type: none"> – Financial performance and economic/political impact – Capital allocations and dividends – Mergers and acquisitions – Safety, Health and Environment performance – Alignment of shareholder and management interests – Governance and transparency – Sustainability of performance
Employees		
<ul style="list-style-type: none"> – Annual individual performance reviews – Works councils and their representatives – Employee engagement groups – Internal intranet and communications, suggestion boxes and grievance mechanisms – Annual Report and accounts – Safety, Health and Environment briefings and Toolbox Talks – Twitter and LinkedIn communications 	<p>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.</p>	<ul style="list-style-type: none"> – Reputation – Wages, benefits and social packages – Employee development/engagement – Talent retention/career opportunities – Safety, Health and Environment performance – Diversity and inclusion
Customers		
<ul style="list-style-type: none"> – Management of ongoing customer relationships – Participation in industry forums/events – Full customer marketing communication programme including utilisation of the Bodycote plc website 'www.bodycote.com' including the Annual and Interim Reports <p>Engaging with our customers helps us to understand their needs and identify opportunities and challenges.</p>	<p>We collaborate with our customers to improve our customers' product characteristics and to develop a project pipeline.</p>	<ul style="list-style-type: none"> – Customer satisfaction – Service performance, efficiency and quality – Sustainable performance – Supply chain transparency
Society/Communities		
<ul style="list-style-type: none"> – Individual employee volunteering – Corporate website – Local site community activities 	<p>Bodycote operates in a very large number of local communities across the world and it is imperative that the business has no negative impacts on these communities that could jeopardise the ongoing viability of the business.</p>	<ul style="list-style-type: none"> – Future talent pipeline – Local operational impact – Environmental impact – Safety, health and environmental performance

A component journey

Bottled perfection – Dosing device

There are several important factors influencing the productivity of machines used in the food and beverage industry.

Of the utmost importance is cleanliness, not only from microbes but also from external pollutants from machine degradation.

For machines which operate 24/7 with production rates of several thousands of bottles per minute, equipment must perform faultlessly and be able to withstand aggressive wear and cleaning chemicals – Bodycote's Specialty Stainless Steel Processes (S³P) provide the ultimate protection.



The device begins its journey as steel billet. Quality and purity of the steel is critical – it must be free from inclusions to generate a defect free surface.



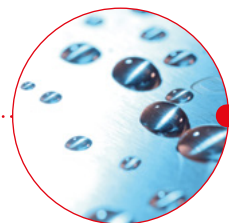
The device is machined to tight tolerances for shape and surface perfection to ensure no leaks in the equipment.



B The device is vacuum annealed to eliminate machining stresses and to impart corrosion resistant properties.



B The part is polished to a mirror finish to eliminate any remaining surface defects.



B Bodycote's S³P processing is applied to ensure the material can withstand the harsh conditions of high speed production, wear from food and drink, and attack from cleaning chemicals.



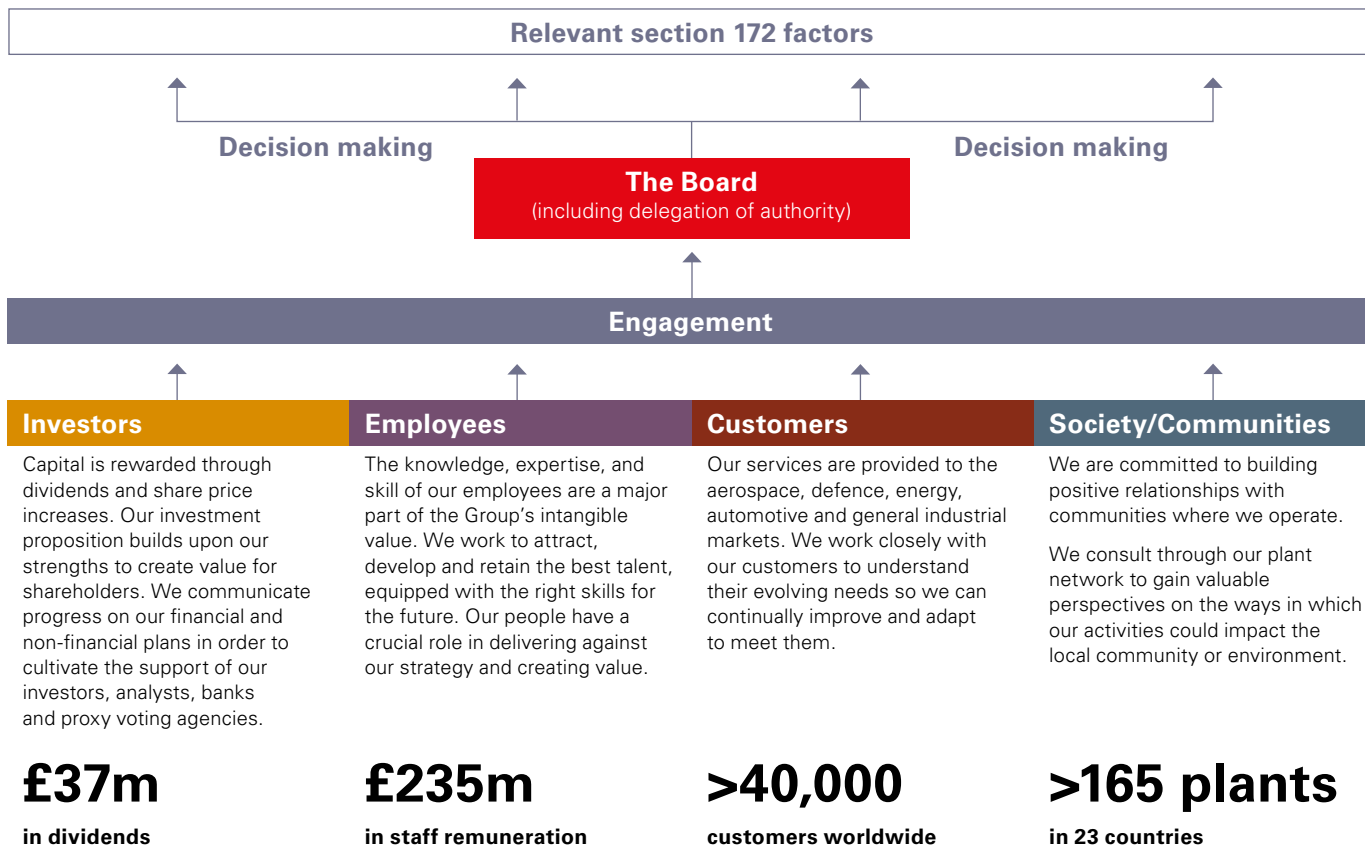
End application:
food and beverage production

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

Compliance with Directors' duties

Section 172 statement

Strategy	Performance	People	Governance
<p>At every Board meeting the Directors review, with the management team, the progress against strategic priorities and the changing shape of the business portfolio. This collaborative approach by the Board, together with the Board's approval of the company strategy, helps it to promote the long-term success of the Group. Ultimately Board decisions are taken against the backdrop of what it considers to be in the best interest of the long-term financial success of the company and the Group's stakeholders, including investors, employees, customers and society. We made strong progress with our restructuring and are in a good position for when markets recover. This further strengthens the company's underlying financial position, enabling us to pursue new opportunities for the Group within our disciplined financial framework.</p>	<p>The Board regularly reviews and monitors the Group's safety, reliability and environmental performance, with the aim of continually making Bodycote safer for our entire workforce and minimising our environmental impact.</p> <p>In 2020 a recordable injury frequency rate of 2.3 was the lowest since reporting began, while the number of injuries recorded fell by 18%. The safety, health and wellbeing of our employees will always be our highest priority. This is important to our workforce and local communities, while strong operational availability and reliability is crucial to our partners and customers.</p> <p>The Board also focuses on maintaining financial discipline and delivering strong earnings, cash flow and returns to shareholders.</p> <p>A core pillar of the Group's strategy is growth via selected acquisitions. In 2020, Bodycote acquired Ellison Surface Technologies, strengthening our Specialist Technologies business and the Surface Technology offering in particular.</p>	<p>Bodycote's workforce is key to its success. Our people help us maintain our strong reputation for high standards of business conduct, which is fundamental in delivering our purpose to support our customers in producing superior components.</p> <p>Bodycote operates Employee Engagement Groups on a bi-annual basis which are chaired by a Non-Executive Director. The feedback from these forums is reported to the Board and the Executive Directors charged with addressing any particular items that arise. In 2020 these forums were held electronically. Feedback was generally very positive and no material concerns were expressed by employees during the year.</p>	<p>The Board, led by the Chair, believes that strong governance is essential to the success of the company. The Board regularly commissions the external evaluation of its performance, which most recently took place in 2018. The Board discussed the findings of this review and recommendations, such as the recruitment of an additional Non-Executive Director to the Board, have been implemented. The governance framework continues to drive the highest levels of business standards and best practice, aligning these with Bodycote's business purpose, values, strategy, and culture. The Board will continue to assess and monitor culture and will look to obtain useful insight through effective dialogue with our key stakeholders, taking feedback into account in the Board's decision-making process.</p>



Section 172 cross reference

The Board, in line with their duties under section 172 of the Companies Act 2006, must act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of the shareholders. Our Directors must also have regard to the likely long-term consequences of their decisions, and the impact that these may have on the Company's key stakeholders. Further information about how these duties have been applied can be found throughout the Annual Report.

Section 172 duties	Key examples	Page
Consequences of decisions in the long term	Strategic progress	13, 16-17
	Board activities in the year	20-21
	Restructuring	12-13
	Financial report	25-27
	Going Concern and Viability statements	27, 34
	Principal Risks	29
Interests of employees	Chair and Chief Executive statements	10-13
	Our stakeholders	18
	Environment, Social and Governance report	36-43
	Board activities in the year	18, 20-21
Fostering business relationships with suppliers, customers and others	Our stakeholders	10-13, 18
	Environment, Social and Governance report	36-43
	Board activities in the year	50-53
Impact of operations on the community and the environment	Environment, Social and Governance report	36-43
Maintaining high standards of business conduct	Environment, Social and Governance report	36-43
	Corporate governance statement	46
Acting fairly between members	Shareholder engagement	20

The table on page 18 sets out our key stakeholder groups and how they were engaged with directly and indirectly by the Board throughout the year.

Business review

Bodycote has more than 165 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 that tend to operate on a regionally-focused basis and numerous medium-sized and smaller businesses, 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. 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 grow our business 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.

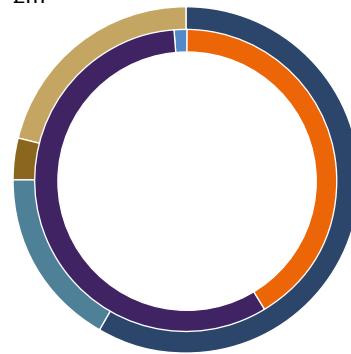
Revenue in 2020 was £249.2m, a decrease of 17% (17% at actual rates), including the benefit of the contribution to revenues from the Ellison acquisition. On an organic basis, the full year decline was 25% (25% at actual rates), including a 34% decline (35% at actual rates) in the second half. Organic civil aerospace revenues declined 35% in the full year, registering a 50% decline in the second half. Energy revenues also declined significantly.

As a consequence of the decline in revenues, headline operating profit dropped to £36.8m (2019: £75.8m), and headline operating margin decreased to 14.8% (2019: 25.1%). Reflecting the exceptional restructuring charge, statutory operating profit declined to £12.1m (2019: £73.4m).

In light of the revenue declines, we only spent £2.2m on expansionary capital expenditure as we have plenty of capacity available to service these lower volumes.

Return on capital employed decreased to 10.3% (2019: 24.2%) as a result of the lower profitability.

ADE revenue by market sector and geography
£m



Market sector

● Aerospace and Defence	145.6
● Energy	41.5
● Automotive	9.7
● General Industrial	52.4
Total	249.2

Geography

● Western Europe	103.1
● North America	143.3
● Emerging Markets	2.8
Total	249.2

The AGI Business



Our extensive network of more than 100 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.

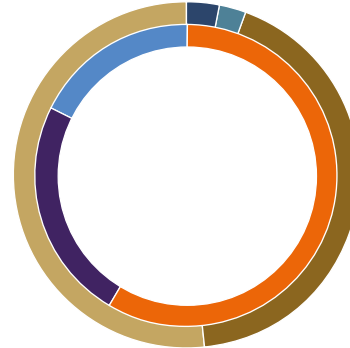
The following review reflects constant currency growth rates unless stated otherwise.

Revenue was £348.8m, a decline of 16% on the prior year (17% at actual rates).

Headline operating profit was £41.0m (2019: £65.9m), and headline operating margin correspondingly declined to 11.8% (2019: 15.8%). However, given that the revenue decline in the second half was lower than that in the first half and much of the action on costs was beginning to take effect as the year progressed, AGI's headline operating margin in the second half was actually flat on the 2019 level at 15.0%, representing a creditable achievement and placing the business in good shape to benefit from further revenue recovery. Reflecting the exceptional restructuring charge, statutory operating profit declined to £1.6m (2019: £62.0m).

We spent £16.4m on expansionary capital expenditure. Return on capital employed decreased to 8.8% (2019: 13.8%), reflecting the lower profitability.

AGI revenue by market sector and geography £m



Market sector

● Aerospace and Defence	11.0
● Energy	9.2
● Automotive	149.3
● General Industrial	179.3
Total	348.8

Geography

● Western Europe	203.7
● North America	83.5
● Emerging Markets	61.6
Total	348.8

A component journey

Standing the test of time – Luxury watchmaking

A luxury watch is a highly engineered, precision work of art, often consisting of as many as 300 components.

Chronographs, pilot's watches, diving watches, and mission timepieces are designed to perform both in demanding conditions but also in everyday life. While significance is placed on aesthetic design, the quality and longevity of components is equally important.

Bodycote's S³P (Specialty Stainless Steel Processes) technology provides the ultimate long-lasting protection against surface scratches whilst preserving the metal's appearance.



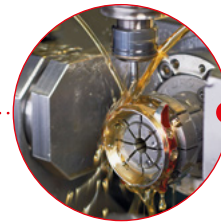
The first step of the manufacturing journey involves a 3D virtual design of all the watch's parts, such as bezels, seals, crowns, cases, backs etc.*



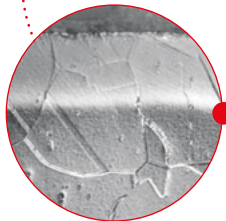
The watch case begins its journey as a steel billet. An austenitic stainless steel with high nickel and chromium content is selected for its non-magnetic properties and corrosion resistance. Quality and purity of the steel is critical to guarantee functionality and an optimal surface.



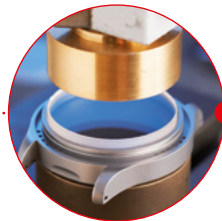
Grinding and polishing is used to achieve a smooth and uniform surface.*



The case – a complex 3D shape – is machined from a disc or circular blank to tight tolerances, to meet the demands of specification and functionality.*



B Bodycote's S³P technology is applied to bezels, cases and straps to provide an exceptionally wear and scratch resistant surface. The hardening process has no negative effect on the appearance or natural corrosion resistance of the steel.



The utmost precision is required when pressing the sapphire crystal glass into the hardened watch case.*



The watch is tested for performance – a diving watch, for example, must withstand a 125 bar (nominal) pressure test.*



The individual watch components – up to 300 parts – are manually assembled.*



End application:
the perfect timepiece – a scratch resistant, high quality watch

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

* Photos courtesy of Sinn Spezialuhren GmbH and SUG GmbH

Chief Financial Officer's report



Headline operating cash conversion was 173% as the Group continues its great track record of converting profit into cash.

D. Yates
Chief Financial Officer

Financial overview

	2020 £m	2019 £m
Revenue	598.0	719.7
Headline operating profit	75.3	134.9
Amortisation of acquired intangible assets	(9.8)	(4.6)
Acquisition costs	(2.1)	(1.7)
Exceptional items	(58.4)	–
Operating profit	5.0	128.6
Net finance charge	(6.5)	(4.7)
(Loss)/profit before taxation	(1.5)	123.9
Taxation credit/(charge)	2.3	(29.9)
Profit for the year	0.8	94.0

Group revenue was £598.0m, representing a decline of 16.9% at actual exchange rates, and 16.6% at constant currency.

Headline operating profit for the year declined by 44% to £75.3m (2019: £134.9m), and headline operating margin was a resilient 12.6% (2019: 18.7%). Statutory operating profit declined to £5.0m (2019: profit of £128.6m).

Chief Financial Officer's report continued

Finance charge

The net finance charge was £6.5m (2019: £4.7m) analysed in the table below. The reader will note the inclusion of interest on deferred consideration resulting from the acquisition of Ellison Surface Technologies in April 2020, with final consideration due in April 2021.

	2020 £m	2019 £m
Interest received on bank overdrafts and loans	0.2	0.2
Interest on deferred consideration	(0.8)	–
Loan interest payable	(0.7)	(0.3)
Interest on lease liabilities	(2.2)	(2.4)
Financing and bank charges	(2.9)	(1.9)
Pension finance charge	(0.1)	(0.3)
Total finance charge	(6.7)	(4.9)
Net finance charge	(6.5)	(4.7)

As at 31 December 2020, headroom on the Group's £251m Revolving Credit Facility was £199.2m and has a remaining life of 4.4 years.

Profit before taxation

	2020 £m	2019 £m
Headline profit before taxation	68.8	130.2
Amortisation of acquired intangibles	(9.8)	(4.6)
Acquisition costs	(2.1)	(1.7)
Exceptional items	(58.4)	–
(Loss)/profit before taxation	(1.5)	123.9

The statutory loss before tax in the year was £1.5m (2019: profit of £123.9m), while headline profit before tax decreased 47% to £68.8m (2019: £130.2m). Within the exceptional items charge, the Group incurred a restructuring charge on a targeted strategic programme to position the business for the future. Acquisition costs and amortisation of acquired intangibles rose as a result of the successful completion of the Ellison Surface Technologies acquisition in the first half.

Tax

As a result of the statutory loss, there was a tax credit of £2.3m in the year (2019: tax charge of £29.9m). In line with previous guidance, the headline tax rate, being stated before accounting for amortisation of acquired intangibles, acquisition costs and exceptional costs, was 22.5% (2019: 23.8%).

Provisions of £22.1m are carried in respect of potential future additional tax assessments related to 'open' historical tax years. Reference is made in note 8 to the financial statements for more information.

Following the acquisition of the Ellison business in the US, Bodycote is entitled to claim US tax relief over the next 15 years for purchased goodwill generating an annual cash flow benefit of £1.8m at current US tax rates. This will not impact the Group's tax rate, as, under IFRS, a growing deferred tax liability will be established in respect of any tax relief claimed.

As reported last year in April 2019, the European Commission published their decision that certain tax exemptions offered by the UK authorities constituted State Aid and, as such, will need to be recovered. The UK government 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 been assessed and there is no provision against this contingent liability. More details can be found in note 31 of the financial statements.

Earnings per share

Basic headline earnings per share fell 47% to 27.8p (2019: 52.1p) as a result of the lower headline operating profit. Basic earnings per share for the year fell to 0.2p (2019: 49.4p).

	2020 £m	2019 £m
(Loss)/profit before taxation	(1.5)	123.9
Taxation credit/(charge)	2.3	(29.9)
Profit for the year	0.8	94.0
Basic headline earnings per share	27.8	52.1
Basic earnings per share	0.2	49.4

Return on capital employed

Return on capital employed (including right-of-use assets) fell in the year to 9.8% from 17.7% in 2019. The decline reflects the reduction in the Group's headline operating profit as well as increase in average capital employed resulting from the investment in the Ellison acquisition in the first half. The Group continues to exert strong financial discipline over capital expenditure projects in order to target strong returns.

Cash Flow

	2020		2019	
	Post IFRS 16 £m	Pre IFRS 16 £m	Post IFRS 16 £m	Pre IFRS 16 £m
Headline operating profit	75.3	72.5	134.9	132.6
Depreciation and amortisation	82.0	67.2	79.6	65.1
Impairment of PPE	0.4	0.4	–	–
Income from associates	(0.2)	(0.2)	(0.2)	(0.2)
Loss/(profit) on disposal of PPE	0.6	0.7	(4.4)	(4.4)
Headline EBITDA	158.1	140.6	209.9	193.1
Net maintenance capital expenditure	(45.1)	(38.7)	(50.2)	(39.1)
Net working capital movement	17.2	17.2	(4.2)	(4.2)
Headline operating cash flow	130.2	119.1	155.5	149.8
Restructuring	(11.6)	(11.6)	(3.2)	(3.2)
Financing costs	(4.7)	(2.5)	(4.5)	(2.1)
Tax	(7.8)	(7.8)	(24.7)	(24.7)
Free cash flow	106.1	97.2	123.1	119.8
Expansionary capital expenditure	(20.0)	(19.5)	(32.2)	(32.2)
Ordinary dividend	(25.1)	(25.1)	(36.8)	(36.8)
Acquisition spend	(99.3)	(96.0)	(29.0)	(22.9)
Special dividend	–	–	(38.1)	(38.1)
Own shares purchased less SBP and others	(0.1)	(0.1)	(4.9)	(4.9)
Reduction in net cash	(38.4)	(43.5)	(17.9)	(15.1)
Opening net (debt)/cash	(58.5)	20.9	(44.1)	36.2
Foreign exchange movements	(1.2)	0.1	3.5	(0.2)
Closing net (debt)/cash	(98.1)	(22.5)	(58.5)	20.9

Despite the £59.6m decline in headline operating profit, headline operating cash flow declined only £25.3m to £130.2m (2019: £155.5m). This was a result of careful cash management, coupled with the benefit of significant working capital inflow, mainly resulting from lower trade receivables associated with the lower revenues. Headline operating cash conversion was 173% as the Group continues its great track record of converting profit into cash. Free cash flow remained strong, falling only £17.0m to £106.1m (2019: £123.1m), with a free cash flow conversion ratio of 141% (2019: 91%), despite some restructuring related outflows.

Expansionary capital expenditure and acquisitions

The Group invested £20.0m in expansionary projects, mainly related to investment in a new plant in Hungary and two new plants in North America, all in the AGI business. The two new North American plants have facilitated some of the restructuring activities undertaken during the year, which, in turn, has improved the overall quality of our operations.

The Group remains committed to invest in maintaining its assets to the highest standards of quality and safety, with repairs and maintenance expenditure maintained, despite the reduction of revenue.

In April, the Group completed the acquisition of Ellison Surface Technologies for \$200m (£154m). Within this, deferred consideration of \$79.0m (£57.8m, based on the exchange rate at 31 December) will be paid in the first half of 2021. More details on this acquisition are provided in note 25 of the financial statements.

Exceptional items

The exceptional charge for the year was £58.4m, including £35.7m of restructuring cash costs, most of which will be paid during 2021. The Group also completed an assessment of its software during the year which has resulted in an impairment of £6.2m, occasioned by the decision to invest in new ERP software.

Dividend and dividend policy

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

In line with this policy, the Board has recommended a final ordinary dividend of 13.4p (2019: 13.3p), bringing the total ordinary dividend to 19.4p (2019: 19.3p). The interim dividend of 6.0p, approved by the Board on 24 November 2020, was paid on 12 February 2021 to shareholders on the register at the close of business on 8 January 2021. The final ordinary dividend will be paid on 4 June 2021 to shareholders on the register at the close of business on 23 April 2021. In light of the net debt position at the year end on the balance sheet, the Board is not recommending a special dividend.

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 financing at a reasonable cost, based on committed and uncommitted facilities and loans to be procured 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.

In May, the Group negotiated a new Revolving Credit Facility extending the borrowing base to £251m for five years expiring in May 2025. As at 31 December 2020 £51.7m (2019: £nil) was drawn on this facility.

Facility	Expiry date	Facility £m	Facility utilisation £m	Facility headroom £m
£251m Revolving Credit	27 May 2025	250.9	51.7	199.2

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, free cash flow and return on capital employed 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 financial statements.

Going concern

As described on pages 90 to 91 of the financial statements, the directors have formed a judgement, at the time of approving the financial statements, that there are no material uncertainties that cast doubt on the Group's going concern status and that it is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In making this judgement, they have considered the impacts of current and severe but plausible consequences arising from COVID-19 to the Group's activities. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

D. Yates

Chief Financial Officer
12 March 2021

A component journey

In gear – Pinion gear

A pinion gear is a critical automotive component used in virtually all transmission units. During use, a vehicle places heavy demand on its transmission, requiring a fast and reliable response to the drive controls.

The gears require high strength and wear resistance in order to withstand the stresses applied to each gear during use. Bodycote's heat treatment processes, in particular Low Pressure Carburising (LPC), enable modern transmissions to deliver high performance and seamless response, even reducing noise during gear changes.



The gears begin life as low alloy steel.



The gears are machined to shape using a shaving or hobbing method.



The gears are dimensionally measured before heat treatment to monitor and maintain repeatability of distortion. The gears are then heat treated using LPC to enhance functionality by adding a 'case depth' to provide strength and resistance to wear and tear.



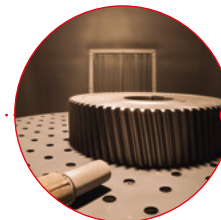
The gears are quenched using Nitrogen gas to minimise part distortion, then tempered to relieve internal stresses.



The parts are inspected and tested for surface hardness, core hardness and effective case depth.




The gears are assembled into the transmission unit.



The gears are shot peened to add compressive residual stress – this allows the parts to withstand more wear and tear. The gears are measured again after heat treatment to check any distortion is within limits.



End application:
automobile

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

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, which has continued to operate as normal throughout the COVID-19 pandemic, employing 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 Sustainability and Risk Committee which met twice during 2020. Due to COVID-19 the meetings in 2020 were held virtually rather than in person. The meetings are attended by a Vice President from each of the operating divisions, the Group Head of Safety, Health and Environment and the General Counsel. The Sustainability and Risk 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. A series of virtual risk workshops were also conducted during 2020 across all business areas, culminating in several externally facilitated risk workshops with the full Executive Committee. 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 risks has been in place throughout 2020 and a robust assessment of the principal and emerging risks had been undertaken.

The tables on the following pages highlight the major risks that may affect Bodycote's ability to deliver the strategy, as laid out on page 14. The risks to the business have been reviewed throughout the year, and it has been determined that there are three new principal risks to the Group: contract review, machine downtime and loss of key accreditations. It has also been determined that two risks previously reported as principal should no longer be reported as such: capital projects and loss of key customers. The capital project risk has been reduced by improvements in the control environment; for example, improvements in project management and the monitoring of costs. The loss of key customer risk has been re-evaluated, as no single customer loss would be significant to the Group; it would require the loss of multiple customers to become a significant risk. The loss of multiple customers would more likely be the consequence of a market downturn, poor quality, or customer service failures; all of which are principal risks in their own right.

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 internal controls and other risk mitigation actions.

Details of the Group's financial risks (liquidity, credit, interest rate and currency), which are managed by the Group's treasury function, are provided in note 20 to the financial statements. The mitigating activities described below will 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 UK formally left the EU at the end of the Brexit transition period on 31 December 2020. Cross-border trading between the UK and the EU member states continues to be a very small part of the UK business with the majority of the businesses served through locally situated plants. Consequently, there is no change to the view that Brexit does not present a material risk to the Group.

Emerging risk

Bodycote's emerging risk identification process was introduced in 2019 and is based on horizon scanning. This process takes place alongside the annual risk review, with emerging risks being considered in facilitated risk workshops, including those conducted with the Executive Committee.

Each emerging risk is assessed on its potential impact on the Group on a high, medium or low rating across three time horizons: 0-2 years; 2-5 years; more than five years. The 2019 emerging risk process identified a number of potential risks to the Group posed by the wider effects of climate change on Bodycote's business. This has also been reflected in the 2020 review. The emerging risk review identified four risks, three of which were highlighted in 2019 and one new risk which has been added in 2020. The previously identified emerging risks are:

The acceleration in the transition to electric vehicles (EV); EVs tend to have fewer components that require heat treatment and this could reduce the number of components Bodycote has to process. However, to capture more of this growing market, Bodycote has already started to position itself as the supplier of choice to EV manufacturers and OEMs. It is also the case that Bodycote has a very strong market position in the technologies that are likely to be more favoured in the production of electric vehicles.

Continued environmental activism around climate change has started to influence some consumers to reduce their carbon footprints. There is the potential that this could start to impact some of the sectors Bodycote operate in, such as civil aerospace.

Greater geopolitical risk, with increased international tensions, tariffs and other barriers to international trade. If countries pursue aggressive trade barriers that reduce the movement of goods this could result in companies having to move their production locations. As Bodycote sites tend to be located in close proximity to our customers this could result in Bodycote having to relocate facilities.

The COVID-19 pandemic, as well as the potential for more pandemics in the future, has been added as a new emerging risk in 2020, including its long-term effects for which the full impacts are still not known. The pervasive impact of COVID-19 on the Group has been reflected throughout the identified risks.

Principal risks and uncertainties continued

Risk description	Risk rating	Mitigation and control	Relevance to strategy		
Market and customer risks					
<p>Markets</p> <p>Bodycote operates in 23 countries, and the Group's revenues are closely linked to general macroeconomic trends and the economic environment. The economic environment continues to be impacted by global issues such as COVID-19, which developed in early 2020. As events have shown, COVID-19 had a material impact on the markets in which Bodycote operates. There has been a significant revenue decline in a number of market sectors and the pace and extent of the revenue recovery is uncertain, although the rollout of vaccine programmes is certainly a positive development.</p>	<p>Increasing</p> <p>The high proportion of short-term fixed costs in the business means that a drop in sales can have a significant impact on profitability.</p>	<ul style="list-style-type: none"> – 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. – As demonstrated during 2020, Bodycote has demonstrated good short-term flexibility in managing its cost base. On a like-for-like basis, Bodycote achieved operational gearing (the change in profitability divided into the change in revenues) of 41%. 	<p>1 2 3 4 5</p>		
<p>Competitor action</p> <p>The entry of competitors into one or more of the Group's Specialist Technologies.</p>	<p>Stable</p> <p>The entrance of new competitors could result in the erosion of market share with a loss of revenue and profitability. Indeed, there are a few new small and mid-sized HIP furnaces being installed by competitors. So far, however, investments in large HIP furnaces, where Bodycote has a very strong market position, has been limited.</p>	<ul style="list-style-type: none"> – The close control of proprietary knowledge. – Rapid increase in the scale of the Group's offerings to maintain the position as supplier of choice. – A focus on customer service to ensure that satisfied customers have no cause to seek alternative suppliers. – There are high financial barriers to entry. 	<p>3</p>		
Corporate and community risks					
<p>Safety and health</p> <p>The inherent nature of Bodycote's activities presents safety and health risks that have been increased by the additional health threats that COVID-19 has presented.</p>	<p>Stable</p> <p>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.</p>	<ul style="list-style-type: none"> – Group-wide health and safety policies developed by the Group Head of SHE, ratified by the Sustainability and Risk Committee and approved by the Chief Executive. – OHSAS 18001 and ISO 14001 compliant SHE management systems being used by the Group Head of Safety, Health and Environment with support of divisional safety, health and environmental teams. – Programme in place to focus on reduction of incidents which could have a high impact. – Safety compliance audits at all plants at least every two years. – Oversight of safety and health framework provided by the Sustainability and Risk Committee. – Bodycote facilities responded proactively, and positively, to COVID-19. Where required, facilities and offices closed ahead of any local requirements to allow remote working for office based staff. Additional precautions have also been adopted in all plants with new SHE guidance including temperature checks, additional PPE, social distancing measures and staff communication and discussion sessions. 	<p>1</p>		
<p>1 Safety and Environment</p>	<p>2 Driving operational improvement</p>	<p>3 Capitalising on and investing in our Specialist Technologies</p>	<p>4 Investing in Emerging Markets</p>	<p>5 Investing in structural growth opportunities</p>	<p>6 Acquisitions</p>

Risk description	Risk rating	Mitigation and control	Relevance to strategy
Environment, social and governance			
<p>Environment</p> <p>Actual or potential environmental contamination in any of our facilities could lead to health risks, disruption of business, financial costs and loss of reputation.</p> <p>By its very nature, heat treatment also consumes a significant amount of energy and consequently, Bodycote is likely to receive increased scrutiny in the future in relation to emissions and climate change.</p> <p>Social and governance issues are also climbing the agenda of many regulatory bodies, as well as all stakeholders, including shareholders.</p>	<p>Increasing</p> <p>Investors and stakeholders are increasingly seeking 'best in class' companies across a growing set of ESG criteria. Bodycote is committed to continuous improvement in the management of corporate responsibility issues and is implementing policies and initiatives to further this goal. The future success and growth of the Group is intrinsically linked to our ability to ensure the Group's operations are sustainable.</p>	<ul style="list-style-type: none"> – We manage, measure and report our impacts, risks and opportunities in environmental and social areas through the TCFD model (as described on pages 36 to 37). – Environmental procedures and measures in place conforming to ISO 14001. – Remediation of contaminated sites or additional emissions abatements. 	<p>①</p>
Operational risks			
<p>Service quality</p> <p>The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification to an agreed time.</p>	<p>Stable</p> <p>There is a risk that a 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 human failure. Customers are tending to demand higher liabilities in respect of any quality defects or delays on Bodycote's part.</p>	<ul style="list-style-type: none"> – Bodycote has stringent quality systems in place managed by qualified staff. – Quality systems and processes operated at plant level with oversight by divisional quality teams. – Where necessary, plants maintain industry relevant accreditations, such as ISO 9001, Nadcap and IATF 16949. – Each facility has regular audits by quality staff, accreditation bodies and customers. 	<p>②</p>
<p>Contract review</p> <p>Parts that are not treated according to the confirmed specifications can lead to customer claims and reputational damage. Ensuring that all specifications' changes are properly recorded and formally agreed with the customer is, therefore, extremely important. Customers can also reject parts if they have not been processed in accordance with contractually agreed specifications, leading to lost revenues and potential compensation payments.</p>	<p>Stable</p> <p>Parts that are released into use which are not in compliance with the contractually agreed specification could arise as a result of system or human failure. Customers can amend the specification Bodycote is expected to work to and the end failure to update the process at a plant could result in parts being rejected or failing. Equally, specifications' changes requested by the customer may not have been formally agreed contractually, again, potentially leading to parts being rejected or failing. Both of these could result in material claims against Bodycote with significant reputational damage, financial penalties and a loss of future revenue.</p>	<ul style="list-style-type: none"> – Each facility has a robust quality management system with regular audits by quality staff, accreditation bodies and customers. – Bodycote carefully negotiates terms and conditions associated with the supply of services to its customers, carefully managing potential liabilities. – As this is a new principal risk this area will be specifically reviewed by Internal Audit in 2021. – Some potential damages resulting from this risk are fully or partially covered through the Group's various insurance policies. 	<p>②</p>

Principal risks and uncertainties continued

Risk description	Risk rating	Mitigation and control	Relevance to strategy
Operational risks continued			
<p>Loss of key accreditations</p> <p>Bodycote is required to maintain specific accreditations in order to provide heat treatment and thermal processing services on parts for certain customers.</p>	<p>Stable</p> <p>Bodycote facilities have accreditations from a number of different bodies, such as Nadcap for aerospace and defence work and IATF 6949 for automotive. Should a number of facilities fail to maintain their accreditations, customers could potentially move work to a competitor resulting in a loss of revenue to Bodycote.</p>	<ul style="list-style-type: none"> – Each facility has a robust quality management system with regular audits by quality staff, accreditation bodies and customers. – Should a facility fail an accreditations audit a remediation plan to fix any non-conformities would be implemented. – Bodycote has a global network of more than 165 facilities and this enables work to be transferred to another accredited facility. – As this is a new principal risk this area will be reviewed by Internal Audit in 2021 alongside the contract review risk. 	<p>②</p>
<p>Major disruption at a facility</p> <p>Bodycote's facilities are subject to man-made and natural hazards that could lead to their potential closure. Some 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, some facilities are exposed to natural hazards, such as earthquakes, flooding and storms.</p>	<p>Stable</p> <p>Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted. A number of Bodycote plants have been closed during 2020 as a result of the impact of COVID-19 on the markets in which Bodycote operates. Aside from disruptions resulting directly due to mandated closures for COVID-19, none of the Group's facilities suffered any other significant disruption during 2020.</p>	<ul style="list-style-type: none"> – Bodycote has a global network of more than 165 facilities. These facilities create a framework to provide backup capability. – Business continuity plans are in place for all plants. These are updated and tested annually. – As a response to COVID-19 in 2020 independent insurer physical inspections to facilities to assess hazard and business interruption risks did not take place. Instead, a series of self-assessment property risk questionnaires have been developed with the insurers, to ensure proper management of this risk. – Insurance cover, including business interruption cover. – Scheduled equipment maintenance and inspections. 	<p>② ⑤</p>
<p>Machine downtime</p> <p>Bodycote relies upon its operational equipment, across the network of plants, being available to meet the requirements of its customers.</p>	<p>Stable</p> <p>Significant periods of equipment downtime, for example, as a result of breakdowns would impact customer service. Moreover, without an effective preventative maintenance programme, more equipment redundancy needs to be built in to facilities in order to cope with unexpected equipment breakdowns.</p>	<ul style="list-style-type: none"> – A project is underway to further study and mitigate the risk, for example, by using maintenance data to develop a comprehensive preventative maintenance programme. – Bodycote has a global network of facilities with robust business continuity plans to minimise the impact of equipment downtime. 	<p>② ⑤</p>

Risk description	Risk rating	Mitigation and control	Relevance to strategy
Operational risks continued			
Information technology and cybersecurity	Increasing	<ul style="list-style-type: none"> – The Group has robust governance processes to ensure that IT projects are adequately reviewed and approved to ensure that they are consistent with the Group’s IT Strategy. – Increased focus on IT security management processes. – Bodycote maintains a focus on improving information security and has well-protected data centres supported by effective business recovery planning and data back-up procedures. 	②
<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.</p>	<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 and financial loss.</p>		
Regulatory risks			
Regulatory and legislative compliance	Stable	<ul style="list-style-type: none"> – Business processes are supported by Human Resources policies and the Group Code of Conduct alongside training and awareness programmes. – The ‘Open Door Line’ whistleblower facility operated by a third party. – Engagement of specialists to support Bodycote at local, divisional and Group levels. – Regular audits of the effectiveness of implemented procedures. – The Group continues to monitor developments around the EU State Aid case. 	②
<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, employment law and import and export controls. The Group also has to comply with taxation legislation and the EU have challenged as illegal state aid, the advantages associated with the UK’s controlled foreign companies that the Group has employed in its financing structures.</p>	<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>		

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 2020 financial year. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern (on pages 90 to 91). 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 normal 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. The performance of the Group over the period of the assessment is then assessed against the covenants that exist in the Group's Revolving Credit Facility, as explained on page 117, and the Group's liquidity.

In conducting the review of the Group's prospects, the Directors assessed the three-year forecasts 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 43). 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 financial forecasts. These forecasts assume that 2023 revenues are still some way below those in 2019 for most of the business and management consider this to be conservative. The principal risks were then applied to this conservative forecast in a number of diverging scenarios. The developed scenarios were designed to be plausible, yet severe. Examples of the scenarios reviewed were:

- A further 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. These scenarios, applied on top of the conservative underlying cash flows, are considered by the Directors to be severe, but plausible, as they incorporate potential financial impacts identified in our principal risks and uncertainties, specifically market and operational risks. In all scenarios there were no breaches to the Group's covenants, and substantial covenant and liquidity headroom was maintained.

In making this viability statement the Directors considered the mitigating actions (such as reducing discretionary capital expenditure) that may be taken by the Group in the event that the principal risks of the Company become realised but note that none of these actions were modelled in performing the assessment since the Group maintained substantial headroom in the combined scenario.

The Directors also took into consideration the Group's financial position at 31 December 2020, with available liquidity of £228.4m and a history of strong and resilient cash flow generation. Uncommitted facilities were not taken into account in performing the assessment, and there is no requirement for refinancing in the viability period given the Group's RCF extends to May 2025.

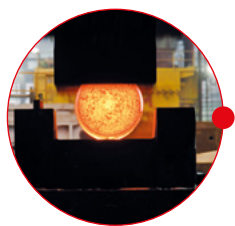
The Directors have assessed the viability of the Group and, based on the procedures outlined above in addition to activities undertaken by the Board in its normal course of business, confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2023.

A component journey

Strong profile – Aluminium dies

Aluminium extrusion dies are used to manufacture aluminium profiles for a wide range of industries.

During their working life they are subject to erosion and wear and this can cause defects in the aluminium parts they are used to produce. Bodycote's nitriding processes improve the surface properties of these dies, providing optimal durability and wear resistance.



The metal die begins life as forged steel bar.



A section is cut from the bar and machined to the die shape required.



The part undergoes a stress-relieving heat treatment to eliminate material stresses introduced during the forging process.



The die is nitrided using a low pressure process. The introduction of Nitrogen into the surface gives increased hardness, toughness and ductility.




The part is inspected and its core hardness is tested against specification.



The die is finish machined using processes such as grinding, EDM and polishing.



End application:
Aluminium profiles are used for a wide variety of applications, such as window profiles

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

Environment, Social and Governance

Our approach to sustainability

Bodycote's Core Values provide a framework for how we operate as a Group and the behaviours we embody when acting as a good corporate citizen. Respect and Responsibility are part of Bodycote's Core Values demonstrating our commitment to reducing the environmental impact of our activities while providing our employees a safe working environment.

Our sustainability approach focuses on the broader impacts we have on the environment, the communities where we operate, our employees, shareholders, and society as a whole. Bodycote's stakeholder model shows how its interactions on various levels contribute towards socio-economic growth and development. We seek to understand and build mutually beneficial relationships, allowing for Bodycote's growth and sustainability, which in return provides benefits to employees, investors, customers, and society.

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

The services Bodycote supplies to its customers improve the lifespan of products and enable a reduction in the environmental footprint of their components. The services we offer are more efficient and productive than our customers' in-house operations, enabling the benefit of reduced carbon footprint, which our customers highly value, allowing us to create superior shareholder returns. We continually seek to minimise environmental impact and as such we have embarked on our path to net-zero carbon.

Our positive impact

As a thermal processing services provider, climate-related issues affect the way we develop new processes and how we manage existing ones.

We process our customers' goods in a concentrated way and at much higher efficiency levels than individual customers can achieve. Our services enable a positive impact in the carbon footprint of our customers' activities by increasing the usability of their products, improved metallurgical properties and enhanced corrosion resistance. By working with our customers in the most environmentally friendly manner possible, we can reduce the total carbon footprint on products being brought to market.

Thermal processing is an energy-intensive business; its use saves the energy it consumes many times over. By effectively consolidating our many customers' heat treatment requirements, we significantly reduce the overall required energy consumed compared with the energy that would be consumed if each customer treated their products in-house.

Governance

We manage and measure our impacts, risks and opportunities in regard to environmental and social impacts through the Task Force on Climate-Related Financial Disclosures (TCFD)¹ model:



Governance

Our Sustainability and Risk Committee, reporting to the Executive Committee, oversees the management of our climate-related risks and opportunities. Stephen Harris, our Group Chief Executive, has overall accountability for the environment and sustainability. As part of his role, he oversees the review and performance of our environmental and climate-related work.

Strategy

Bodycote takes a proactive approach to improve sustainability and energy efficiency. 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 operations but also those of our customers. Bodycote operates efficiently, working around the clock to optimise treatment processing cycles. Without Bodycote, many companies would be using older in-house technology and running their equipment at reduced capacity, draining energy resources. Working with Bodycote enables our customers to commit more easily to carbon reduction initiatives. Our proactive carbon reduction initiatives are throughout operations and extend to our service offering by encouraging customers to switch to more efficient processes such as Gas Nitriding or our Specialist Technologies including Low Pressure Carburising, Corr-I-Dur, Surface Technology, and Speciality Stainless Steel Processing (S³P); all of which have an inherently low carbon footprint. As a company, we are building a path to net-zero carbon.

Bodycote is committed to reducing its carbon emissions in accordance with the Paris Agreement on Climate Change, reducing energy consumption and carbon emissions for the benefit of the business and society as a whole. Our business strategy involves continuous improvement of business processes and systems. When managing our plants, we have a significant focus on energy and carbon reduction, ensuring our plants operate as efficiently as possible. As a result, our strategy centres around the concept of continual improvement which ensures a high degree of both climate and financial resilience.

¹ Task Force on Climate-Related Financial Disclosures (TCFD) The TCFD has developed a framework to help public companies and other organisations more effectively disclose climate-related risks and opportunities through their existing reporting processes.

Risk management

Each year, senior managers from various business areas collate their key risks, including sustainability and climate change-related risks. The Executive Committee and the Board assess the risks to understand their severity, likelihood and the optimal controls and/or mitigation required.

The supply chain for Bodycote's businesses is principally energy in the form of natural gas and electricity. Bodycote does not use fuel oil. In addition, Bodycote consumes the industrial gases Nitrogen, Argon, Ammonia (NH₃) and some Hydrogen. Bodycote has no raw materials supply chain other than marginal amounts of base metals. As such there is no raw material supply chain risk. Clearly any risk to the supply of energy puts Bodycote at risk of being unable to provide its thermal processing services.

Metrics and targets

We measure the material impacts and outputs from our business based on standards and regulations as are relevant to our operations and these are reported throughout this section of the report.

Environment

As the world's leading provider of thermal processing services, Bodycote plays an important role in minimising climate change. By effectively consolidating, our many thousands of customers' heat treatment requirements, 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.

Bodycote's services reduce our customers' carbon footprint by increasing the lifespan of their products by improving metallurgical properties, and enhancing corrosion resistance. For example, Surface 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.

Carbon footprint

Bodycote offers some of the most energy-efficient processes available on the market place, strives to ensure full capacity utilisation, thereby providing maximum benefit to the client, the company and the environment. Bodycote has been able to reduce our carbon footprint with a 14% reduction in total carbon emissions since 2018. Our total carbon footprint is positively impacted by every customer who works with us to move from atmospheric treatments to our Specialist Technologies, particularly LPC, Corr-I-Dur, S³P, as well as gas nitriding and vacuum heat treatment. These processes are more efficient than the classical atmospheric carburising heat treatments that companies typically use if they process the work in-house.

Year-on-year, Bodycote continuously improves our energy consumption through investments in energy improvement projects. Projects to reduce energy consumption vary in size and scope and collectively help us on our path to net-zero. The projects are as simple as upgrading to ultra-efficient lighting systems or installing solar panels or a broader directive to purchase renewable energy where possible.

The total global energy consumption reduced by 6% in 2020 compared with the previous year.

Total Global Energy Consumption

	Global energy consumption kWh	
	2020	2019
Scope 1	762,220,152	773,786,598
Scope 2	494,124,666	569,018,057
Total Energy Consumption kWh	1,256,344,818	1,342,804,654

As individual facilities and as a Group, one of our core competencies is to manage energy efficiently, reducing our carbon footprint and creating value for our shareholders.

We actively minimise energy use in a number of ways, optimising production capacity and providing energy-efficient processes. This is supplemented by an effective equipment maintenance programme to ensure that equipment consistently operates at highly effective and efficient levels. It is essential to the business that we monitor energy usage to identify opportunities for improvement so that we can react quickly to address any deficiency in our energy use. To facilitate this, we align ourselves in many countries to ISO 50001 (Energy Management Systems Standard), allowing a consistent approach to energy measurement. Doing so will enable us to meet the Energy Efficiency Directive 2012/27/EU requirements. The UK remains compliant with the directive through the Energy Savings Opportunity Scheme (ESOS).

Bodycote's total CO₂e emission data is based on Scope 1 and Scope 2, and data relating to this has been calculated to include country-specific electricity conversion factors from the International Energy Agency (IEA). 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, natural gas and LPG consumption information from each facility every month. The Group then applies the DEFRA and International Energy Agency (IEA) published national carbon conversion factors to calculate the total tonnage of CO₂e produced, which along with the geographical sales for the year provides the normalised tCO₂e per £m of sales.

Environment, Social and Governance continued

In 2020, Bodycote's total carbon emissions (ktCO₂e) reduced by 8% compared with the previous year.

The total CO₂e emissions per £m sales in 2020 were 486.0 Te (2019: normalised[†] 427.2 Te). The impact of COVID-19 has meant throughput of customer product has fluctuated; notwithstanding this the energy used in the processes remains the same.

All entities and facilities under financial control are included within the disclosure. Emissions less than 1% of the Group's total CO₂e relating to fugitive emissions and owned vehicles are not significant and are excluded. As such there are no significant omissions from this disclosure.

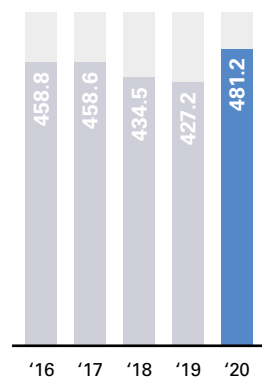
Total Global CO₂ Emissions

	CO ₂ e emissions (ktCO ₂ e)		
	2020	2019	2019 (normalised)
Scope 1	140.4	142.6	142.5
Scope 2	150.3	174.4	167.4
Statutory total ²	290.6	317.0	309.9

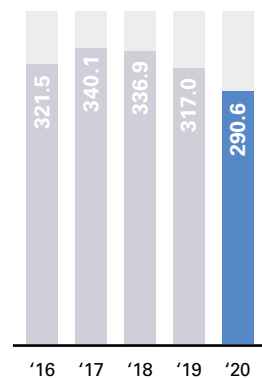
CO₂ Emissions Intensity Ratios

	Intensity ratio CO ₂ e emissions (tCO ₂ e/£m) ³		
	2020	2019	2019 (normalised)
Scope 1	234.7	198.1	196.4
Scope 2	251.3	242.3	230.8
Statutory total ²	486.0	440.4	427.2

Carbon emission normalised
(tonne CO₂e/£m
sales normalised)



Total global carbon emissions
(ktCO₂e)



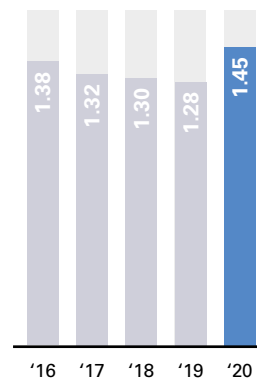
Water

Bodycote reduces water consumption wherever possible; Bodycote's processes by design are not intensive in water consumption, and often, water is reused. However, during some services, minimal water is used for either cooling operational equipment or washing customer parts and is recycled. Any water discharge resulting from these operations is controlled using for example, measures such as interception tanks to capture water discharged. This allows the water to be checked for any contaminant levels and ensuring it is of an acceptable level prior to final discharge. Both internal and external auditing verifies all such control measures are in line with ISO 14001:2015 to ensure compliance with legal obligations.

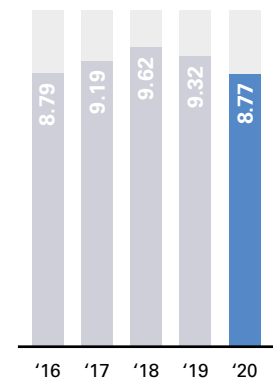
The total water consumption, as a ratio of thousand m³ per £ million sales (10³m³/£ m), increased by 13%. In 2020 total water consumption reduced however this was primarily driven by lower production hours in 2020.

When reviewing the actual total water consumption, there is a 6% decrease in 2020 from 2019, and a 9% reduction since 2018.

Water consumption normalised
(10³m³/£ million sales normalised)



Total global consumption
(x100,000 m³)



[†] Normalised statistics restate prior-year figures using current year IEA carbon conversion factors and current year average exchange rates

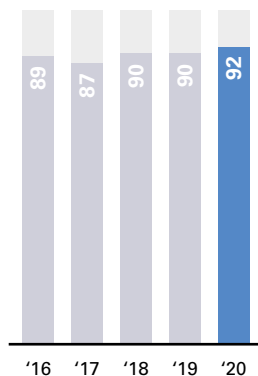
² Statutory carbon reporting disclosures required by Companies Act 2006

³ tCO₂e/£m as a consumption intensity ratio to sales is defined as tonnes of CO₂ equivalent per million GBP of sales and is denoted as tCO₂e/£m

ISO 14001 accredited facilities

Reducing the environmental impact of Bodycote's activities is taken very seriously. The actions we undertake to reduce our environmental impact will align all our facilities to the compliance requirements of ISO 14001. At the end of 2020, 92% (155 of our operating facilities) had achieved or maintained ISO 14001: 2015 accreditation (2019: 90%). The accreditation rates for 2020 have increased. The remaining thirteen facilities will achieve ISO 14001 in 2021.

ISO 14001 accredited facilities (%)



Waste

Bodycote provides services to our customers, and as such, most of the customers' parts that arrive in packaging or containers are returned to the customers in the same packaging or containers. Not only does this practice reduce environmental impact and the waste produced, but it provides efficiency to our customers. Therefore, direct waste is not a significant environmental impact and 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.

Streamlined Energy and Carbon Reporting (SECR) for UK listed companies and their UK subsidiaries

Electricity, natural gas, LPG and transportation fuel consumption information is collected from each facility on a monthly basis. The DEFRA conversion factors are then applied to calculate the total tonnage of CO₂e produced.

Bodycote PLC and UK subsidiaries total CO₂e emissions (ktCO₂e) for 2020 were 13.4. 100% of Bodycote PLC and its UK subsidiaries energy consumption was consumed in the UK.

PLC and UK Subsidiaries 2020

	CO ₂ e emissions (ktCO ₂ e)	Energy Consumption kWh
Scope 1	4.6	24,809,194
Scope 2	8.6	36,949,645
Scope 3	0.1	515,662
Total	13.4	62,274,501
Proportion of energy consumed in the UK		100%

Supporting the manufacture of electric vehicles...



The evolution of the electric vehicle (EV) is speeding up; greater consumer awareness of the environmental impact of vehicle emissions and improvements in charging infrastructure and distance range are increasingly leading the consumer towards electric vehicles.

Bodycote expertise in the automotive market and our global approvals mean we are the trusted partner for component manufacturers and OEMs. We are preparing for the future with our customers' needs in mind. Our Emerging Market facility investments support the growth in the EV market. In particular, our Vlkánova, Slovakia and Prague, Czech service EV vehicle components. The new Budapest facility in Hungary will open in 2021 and will support the expansion of EV and Hybrid vehicle manufacturing in the region.

As technology progresses in the electrification of cars, buses, and trucks; the market for electric vehicles is significantly expanding. Bodycote is supporting our customers around the world with solutions that enable the particular challenges faced by manufacturers of these types of vehicles.

Electric vehicles require lighter components machined to tighter tolerances. Modern thermal processing techniques have allowed design engineers and manufacturers to reduce component weight and at the same time significantly prolonged component lifetimes.

For example, by treating the transmission rings and gear components used in EVs and hybrids, the weight of the vehicle is reduced, which in turn leads to improved efficiency. Without thermal processing and in particular Bodycote's Specialist technologies, the electric vehicle would weigh substantially more and require frequent replacement of parts due to wear resulting in more mining, more transport, more machining, more waste – in short, a significant environmental impact.

Environment, Social and Governance continued

Social

During 2020, individually and collectively, we faced new and unique challenges. Within Bodycote, our priority will always be the safety and wellbeing of our people.

Our sustainability approach focuses on the broader impacts we have on the environment, the communities where we operate, our employees, shareholders, and society as a whole. Bodycote's stakeholder model (see page 17) shows how its interactions on various levels contribute towards socio-economic growth and development. Our people are at the heart of our sustainability activities.

Bodycote is dedicated to improving the management of sustainability 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 Group's strength is based on its people and we strive to support our employees' health and wellbeing while driving a performance culture of business understanding and shared Core Values. We employ proactive individuals who embody our Core Values and ensure they are qualified to support 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 the local and Group level. The Group is committed to providing the appropriate skills and training to allow its employees to operate effectively and safely in their roles and deliver results. Regular internal satisfaction surveys are undertaken that provide feedback on the level of satisfaction of centrally provided services. Overall satisfaction reaches appropriate levels.

We use performance management tools globally to track skills, competency progression, and annual achievements throughout our management population. By communicating clear directions coupled with skills development, the organisation aims to raise its management capability in driving performance.

Response to COVID-19

The COVID-19 Pandemic compelled Bodycote to be agile in its response to safeguard the wellbeing of our employees, our customers as well as the business. This resulted in balanced, socially responsible approach resulting in changing work environments, work from home for some employees at short notice and temporary mandatory shutdowns of some locations.

The rapid implementation of new safety measures highlights the resilience and commitment of our people. During these unprecedented times, Bodycote communicated often, providing the latest information and worked with individuals to offer the highest level of flexibility.

Equality, diversity and inclusion

Bodycote recognises the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability into the future. As such, we regularly review our recruitment and working practices to identify how we can continue to attract and retain a diverse workforce. We recognise that diversity and an inclusive workplace enriches our solutions and adds value for our stakeholders. Per our Equality, Diversity and Inclusion Policy and Recruitment Policy we maintain equal opportunities; we give full and fair consideration to all employment applicants. Recruitment, training, reward, and career progression are based purely on merit. We embrace a culture of acceptance and inclusion, accommodating part-time, agile, and flexible working requests.

Bodycote supports employees with a set of policies that fortify our culture and Core Values. The policies help the organisation 'do the right thing' every time. Our employment policies are non-discriminatory and comply with all current legislation to engender equal opportunity irrespective of age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual orientation, political or philosophical opinions or trade union membership. Due to the nature of our business, we operate with a multi-cultural team and encourage inclusivity throughout the Group. Harassment of any kind is not tolerated.

Female representation on our Board during 2020 was 38% (2019: 43%) and at senior manager level it is 30% (2019: 25%). Females represent 18% (2019: 19%) of our total workforce.

	Male	Female	Total	Male	Female	Total
Directors	5	3	8	62%	38%	100%
Managers	47	20	67	70%	30%	100%
Other staff	3838	807	4672	82%	18%	100%
	3890	857	4747	82%	18%	100%

The overall UK gender pay gap figures are published on our website www.bodycote.com. The UK mean gender pay gap is 4% in favour of women.

Health and well-being

Bodycote has a long history of supporting the health and wellbeing of our employees. However, in 2020, due to the changes brought on by COVID-19, maintaining a healthy workplace took new additional measures. Our local management and the Safety, Health, and Environment team reacted ahead of local guidelines to implement measures to protect employees and their families. Through increased communications, adapting workspaces, flexibility and continuous improvements, Bodycote put employees' health and safety as the number one priority.

We recognise that individuals work best and can achieve sustainable high-performance over time when they are healthy and feeling valued. Bodycote promotes an environment that encourages line management to support the health and wellbeing of all employees. Bodycote encourages facilities to initiate wellness programmes and the Company sponsors worldwide fitness and wellbeing activities.

Culture and Core 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

As an international business, Bodycote's Human Rights policy is consistent with the Universal Declaration of Human Rights and the UN Global Compact's ten principles, and the Group's Human Rights Policy applies to all our businesses worldwide.

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 orientation, gender reassignment, pregnancy, and maternity or paternity, 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 and Equality, Diversity and Inclusion Policy on 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, which is our third-party confidential whistleblower's programme, 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 and our Equality, Diversity and Inclusion Policy.

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

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.

The Anti-Slavery and Human Trafficking Statement is published on our website and reviewed by the Board of Directors annually.

Suppliers

Bodycote's operations are such that the Group does not have 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. We manage our suppliers with respect, honesty, and integrity, no matter the size of the transaction. Suppliers are paid in line with contractual and legal obligations.

We expect suppliers to adhere to our Code of Conduct for all relevant items.

Customers

Bodycote works with our customers to service their demand in the most efficacious manner possible. By surveying customer satisfaction levels, we modify our methodologies to become a better thermal processing solutions provider. We endeavour to respond quickly to changing customer demands, identify emerging needs and improve service availability and quality. We stay close to our current and potential customers by 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 facilities that are close to our customers. Our facilities are relatively small plants that typically employ approximately 30 people. We encourage community involvement activities championed by our plants and their employees locally.

Environment, Social and Governance continued

Responsible business ethics

The Group has a robust governance structure to support business ethics and a series of policies that detail 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 a commitment to the right values and behaviours of all employees.

All Bodycote personnel are expected to apply a high ethical standard, that is in keeping with being 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 is communicated in all languages used throughout the Group. The policy allows employees to report their concerns confidentially, verbally or in writing, to an independent third-party provider, ensuring anonymity.

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 Company also does the right thing and ensures that there are no repercussions for their actions.

Online training courses regarding 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.

Safety and health

Bodycote continues to manage hazards and thereby minimise risks to employees through the deployment of robust safety management systems and procedures. Bodycote uses a global incident reporting and Safety, Health and Environment management tool at every site. This enables a consistent and thorough reporting of workplace injuries, near misses, and unsafe conditions.

A key element in the Bodycote Safety, Health, and Environment strategy is the development of a vigorous safety and health culture that values the identification and reporting of near misses, unsafe acts or conditions, and suggestions for improvement – collectively known as 'opportunities for improvement' (OFIs). In 2020, there were over 9,000 OFIs raised across the business which is a decrease of 22% against 2019. The significant decrease was attributed to the impact of COVID-19. The relatively high number of OFI's demonstrates the engagement of employees in proactively raising and rectifying safety issues. Though regrettable and unacceptable, accidents represent learning opportunities and are why accurate reporting is an essential part of building a robust safety management system.

The most frequent cause of reportable cases is related to manual handling of parts and lifting operations and has a number of underlying causes. Therefore, it continues to focus on risk reduction activities over the next few years. In 2020, there was continued Group Safety, Health and Environment capital investment for manual and material handling improvements.

All reportable cases and lost time injuries are reviewed during Executive Committee meetings and by the Board. The Executive Committee reviews incidents that 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 Safety, Health, and Environment Committee and cascaded as appropriate within the business to ensure that preventive actions are taken.

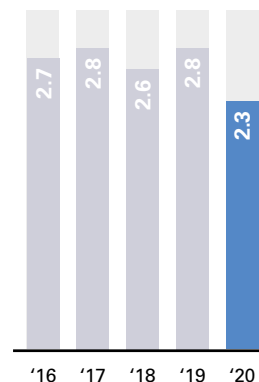
In 2020, the Total Reportable Case (TRC) rate decreased to 2.3 (2019: 2.8), and the Lost Time Injury (LTI) rate decreased to 1.3 (2019: 1.4)

Total Reportable 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)

Total Reportable Case Rate (TRC)



The significant drop in the TRC rate for 2020 (30% drop in TRC's) is visible in the chart above. This impressive result during 2020 is a consequence of short working hours, and closures resulting in fewer working hours being reported. This situation would normally cause the frequency rate to increase, and not decrease, as there would be less hours to suppress the frequency rate.

Operational Safety, Health and Environment 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 Safety, Health and Environment management.

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.

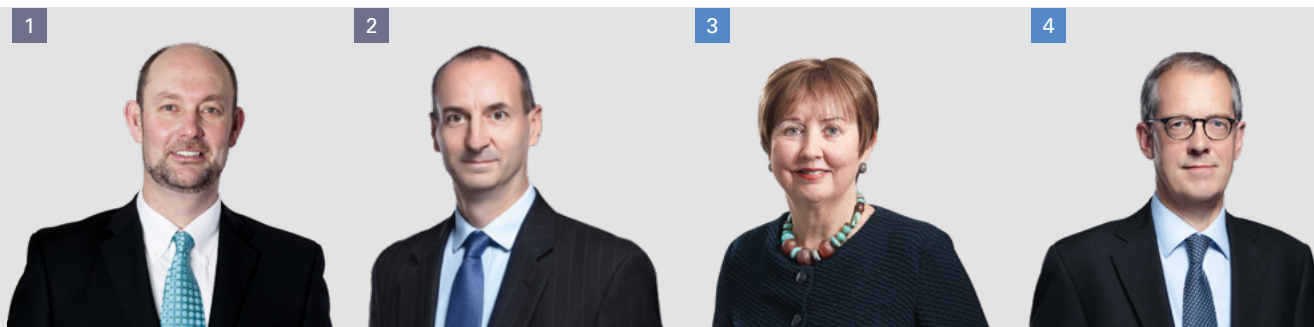
Non-financial reporting statement

The table below sets out where information relevant to the Non-Financial Reporting Directive can be found in our 2020 Annual Report and on our website.

Our Core Values, Code of Conduct, and Group policies underpin everything we do at Bodycote. Our Values and Code of Conduct ensures we comply with all applicable international and local rules and regulations. They provide guidance, including through real-life scenarios, to help colleagues address challenging and ethical issues they may encounter at work. The Core Values and Code of Conduct are available on our website, and our Group policies support and enhance our behaviour in line with the principles set out in the Code of Conduct.

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
Environmental				
 	<ul style="list-style-type: none"> – Safety, Health, and Environment (SHE) Policy – Carbon Footprint and Water consumption statements – Reduction of greenhouse gas emissions 	<p>For further information pages: 37 to 39</p> <p>Visit bodycote.com</p>	<p>Progress on reductions in carbon footprint and water consumption</p>	<p>Energy and Greenhouse gas management is tracked per facility monthly.</p>
Social				
  	<ul style="list-style-type: none"> – Graduate and Apprenticeship Programme – Performance Goal Management System – Safety, Health, and Environment (SHE) Policy – Succession Planning Process – Equality, Diversity and Inclusion Policy – Equal Opportunities Policy – Data Protection Policy – Open Door Policy 	<p>For further information pages: 40 to 42</p> <p>Visit bodycote.com/investors/governance</p>	<p>% of female representation in total workforce and on Executive Committee and Board of Directors</p> <p>Lost work case incident rate</p> <p>Recordable incident rate</p> <p>UK Gender Pay Gap Report</p>	<p>Executive committee monitors SHE performance on a monthly basis.</p> <p>Executive committee monitors employee turnover rate performance on a monthly basis.</p> <p>Regular Open Door incident update to the Board and Executive committee.</p>
Business Governance				
	<ul style="list-style-type: none"> – Core Values – Code of Conduct – Ethics Policy – Anti-Slavery and Human Trafficking statement – Human Rights Policy – Anti-Bribery and Corruption Policy – Competition and Anti-Trust Policy – Control and Compliance Statement – Tax Strategy 	<p>For further information pages: 36 to 37</p> <p>Visit bodycote.com/investors/governance</p>	<p>% of relevant employees trained on our policies</p> <p># of breaches</p>	<p>The implementation and effectiveness of the training is overseen by the Group General Counsel and Group Company Secretary.</p>

Board of Directors



Executive Directors

1 Stephen Harris GROUP CHIEF EXECUTIVE

APPOINTED: November 2008
and Chief Executive from January 2009

External roles

Non-Executive Director, 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

2 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

3 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

4 Ian Duncan SENIOR INDEPENDENT DIRECTOR

APPOINTED: November 2014

External roles

None.

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, WANdisco plc from 2012 to 2016, Babcock International Group from 2010 to 2020 and SIG plc from 2017 to 31.01.2021.

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:

- ⓔ Executive
- Ⓝ Nomination
- Ⓡ Remuneration
- ⓐ Audit
- Committee Chair

5



6



7



8



9



5 Eva Lindqvist NON-EXECUTIVE DIRECTOR

APPOINTED: June 2012

Ⓡ ⓐ Ⓝ

External roles

Non-Executive Director of 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 Teliasonera 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, Mr Green & Co AB from 2016 to February 2019 and Sweco AB from 2013 to 2020.

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

6 Patrick Larmon NON-EXECUTIVE DIRECTOR

APPOINTED: September 2016

ⓐ Ⓡ Ⓝ

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

7 Lili Chahbazi¹ NON-EXECUTIVE DIRECTOR

APPOINTED: January 2018

ⓐ Ⓡ Ⓝ

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

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

8 Kevin Boyd NON-EXECUTIVE DIRECTOR

APPOINTED: September 2020

ⓐ Ⓡ Ⓝ

External roles

Non-Executive Director of EMIS Group since 2014 and Chair of the Audit Committee since 2019. Non-Executive Director and Chair of the Audit Committee of Polypipe Group plc from 22 September 2020.

Past roles

Held the positions of Group Finance Director at Oxford Instruments plc and Radstone Technology plc and, most recently, Chief Financial Officer at Spirax Sarco plc which he stepped down from in September 2020.

Qualifications

Chartered Accountant, Chartered Engineer. Fellow of the Institute of Chartered Accountants and the Institute of Engineering and Technology. BEng, Electronic and Information Engineering from Queen's University Belfast.

Skills and experience

International Operations, Current Financial Experience, Mergers and Acquisitions Engineering, Manufacturing

9 Ute Ball GROUP COMPANY SECRETARY

Registered office

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

Registered Number 519057
England and Wales.

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

Corporate governance statement

Chair's message

Dear Shareholders

On behalf of the Board, I am pleased to present Bodycote's Corporate Governance Statement for 2020.

The coronavirus pandemic was declared in March 2020 and brought significant human, social, economic and business uncertainty. The Board has taken steps to understand and mitigate the risks posed by and the impacts arising from the ongoing situation.

Most full meetings of the Board and its Committees have been conducted virtually during 2020. In the first few months of the pandemic regular board meetings were held to keep contact with the Board members. The agendas were developed with active consideration of the status of the coronavirus pandemic and the current priorities of the Group. Full updates were provided in March and April on preparedness and response activities to ensure control and co-ordination across the Group. This provided confirmation of employee safety, business resilience and mitigating actions being driven by senior management. The response to the pandemic was the backdrop for the operational, financial and commercial discussions at Board level.

The Board agreed that employee support and well-being should be a key priority, at the forefront of response workstreams – recognising that the pandemic represents a test of the efficacy of the Group's culture. In particular communications to all employees were increased and the health of all employees monitored and a high-level summary provided to the Board.

Shareholder feedback and engagement has continued despite the coronavirus outbreak with shareholder perspectives having been received and considered.

The date for the 2020 Annual General Meeting in May remained as initially announced, but in view of social distancing and the requirement to safeguard shareholders', employees', and advisers' safety, the format of the Annual General Meeting was changed to a meeting 'behind closed doors'. The 2019 year-end dividend was announced in early March for payment in June 2020. This dividend was deferred to allow the Board greater clarity on the impact of the pandemic and a catch-up dividend was subsequently paid in September 2020.

Dialogue with shareholders will continue in line with the Group's broader commitment to meaningful engagement with key stakeholder groups. 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 2020 is explained in our stakeholder section on page 18.

The Directors receive regular reports on Safety, Health and Environment to support their decisions. The Board also conducted a review of the existing sustainability processes with a view to establishing a broader ESG policy. As a first priority, the Board agreed to focus on improving the effectiveness of communicating current actions and the role of Bodycote as an energy optimiser in its customer supply chains. Further information on Board activities can be found on pages 50 to 53.

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, are in place and meetings have taken place during the year. The feedback from these forums is reported to the Board and the Executive Directors charged with addressing any particular items that arise. In 2020 these forums were held virtually. Feedback was generally very positive, and no material concerns other than the general concerns over the pandemic were expressed by employees during the year.

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 this can take many forms including diversity of gender, nationality, social, and ethnic backgrounds, and of cognitive and personal strength. Diversity at Board level and throughout the Company is a valuable strength.

The Board continues to ensure that effective succession plans are in place and has appointed a further Non-Executive Director, Kevin Boyd, as of 1 September 2020.

A.C. Quinn
Chair

Compliance Statement

In respect of the financial year 2020, 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 2020, 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 38%, 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 further exception is provision 38, the alignment of pension contribution rates for Executive Directors. We are, however, partially compliant as we have a plan in place for pension contribution rates for Executive Directors to be aligned by 1 January 2022. Salary supplements in lieu of pension contributions have been reduced to 24% of base salary with effect from 1 January 2021, and then will be reduced to 23.5% of base salary with effect from 1 January 2022. The Executive Directors pension contributions will then be aligned with the company pension contributions of the wider workforce in the countries where the Executive Directors live. A review of workforce policies was undertaken during the year and progress on culture has been made and information provided to the Board.

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

Taken together with the Report of the Audit Committee, the Report of the Nomination Committee and the Board report on remuneration presented on pages 64 to 75, this statement explains how Bodycote has applied the principles of good corporate governance as set out in the Code.

Code principles – board areas of focus

Area of focus		Strategic priorities
Board leadership and Company purpose	Read more on pages 10-13, 25-27	
– Regularly discussing strategy at Board meetings during the year	– Approving capital expenditure in excess of £4m	
– Receiving presentations from operational management on performance against the strategy	– Considering and approving strategic opportunities e.g. the restructuring plans in AGI and ADE	1 2 3 4 5 6
– Considering potential acquisition opportunities	– Approving the Group's strategy, budget, tax and dividend	
Division of responsibilities	Read more on pages 36-42, 46-53	
– Review of Group policies	– Modern Slavery review	
– Review of schedule of matters reserved for the Board	– Convening the AGM, approval of shareholder materials	
– Review of corporate governance code and guidelines		2 1 ☆
– Review of terms of reference of all committees	– Review of Safety, Health and Environmental updates at each meeting	
– Determining/maintaining the Group's values and ensuring that these are reflected in business practice	– Overview of stakeholder relationship/workforce engagement	
Composition, succession and evaluation	Read more on pages 56-58	
– 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 size, composition and diversity of both the Board and the Committees	
	– Ongoing Board training	2 ☆
– Approving further terms as Non-Executive Directors for I.B. Duncan, E. Lindqvist, P. Larmon, L. Chahbazi and A.C. Quinn	– Tailored induction, when required	
	– Reviewing Board and Committee effectiveness and Directors' conflicts	
Audit, risk and internal control	Read more on pages 29-34, 59-63	
– Approval of year-end and interim results	– Review future scenarios and other factors	
– Recommending the final and interim dividends	– Viability statement	
– Annual review of principal risks, risk management and control systems	– Consider whether the Annual Report and Accounts are fair, balanced and understandable	☆ 1 2
Remuneration	Read more on pages 64-75	
– Remuneration policy review and approval (including Executive Directors' and senior management remuneration)	– Chair, and independent Non-Executive Directors; fees review	2 ☆

Corporate governance statement continued

Governance framework

The Board's areas of focus in 2021 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 and emerging risks review
- Increased emphasis on sustainability and, more broadly ESG
- Board dynamics, diversity and development

Overseeing Culture

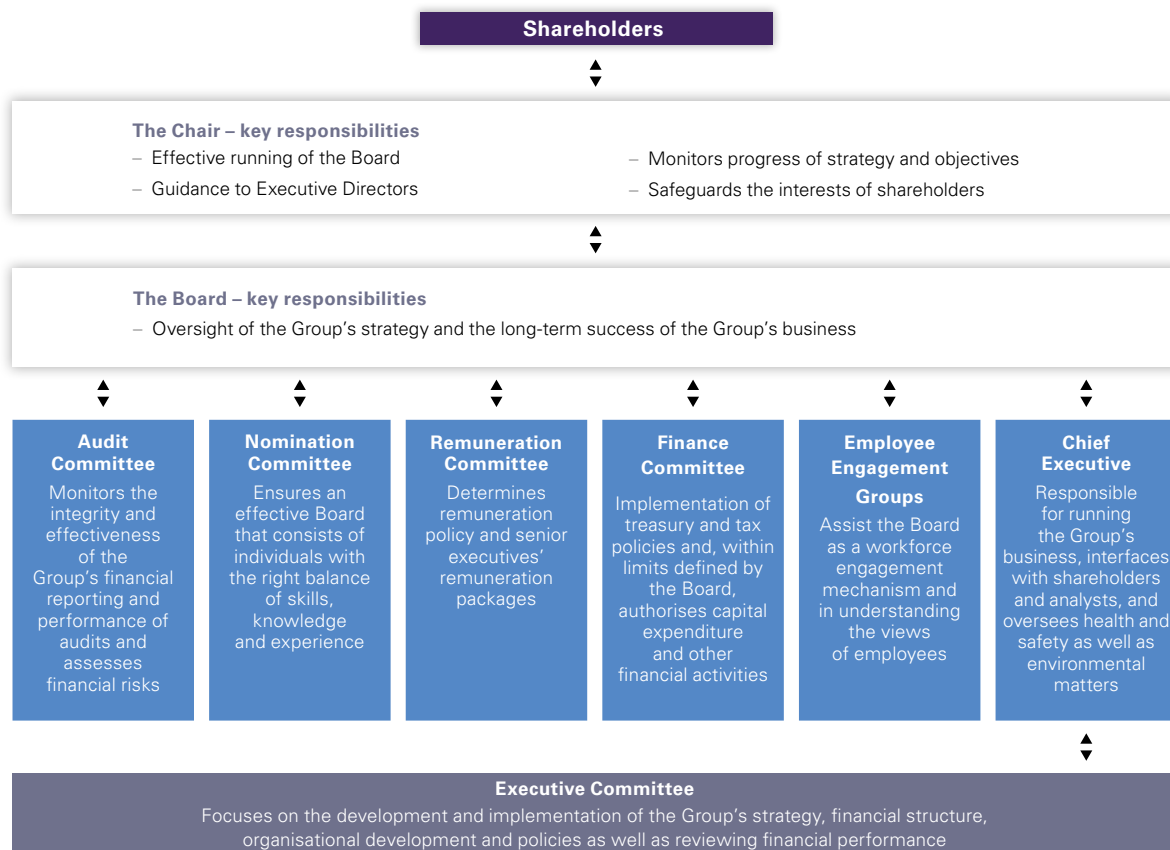
A healthy culture is one in which the Group has a purpose, values and strategy that are respected by the Group's stakeholders and an operating environment that is inclusive, diverse and engaging; encouraging employees to make a positive difference for stakeholders. Corporate culture is guided by pillars and principles against which the Board monitors how the culture exists and is viewed by employees. These are:

- Values as explained in the Environment, Social and Governance section on pages 36 to 43
- Attitudes as summarised in the Group policies
- Behaviours as stated in the Group's code of conduct

The ongoing implementation of key messages and expectations is driven through initiatives overseen by the Executive Committee and the divisions. This includes targeted communications and mandatory training, with the output reported back to the Board.

The role of the Board in relation to purpose, strategy, long-term goals and stakeholder engagement is key in supporting a healthy corporate culture. The Board Committees support this role. The Board recognises that this will continue to be an evolving area.

The Board structure



The Sustainability 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, an European and an American Engagement Group. Each Group meets either in person or virtually at least 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

Participants are encouraged to discuss all aspects of the business including views, motivations and conditions of employees of Bodycote. This applies to all levels and activity in the Group. However, individual grievance or employment conditions of individual employees are not part of the remit of the Employee Engagement Groups.

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 in progress.

In addition, both the Board and the Executive Committee take every opportunity to meet with local employees when visiting different business locations. During 2020, the Board and the Executive Committee were unable to visit sites due to COVID-19 restrictions but visits will be resumed as soon as possible.

Board information

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 (where appropriate). 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 programme 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.

Matters reserved for the Board

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.

Corporate governance statement continued

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 12 occasions during 2020 (seven formal and five pandemic related meetings), including a specific meeting to review the Group's long-term strategy. The Board of Directors comprises eight members, of whom six are Non-Executive Directors and two are Executive Directors, led by the Group's 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 and K Boyd are Non-Executive Directors. Brief biographical details of all Directors are given on pages 44 to 45. During the year the Board intended to visit a number of overseas facilities, but due to COVID-19 these visits have been deferred until such time that these visits can be undertaken safely. Such events involve meeting with local management and the workforce to understand more clearly technical and operational performance in countries where Bodycote has a significant presence.

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

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 Formal meetings	Pandemic related meetings	Audit Committee	Nomination Committee	Remuneration Committee
Meetings held during the year	7 	5 	4 	4 	5 
Executive Directors	Meetings attended	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Stephen Harris			n/a	n/a	n/a
Dominique Yates			n/a	n/a	n/a
Non-Executive Directors	Meetings attended	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Anne C. Quinn			n/a		n/a
Eva Lindqvist					
Ian Duncan					
Patrick Larmon					
Lili Chahbazi					
Kevin Boyd (appointed 1 September 2020)					

All directors attended the maximum number of formal Board, Audit and Nomination Committee meetings that they were scheduled to attend. P. Larmon and E. Lindqvist did not attend one pandemic related meeting called at short notice due to prior commitments. K. Boyd having started on 1 September 2020 did not attend one Remuneration Committee meeting due to a prior commitment. Non-members A.C. Quinn, S.C. Harris and 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 two Employee Engagement Group meetings in 2020.

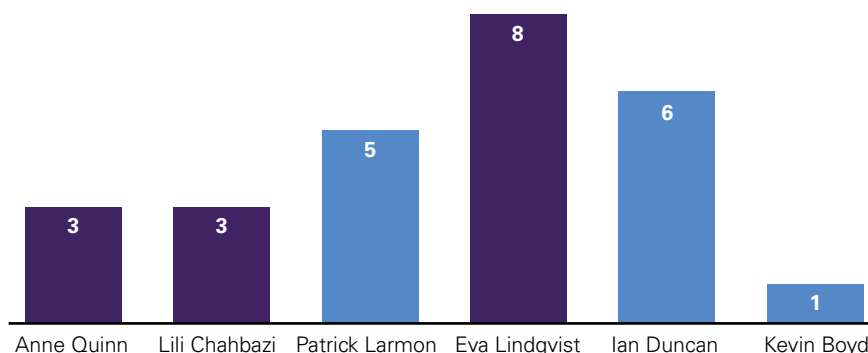
Diversity and length of service

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.

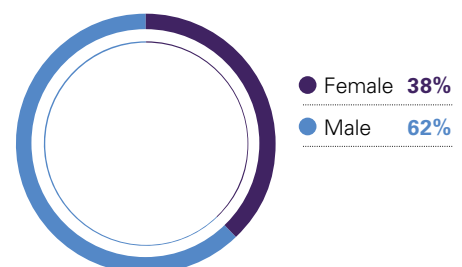
In 2020 female representation on our Board was 38% (2019: 43%). At manager level it is 30% (2019: 25%). Females represent 18% (2019: 19%) of our total workforce. Whilst we are above the 33% by 2020 voluntary target for female representation on Boards recommended by the Hampton-Alexander review, we continue 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 ESG report contains further details regarding the male and female representation within the Group, including Board representation.

NED tenure per year



Board diversity



Corporate governance statement continued

E. Lindqvist was appointed as a Non-Executive Director on 1 June 2012 and is approaching the end of her ninth consecutive year as a Non-Executive Director. After careful consideration, the Board has asked E. Lindqvist to continue to serve for a further year as a Non-Executive Director and Chair of the Remuneration Committee, subject to re-election. The Board considers that this is in the best interests of the Group and shareholders. In particular, it will ensure that there is a smooth transition of Remuneration Committee Chair responsibilities to E. Lindqvist's successor. The Board considers that E. Lindqvist remains independent for the purposes of the Code. With the exception of serving on the Board for more than nine years, none of the circumstances which can impair independence set out in provision 10 of the Code apply to E. Lindqvist.

Effectiveness

Board evaluation

Following the external Board Evaluation in 2018, the Board agreed to undertake an internal evaluation in 2020. 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.

The process of the internal Board and Committee evaluation consists of four steps: a) design and initiation b) data collection c) review by chairs and e) discussion and actions.

At a meeting of the Nomination Committee in October 2020, 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, 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 2021.

Led by the Senior Independent Director, the Directors carried out an evaluation of the Chair's performance in September 2020. 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 2021 and K. Boyd will stand for election.

The Board recommends to shareholders that they re-elect all the directors. The performance of each director was evaluated 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.

Meetings with shareholders

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. Users of the website can access recent announcements and copies of results presentations and can enrol 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 virtual 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 or elevated levels of votes against a resolution, 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 (maximum of two three-year terms), after which the appointment may be extended by mutual agreement on an annual basis. A statement of the Directors' responsibilities is set out on page 50. All Non-Executive Directors (excluding the Chair) serve on each Board Committee.

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.

Training

We provide training to employees where and when required, but it is important that Directors continue to develop and refresh their understanding of the Group's activities. Every year, the Board as part of site trips, meets local management at operations and Directors familiarise themselves with the technology used, logistics, health and safety standards and customers served. Due to COVID-19 Board site trips were not possible but this will be reinstated as soon as possible, and alternative visits are being investigated. The Board is kept informed of relevant developments in the Group by way of monthly management reports and the progress of capital projects.

It is also essential that the Directors regularly refresh and update their skills and knowledge with both external and internal training when necessary. Members of the Board individually attend seminars, conferences and training events to keep up-to-date about developments in key areas. Board meetings include presentations from Group experts to ensure the Directors have access to the wealth and knowledge within the Group as well as presentations from external providers.

Directors' information and training sessions

2020 Board

March	Insurance Captive Study – overview
April	Liquidity and covenant situations under various scenarios
June	Insurances – market overview
July	IT Security Update
October	Economist briefing
December	ESG agenda and culture Regulatory and governance update (proxy advisers)

Audit Committee

Oct	BDO Internal Audit Perspectives PwC updates on regulatory and accounting changes
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Remuneration Committee

July	Remuneration review – market update (Deloitte)
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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. This system has continued to operate throughout the COVID-19 pandemic.

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 failings or weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging these review responsibilities.

The emerging risk review, based around horizon scanning, has explored what the future might look like and seeks to identify early warning signals. These emerging 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. Risks that have been considered by the Board have included:

- COVID-19 – the long-term effect of this and other possible pandemics
- Geopolitical risks – increased international tensions and tariffs
- Move to electric vehicles

The Board is satisfied that the Group maintains an effective system of internal controls and that there were no significant failings or weaknesses in the system. The system was in operation throughout 2020 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:

- Key financial, legal and compliance policies that apply across the Group including: Detailed Financial Policies, Group Authority Matrix, Anti-Bribery and Anti-Corruption, Anti-Slavery and Human Trafficking, Core Values and Code of Conduct.
- A comprehensive financial planning, accounting and reporting framework.

- Bodycote has engaged BDO to monitor and assist in improving the Group's internal control system. IA reviews are conducted on the basis of a risk-based plan approved annually by the Audit Committee. As a result of COVID-19, this plan was revised during 2020 and re-approved by the Audit Committee. The revised plan took account of the various national and regional restrictions impacting the ability of auditors to visit Bodycote locations. To provide assurance on the continued operation of controls, financial control self-assessments (CSA) have been developed and implemented in each division. The results of these CSA have been verified by IA using video technologies. Other risk-based reviews have been conducted using techniques such as remote data analytics to provide assurance of the controls operating in the shared service centres and accounting centres. 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 plant. 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.
- 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 2020, 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 Sustainability and Risk Committee (by means of workshops, interviews, investigations, and by reviewing departmental or divisional risk registers). These risks have been reviewed throughout the year and three new key risks have been added for 2020: contract review, equipment downtime and loss of key accreditations. Two risks previously reported as key are no longer considered as such: capital projects and the loss of key customers. Further information regarding the ways in which the principal business risks and uncertainties affecting the Group are managed is shown on pages 29 to 33.

By order of the Board:

U.S. Ball

Group Company Secretary

12 March 2021

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 2020.

The Chair's statement, the Chief Executive's review, the Chief Financial Officer's report and all the information contained on pages 10 to 27 together comprise the Directors' report for the year ended 31 December 2020. Concerning going concern please see the CFO statement on page 27 and page 90-91 of the financial statements.

Strategic report

The Strategic report is provided on pages 1 to 43 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 2020, 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 13.4p (2019: 13.3p) bringing the total ordinary dividend to 19.4p per share (2019: 19.3p). If approved by shareholders, the final dividend of 13.4p per share will be paid on 4 June 2021 to all shareholders on the register at the close of business on 23 April 2021.

During 2019 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, and the Group put a resolution to shareholders at the Company's annual general meeting on 28 May 2020. Shareholders approved the resolution hence rectifying the issue.

Share capital

The Company's issued ordinary share capital as at 31 December 2020 was £33.1m. No shares were issued during the year. At the Annual General Meeting on 28 May 2020, 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 Annual General Meeting to be held on 27 May 2021, at which time a further authority will be sought from shareholders.

Capital structure

Details of the issued share capital are shown in note 24.

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 28 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 46. 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 biographies are listed on pages 44 to 45 and all with the exception of Kevin Boyd have served throughout the year. In line with the UK Corporate Governance Code, all Directors retired at the Annual General Meeting in 2020 and stood for re-election by the shareholders. All Directors will retire at the next Annual General Meeting 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 2021 Annual General Meeting are A.C. Quinn, S.C. Harris, D. Yates, I.B. Duncan, E. Lindqvist, P. Larmon and L. Chahbazi. K. Boyd having joined the Board on 1 September 2020 will stand for election. 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.

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 64 to 66. No Director has had any dealings in any shares or options in the Company since 31 December 2020. 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 2021 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's 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 3,000 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 page 18.

Greenhouse gas emissions

Details of greenhouse gas emissions are included within the Environment, Social and Governance section of this report.

Donations

There were no political contributions in 2019 or 2020.

Shareholders

An analysis of the Company's shareholders and the shares in issue at 2 March 2021 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.

External 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 external 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 2021 Annual General Meeting will be held on 27 May 2021 in accordance with the notice being sent to shareholders under separate cover.


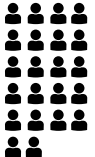
By order of the Board:

U.S. Ball

Group Company Secretary
12 March 2021

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

Report of the Nomination Committee

Committee membership	No. of meetings 2020: 4 	Main committee responsibilities
Director A.C. Quinn I.B. Duncan E. Lindqvist P. Larmon L. Chahbazi K. Boyd (appointed 1 September 2020)	Attendance 	<ul style="list-style-type: none"> – 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. – Give full consideration to succession planning for Directors and other senior executives in the course of its work. – Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Dear Shareholders,

I am pleased to introduce the Nomination Committee report for 2020. 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. As part of the ongoing refreshment of the Board, Kevin Boyd was appointed as of 1 September 2020.

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. 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
- Appointed a further Non-Executive Director

Diversity

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

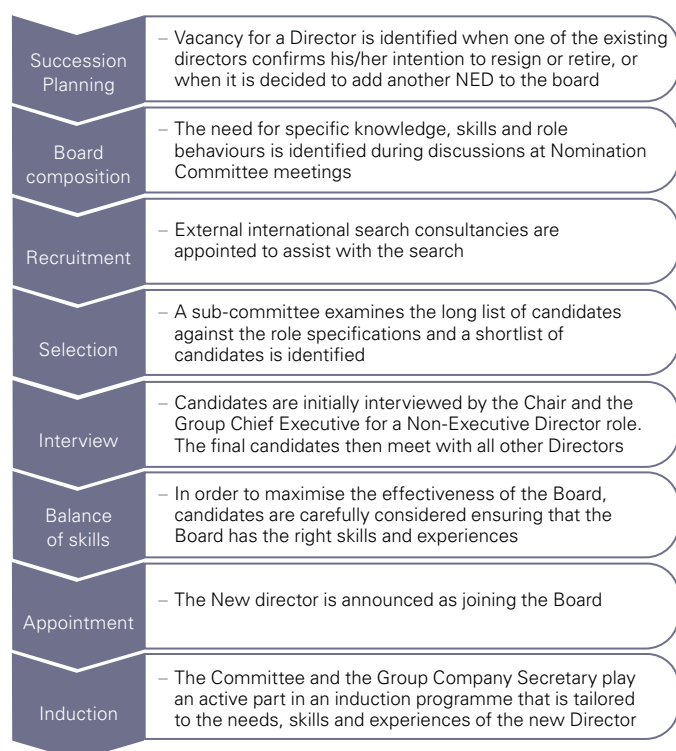
Non-Executive Directors

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

Governance and evaluation

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

Recruitment Process



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.

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.

Directors' induction and training

Induction programmes are individually tailored for all new Directors, following the appointment process as overseen by the Nomination Committee. Each programme considers existing expertise and any prospective Board or Committee roles.

In advance of Kevin Boyd's first Board meeting in September 2020, arrangements were made for introductions and briefings to ensure there was an appropriate opportunity to understand and ask questions about the strategic, financial and operational context. The ongoing COVID-19 pandemic placed restrictions on the format with briefings conducted by videoconferencing and face-to-face engagements, with site visits to follow.

Board induction programme for Kevin Boyd

Topic	Meetings held
Business strategy	Video call with Group CEO
Finance	Video call with Group CFO and meeting with Head of Internal Audit and Risk
Governance	Video call with Group Company Secretary
Legal	Meeting with General Counsel
IT	Meeting with Head of IT Operations
Plant visit	Visit to the UK Derby plant Meetings with Human Resources, Shared Services, Tax and Treasury, and Marketing to be arranged in 2021 subject to COVID-19 guidelines. Further plant visits will take place as part of the annual Board plant visit programme, COVID-19 permitting.

As part of the mandatory training programme, all Directors are further required to complete courses which address areas most pertinent to Bodycote and their role on the Board. This covers both statutory obligations and ethical considerations and include the legal duties of a Director, competition law, anti-bribery and corruption, the share dealing code and anti-slavery regulations.

Board succession planning

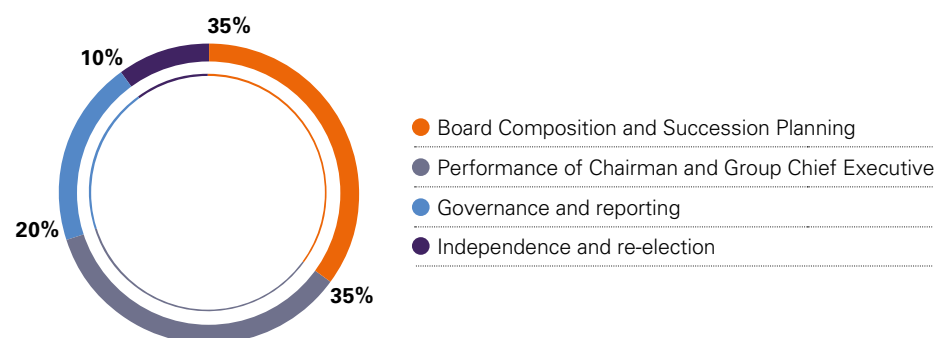
K. Boyd joined the Board as Non-Executive Director on 1 September 2020. The recruitment process was led by the Chair, who was advised by international search consultancy Russell Reynolds in the process of identifying suitably qualified individuals. Russell Reynolds has no other connections to Bodycote plc. There were no further changes to the Board structure during the year.

As in previous years the Committee spent time during 2020 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 all types of 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.

Nomination Committee – allocation of agenda time



Report of the Nomination Committee continued

Main activities of the Nomination Committee

In 2020 the Committee met formally 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 Board discussed its membership with respect to gender, ethnicity, and age. 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 46 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% until 1 September 2020 when it reduced slightly to 38% with the appointment of K. Boyd.

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 2020. Further details of the review can be found in the Corporate Governance section of the Annual Report. Recommendations arising from the 2018 external Board evaluation have been addressed.

In December 2020, 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 44 and 45. 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 Annual General Meeting continues to be effective and demonstrates commitment to their roles, including independence of judgement and time commitment for Board and Committee meetings. The Board, after careful review and cognisant of Eva Lindqvist's contributions to the Board both as a Non-Executive Director and as the Chair of the Remuneration Committee, is proposing her reappointment for a further year. Accordingly, the Committee has recommended to the Board that all current Directors of the Company be proposed for re-election at the forthcoming Annual General Meeting.

As chair of the Committee, I will be available at the Annual General Meeting, in May 2021, to answer questions relating to the work of the Committee. Should physical attendance not be permitted, questions can be submitted in advance of the meeting either to the registered office address or to agm@bodycote.com. Representative answers will be published on the company website in due course.


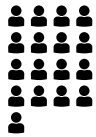
On behalf of the Nomination Committee:

A.C. Quinn CBE

Chair of the Nomination Committee

12 March 2021

Report of the Audit Committee

Committee membership	No. of meetings 2020: 4 	Main committee responsibilities
Director I.B. Duncan E. Lindqvist P. Larmon L. Chahbazi K. Boyd ¹	Attendance 	<ul style="list-style-type: none"> – Encourage and safeguard the highest standards of integrity, financial reporting, financial risk management and internal controls; – 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; – 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; – 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; – 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; – Oversee the relationship with the external auditor including approving the remuneration, audit scoping and terms of engagement, reviewing outcomes of external audits, ensuring compliance with the policy for the provision of non-audit services, conducting the tender process and making recommendations to the Board, subject to the approval by shareholders, on the appointment, reappointment or removal of the external auditor; – Monitor policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard and report to the Board on any improvement or action required; and – Review and monitor the external auditor's independence, effectiveness and objectivity. <p>The full terms of reference for the Committee can be found on the Group's website.</p>

¹ K. Boyd was appointed on 1 September 2020.

Introduction

I am pleased to present the 2020 report of the Audit Committee, which describes how the Committee has carried out its responsibilities during the year. In addition to the on-going core responsibilities, we have had a number of critical topics to consider in 2020, most significantly being our focus on monitoring the impact of the COVID-19 pandemic on the Group's financial results, as well as the impact on the principal risks directly associated with the Group's financial arrangements. This included assessing the impact of restrictions on the Group's Internal Audit activities, and agreeing on the focus of future audits, also taking into account the impact of and the Group's response to COVID-19.

Objective

The Committee's 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, the management of financial risks, and the performance of internal audit as well as the appointment and evaluation of the external auditors. During the year, the Committee continued to focus on the integrity of Bodycote's financial reporting, financial risk management, 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.

Committee membership and meetings

The members of the Audit Committee are all independent Non-Executive Directors. Their biographical details are shown on pages 44 and 45, and their remuneration on page 69. 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 substantial experience in senior finance roles. The Board considers that I.B. Duncan has recent and relevant financial, accounting and sector experience required to Chair the Committee.

All Committee members 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 2020, and in March 2021. All members attended all the meetings except Mr. Boyd, who joined the Audit Committee effective 1 September 2020. 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. Furthermore, the external auditor PricewaterhouseCoopers LLP (PwC) attended every meeting, and BDO LLP, who provides internal audit services, also attended one 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 before Committee meetings to review their reports and discuss issues in detail. PwC, the Group Head of Risk and the internal auditors (BDO LLP) met with the Audit Committee without the executives present.

Report of the Audit Committee continued

Main activities of the Committee during the year

The Committee is responsible for reviewing the Interim results for the half year 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 results for the half year 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 a 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 2020 financial statements is set out in the table below.

Fair, balanced and understandable

The Committee has reviewed the form and content of the interim results for the half year and the Annual Report and financial statements and a paper prepared by management setting out the approach taken in its preparation. The review included the consideration of oversight throughout the year based on review of regular financial results and reports from both senior management and PwC, consideration of regulatory and governance requirements for reporting, the process of preparing the Annual Report and ensuring it contains complete and accurate information, and reviews performed to ensure feedback was appropriately reflected (including internal and external reviews).

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>Valuation of assets</i></p> <p>As set out in the accounting policies, the Group reviews the carrying amounts of goodwill, tangible and intangible assets for impairment at least annually. Refer to note 11 of the financial statements.</p>	<p>The Committee considered reports from management describing potential impairment indicators for tangible and intangible assets and the outcomes of related impairment tests performed at both half-year and at year-end.</p> <p>The Committee reviewed these reports and challenged the results including the future forecasts underlying the value-in-use calculations, and the assumptions, particularly the discount rate, growth factors and scenarios used in the discounted cash flow calculations and the impact of the COVID-19 pandemic for each cash generating unit and the sensitivity analysis applied. The Committee also reviewed and challenged assumptions used for the valuation and impairment of the intangible ERP asset.</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 11 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 financial statements and concluded that the basis of presentation 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. The Committee also reviewed and agreed on the exceptional nature of the restructuring costs and their presentation as exceptional costs, in light of FRC guidance.</p>

Going concern and viability statement

Assumptions and judgement are exercised in preparing the going concern assessment.

The Committee reviewed and challenged the validity of the going concern assumption and viability statement prepared by management and 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. The impact that the COVID-19 pandemic has had on the business since the beginning of the outbreak and the related decline in revenues has also been regularly considered. Sensitivity analysis was undertaken to understand the impact of changes to key variables and included severe but plausible downside scenarios that may result following the COVID-19 pandemic. The analysis also included the potential impacts of the recent UK free trade agreement with the EU on the above considerations. The Committee agreed with management's assessment.

Taxation

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.

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.

Recognition of deferred tax assets relating to future utilisation of accumulated tax losses is dependent on future profitability and performance of the underlying business.

Refer to notes 8 and 21 of the financial statements.

The Committee receives regular reports from management about new legislative developments that may impact the Group's tax positions.

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 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 views on the future profitability 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.

Retirement benefits schemes

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.

Management took external professional advice in determining pension liabilities. The Committee reviewed reports prepared by management and key assumptions used from external advisers and is comfortable that the fundamental assumptions are reasonable.

The Committee agreed to the treatment and the corresponding disclosures on these matters. See note 30 of the financial statements.

Acquisition and goodwill

The significant acquisition of Ellison in the first half of the year resulted in the recording of significant acquired intangibles and goodwill and a focus on the valuation and recognition of these acquired intangibles and goodwill.

The Committee received a report outlining the details of the Ellison acquisition, including explanation of the assumptions used to value acquired intangibles and goodwill as well as an assessment of the useful life of the acquired intangibles.

The Committee challenged the assumptions and agreed with the valuation, recognition and the related financial statement disclosure

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. 2020 was Mr. Simon Morley's second year as the lead audit partner.

The Group requires the lead partner to change every five years in order to protect independence and objectivity and provide a fresh challenge to the Group.

At the October Committee meeting, PwC presented its audit plan for the 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 the scope carefully in respect of smaller and more remote locations as well as Emerging Market locations and noted that the majority of the Group's local audits are performed by PwC. The Committee also considered the audit approach as a result of the COVID-19 pandemic and its impact on working arrangements. 2020 audit fees were agreed at £1.8m.

Key audit matters and the audit approach to these matters are discussed in the Independent Auditor's Report (pages 77 to 85), highlighting 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.

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 2020. 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 concluded that the external audit had been effective. During 2020, 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 the proposed services are permissible in the context of the Ethical Standard in the first instance, and where it is work that it must, or is clearly best suited to perform. Non-audit services cannot be awarded to the external auditor without prior approval from the Committee Chairman. The non-audit fees paid to the auditor in 2020 were for the half year interim review. Non-audit fees represent 9% (2019: 9%) of the audit fee. Refer to note 3 for more information.

Independence

The independence of the external auditor was confirmed by PwC at the July 2020 Audit Committee and was confirmed again in March 2021. The Committee considered PwC's presentation and confirmed that it considered the auditor to be independent.

Internal audit

The internal audit plan for 2020 was presented to the Committee in October 2019. The plan took into account 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. As a result of the COVID-19 pandemic, the internal audit plan and approach was reviewed in May 2020. The plan was revised and endorsed by the Committee to deliver assurance over the key financial and IT controls and the impact of COVID-19 on working arrangements.

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 BDO LLP to provide co-sourced internal audit services.

Additional financial control 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 control self-assessment has also been introduced for each of the divisional finance teams. A summary of the results was presented to the Committee. The accuracy of returns was monitored by Internal Audit by verification calls to a random sample of sites.

The effectiveness of internal audit is reviewed and discussed annually with the Group Head of Risk and the BDO LLP engagement partner. The result of this assessment was shared with the Committee. 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.

Risk management

The Committee reviewed the Group's financial risk management and internal control systems' effectiveness 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 financial risks, and mitigating actions identified by management and also monitored the emerging risk identification process. Refer to the Principal Risks and Uncertainties report on pages 29 to 33.

Internal control

At each meeting, the Committee considered and challenged reports from the internal auditors on internal controls' effectiveness and noted no significant failings or weaknesses. The Committee also performed an annual review of the Group's internal control processes and concluded 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). Refer to page 53 for further information.

Committee evaluation


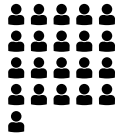
The Committee's activities formed part of an internal review of Board effectiveness which was undertaken in August 2020 and approved by the Board in October 2020. There were no material deficiencies noted in the review and Directors indicated a high level of satisfaction with the work of the Committee. 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 2021

Board report on remuneration

Committee membership	No. of meetings 2020: 5 	Main committee responsibilities
Director E. Lindqvist I.B. Duncan P. Larmon L. Chahbazi K. Boyd ¹	Attendance 	<ul style="list-style-type: none"> – Responsibility for setting and reviewing the remuneration and remuneration policy for all Executive Directors, senior management and the Company's Chair. – Recommend and monitor the level and structure of remuneration for senior management. – Review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Director remuneration. – Approve the design of and determine targets for Executive Directors' and other senior executives' incentive arrangements. – 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. – Appoint remuneration consultants.

¹ K. Boyd was appointed on 1 September 2020.

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 2020.

The report is split into the following sections:

- This letter, which provides an overview of the key decisions made on Directors' remuneration during the year (pages 64-66)
- An 'at a glance' of remuneration decisions (page 67)
- The Annual Report on Remuneration, which describes how our Directors' Remuneration Policy was applied during 2020 (pages 64-75)

The Directors' Remuneration Policy was approved by shareholders at the 2019 Annual General Meeting and became effective from that date. There are no proposals to amend the Policy at the 2021 Annual General Meeting. The Committee addressed the principles prescribed in Provision 40 of the 2018 UK Corporate Governance Code when determining the Policy (see below).

The full Policy is available on our website at www.bodycote.com/wp-content/annual-report-2019.pdf on page 68.

Business performance and incentive outcomes for 2020

In spite of the pandemic, good progress has been made against the Group strategy. Our Emerging Markets' business continues to grow, both in relative and absolute terms; our Specialist Technologies businesses represented almost half of the Group's operating profit in the year; and the restructuring undertaken has undoubtedly improved the quality of our Classical Heat Treatment business. Moreover, the sharp revenue decline represented a stern test in terms of our ability to flex costs, and the results demonstrate the great flexibility of our cost base.

Annual bonus

As noted on page 70, given the impact of the COVID-19 pandemic on financial performance and the experience of employees and shareholders, the Committee, in consultation with the Executive Directors, cancelled the bonus for 2020. This decision was made in May 2020.

Bodycote Incentive Plan (BIP)

The 2018 BIP awards were based on performance against return on capital employed (ROCE) (50%) and headline earnings per share (EPS) (50%) targets over a three-year period ended 31 December 2020.

The threshold targets were not achieved and the awards therefore lapsed in full. The Committee concluded that the vesting outcome was appropriate given the pandemic's impact on underlying financial performance and the experience of key stakeholders, and no discretion was exercised. See page 70 for further details.

In-flight BIP awards

The 2019 and 2020 BIP awards are subject to EPS and ROCE performance over a three year period ending 31 December 2021 and 31 December 2022 respectively. The Committee is mindful that the global pandemic has significantly impacted the vesting capability of these awards. The Committee will keep the terms of the awards under review during 2021, keeping in mind the need to ensure that Executive Directors and senior management remain incentivised to deliver strong performance for our shareholders. The Committee will engage with investors, as appropriate.

Application of Policy for 2021

An overview of our intended application of Policy for 2021 is set out below.

- **Base salaries:** The Group Chief Executive and Chief Financial Officer received salary increases of 2% and 2% respectively, in line with the average inflationary 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 live. In determining the salary increases for the Executive Directors, the Committee also considered salary increases awarded to Group employees across the UK and Europe more generally.
- **Benefits:** There will be no changes to benefits provided to the Executive Directors.
- **Pension:** Salary supplements in lieu of pension contributions will be reduced to 24% of base salary with effect from 1 January 2021, and then to 23.5% of base salary with effect from 1 January 2022. This is so that they are aligned with the company pension contributions of the wider workforce in the countries where the Executive Directors live.
- **Annual bonus:** The maximum bonus opportunity remains at 200% of salary for the Group Chief Executive and 150% of salary for the Chief Financial Officer, with 35% of any bonus earned being deferred in shares for three years. The measures and weightings have been reviewed and we believe a bonus consisting of 77% headline operating profit, 10% headline operating cash flow and 13% personal scorecard continues to enable the annual bonus to be aligned to the Company's strategy and ensures our Executive Directors are focused on delivery of improved profitability and control of working capital.
- **Bodycote Incentive Plan (BIP):** The maximum opportunity remains at 175% of salary for Executive Directors. The 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.

How the Committee addressed the factors in Provision 40 of the 2018 UK Corporate Governance Code when determining the Policy

Our Policy is designed to support an effective pay-for-performance culture which enables the Company to attract, retain and motivate Executive Directors who have the necessary experience and expertise to execute our strategy and deliver value to shareholders. Below is an explanation of how the Committee has addressed the principles prescribed in Provision 40 of the 2018 UK Corporate Governance Code.

Principle	How the Committee has addressed the principle
Clarity and simplicity	The Committee ensures that remuneration arrangements are transparent, comprising a simple incentive structure that is commonplace in the market and best practice remuneration provisions.
Risk	The Committee promotes long-term sustainable performance through sufficiently stretching performance targets, whilst ensuring that the incentive structure does not encourage Executive Directors to take inappropriate risks.
Predictability	The Committee has recourse to recover incentive payments in certain circumstances. The 'illustration of application of remuneration policy' chart on page 68 indicates the potential values that may be earned through the remuneration arrangements.
Proportionality	The Committee believes that the Policy table clearly sets out how each element of remuneration links to the delivery of strategy. The disclosure of BIP performance targets provides a clear link between incentives and the long-term performance of the Group. The Committee has discretion to adjust incentive outcomes so that they fairly and accurately reflect the performance of the Group over the relevant performance period.
Alignment to culture	The Committee believes that the incentive arrangements are consistent with the Group's values: <ul style="list-style-type: none"> – Honesty and Transparency: The incentive arrangements are simple, transparent and in line with market practice, facilitating understanding by all stakeholders. – Respect and Responsibility: The Committee has recourse to recover incentive payments in certain circumstances. – Creating Value: 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.

Board report on remuneration continued

Shareholder and employee engagement

The Group obtained a vote in favour of 74% in respect of approval of the 2019 Annual Report on Remuneration. Whilst the Committee was pleased that the Annual Report on Remuneration was approved by shareholders, it also acknowledges the views of shareholders who opposed the resolution. The concerns of such shareholders related to the 2020 salary increase awarded to the Group Chief Executive. In particular, determining the Group Chief Executive's salary increase by reference to the average increase awarded to the Czech Republic workforce (where he lives and works) resulted in a larger increase compared to the average Group employee salary increases observed across the UK and Western Europe more generally.

The Committee considers the principles of its approach to reviewing Executive Director salaries to be appropriate. That is, to consider Executive Director salary increases by reference to the average increases awarded to the wider workforce in the country where the Executive Director lives and works, whilst ensuring that any salary increase does not result in an excessive total remuneration opportunity.

However, the Committee is also mindful of the views of shareholders. Therefore, going forward, the Committee proposes to review Executive Director salary increases by considering the following reference points in the round:

- the average salary increases awarded to the wider workforce in the country in which the Executive Director lives and works; and
- the average salary increases awarded to Group employees across Western Europe, including the UK.

The Committee believes that this approach strikes an appropriate balance between awarding Executive Directors with salary increases which reflect pay practices and salary inflation in countries in which they live and work, and having regard to salary increases awarded to Group employees across Western Europe.

The Committee wrote to the Company's largest shareholders and key proxy voting agencies following the 2020 Annual General Meeting outlining its approach and inviting comments.

We operate Employee Engagement Groups (please see page 49 of the Corporate Governance Statement), where employees are encouraged to discuss the views, motivation and employment conditions of all employees. This applies to all levels and activity in the Group, with the exception of individual grievances. This assists the Board in understanding the views of employees. In addition, the Committee takes 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.

Conclusion

I trust the information presented in this report enables our shareholders to understand both how we have operated our Directors' Remuneration Policy over the year and the rationale for our decision making. We believe that the Policy operated as intended and we consider that the remuneration received by Executive Directors during the year was appropriate taking into account Group and personal performance, and the experience of shareholders and employees.

We remain fully committed to continuing an open and transparent dialogue with our shareholders. I would welcome your views on 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 Annual General Meeting.

Should physical attendance not be permitted, questions can be submitted in advance of the meeting either to the registered office address or to agm@bodycote.com. Representative answers will be published on the company website in due course.

E. Lindqvist

Chair of the Remuneration Committee
12 March 2021

Remuneration at a glance

Set out below is a summary of the key elements of the Remuneration Policy for Executive Directors, together with how the Policy was implemented in 2020 and its intended application in 2021.

Full details of how the Policy was implemented in 2020 can be found in the Annual Report on Remuneration.

	Key features	Purpose and link to strategy	Outcomes for 2020	Implementation for 2021
Salary and fees	<ul style="list-style-type: none"> – Base salaries are reviewed in January every year – Salary reviews are based on role, experience, performance, internal increases and the external market 	<ul style="list-style-type: none"> – To award competitive salaries to attract and retain the talent required to execute the strategy while ensuring the Group pays no more than necessary 	<ul style="list-style-type: none"> – S.C. Harris received a salary of £597,254, an increase of 7% – D. Yates received a salary of £412,014, an increase of 2.3% – The Executive Directors received salary increases in line with the average increases awarded to the workforce in the country that the Executive Directors live 	<ul style="list-style-type: none"> – S.C. Harris will receive a salary of £609,199, an increase of 2% – D. Yates will receive a salary of £420,254, an increase of 2% – Non-Executive Director fees will next be reviewed at the March 2021 meeting and the outcome will be disclosed in the 2021 Directors' Remuneration Report
Benefits	<ul style="list-style-type: none"> – A range of cash benefits and benefits in kind 	<ul style="list-style-type: none"> – Provides market competitive benefits at an appropriate cost 	<ul style="list-style-type: none"> – Benefits consist of company car (or allowance), private medical insurance, life assurance and sick pay 	<ul style="list-style-type: none"> – No changes proposed
Pension	<ul style="list-style-type: none"> – Contribution to the company's defined contribution scheme, or cash equivalent 	<ul style="list-style-type: none"> – Provide a market competitive level of provision for post-retirement income 	<ul style="list-style-type: none"> – Salary supplement in lieu of pension of 24.5% of base salary for Executive Directors 	<ul style="list-style-type: none"> – 24% of base salary with effect from 1 January 2021, and 23.5% of base salary with effect from 1 January 2022 – Aligned with the company pension contributions of the wider workforce in the countries where the Executive Directors live
Annual Bonus	<ul style="list-style-type: none"> – Maximum opportunity of 200% and 150% of base salary for S.C. Harris and D. Yates respectively – 35% of any bonus earned is deferred into shares for three years, conditional on continued employment 	<ul style="list-style-type: none"> – 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 	<ul style="list-style-type: none"> – Based on three elements: headline operating profit (77%), headline operating cash flow (10%) and personal scorecard (13%) – S.C. Harris and D. Yates received no annual bonuses for 2020 (see page 70) 	<ul style="list-style-type: none"> – Maximum opportunity of 200% and 150% of base salary for S.C. Harris and D. Yates respectively – Performance measures and weightings same as 2020 award – Performance targets are considered commercially sensitive and will be fully disclosed in the 2021 Directors' Remuneration Report
Bodycote Incentive Plan (BIP)	<ul style="list-style-type: none"> – Annual grants at 175% of base salary, subject to a three-year performance period – Beginning with the 2019 grant, vested awards are subject to a two-year post-vesting holding period 	<ul style="list-style-type: none"> – To incentivise delivery of long-term strategic goals and shareholder value and aid retention of senior management 	<ul style="list-style-type: none"> – The award granted in 2018 and vesting in 2021 was based on ROCE (50%) and headline EPS (50%) – The award did not vest as performance conditions were not met (see page 70) 	<ul style="list-style-type: none"> – Maximum opportunity of 175% of salary for both Executive Directors – Performance measures and weightings same as 2020 award – Performance targets are set out below
Shareholding requirement	<ul style="list-style-type: none"> – Executive Directors are required to build up a holding of 200% of base salary over five years 	<ul style="list-style-type: none"> – To provide alignment of interest between Executive Directors and shareholders 	<ul style="list-style-type: none"> – Both Executive Directors exceed the minimum shareholding requirement (see page 72) 	<ul style="list-style-type: none"> – No changes proposed

Board report on remuneration continued

2021 BIP awards

The targets for the 2021 BIP awards are disclosed below. The Committee considers the targets to be appropriately stretching taking into account internal and external forecasts, the challenging market conditions and the level of uncertainty faced by the business over the next three years as a result of the pandemic.

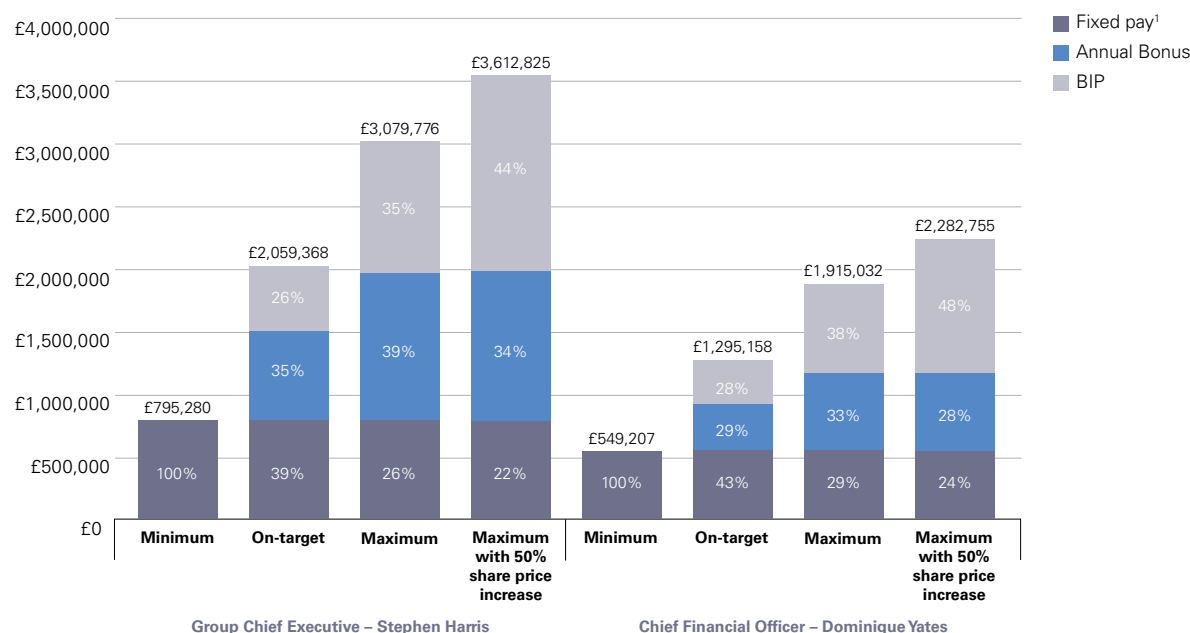
	ROCE ¹ (50% of award)		Headline EPS (50% of award)	
	Performance target	Vesting of element (% of maximum)	Performance target	Vesting of element (% of maximum)
Maximum performance	19.5%	100%	64.0p	100%
Threshold performance	13.0%	0%	42.0p	0%

¹ For the purposes of the BIP, 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 2021) only.

If headline EPS at the end of the performance period is below 36.0p, then no awards will vest. Furthermore, the Committee has discretion to amend the vesting outcome where it considers that it is not a fair and accurate reflection of business performance. This includes consideration of any potential 'windfall gains' at the point of vesting.

Illustration of application of remuneration policy for 2021

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 Group'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 value of each Executive Director's remuneration package, should they achieve minimum, on-target or maximum performance.



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

Minimum performance	– Fixed remuneration only
On-target performance	– Fixed remuneration
	– 60% of maximum annual bonus is earned
	– 50% of maximum BIP vests
Maximum performance	– Fixed remuneration
	– 100% of maximum annual bonus is earned
	– 100% of maximum BIP vests
Maximum performance + 50% share price growth	– As per the maximum performance illustration, but also assumes for the purposes of the BIP that share price increases by 50% over the vesting period

¹ Fixed remuneration comprises base salary as at 1 January 2021, benefits received in 2020 and pension opportunity applying from 1 January 2021.

Annual Report on remuneration

This section provides details of remuneration outcomes for Directors who served during the financial year ended 31 December 2020. This section of the report is audited and subject to an advisory vote by shareholders at the 2021 Annual General Meeting.

Auditable section

Total single figure table

	Financial year	Fixed pay			Subtotal (£000)	Variable pay			Total (£000)
		Salary/fees (£000)	Pension (£000)	Taxable benefits ^{1,6} (£000)		Annual bonus (£000)	BIP (£000)	Subtotal (£000)	
Executive Directors									
S.C. Harris	2020	597	146	40	783	–	– ²	–	783
	2019	558	140	42	740	563	559 ^{3,4}	1,112	1,862
D. Yates	2020	412	101	28	541	–	– ²	–	541
	2019	403	101	27	531	300	415 ^{3,4}	715	1,246
Non-Executive Directors									
A. C. Quinn	2020	239	–	0	239	–	–	–	239
	2019	232	–	1	233	–	–	–	233
P. Larmon	2020	69	–	0	69	–	–	–	69
	2019	65	–	1	66	–	–	–	66
E. Lindqvist	2020	69	–	0	69	–	–	–	69
	2019	67	–	3	70	–	–	–	70
I.B. Duncan	2020	79	–	0	79	–	–	–	79
	2019	77	–	1	78	–	–	–	78
L. Chahbazi	2020	59	–	0	59	–	–	–	59
	2019	58	–	1	59	–	–	–	59
K. Boyd ⁵	2020	20	–	0	20	–	–	–	20
	2019	–	–	–	–	–	–	–	–

Notes accompanying the total single figure table

- 1 Taxable 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 2020 figures relate to BIP awards granted on 12 April 2018 with a performance period ended on 31 December 2020. Based on performance against the targets the awards lapsed in full.
- 3 This included dividend equivalents equal to £92,469 for S.C. Harris and £68,721 for D. Yates. A share price of £8.08 calculated as the three months' average from 1 October to 31 December 2019 was used to estimate the value of the awards in the 2019 Annual Report. This has now been updated with the share price of £5.29 at the close of markets on the vesting date of 16 March 2020.
- 4 BIP awards granted on 18 May 2017 vested on 16 March 2020. The share price has decreased from £7.605 to £5.29 between the grant date and vesting date. Therefore, none of the value reported in the single figure table is attributable to share price growth between the grant date and vesting date.
- 5 K. Boyd was appointed to the Board on 1 September 2020.
- 6 Non-Executive Directors received benefits in the year of less than £500.

Salary

The base salaries of the Executive Directors are reviewed in January every year. The Group Chief Executive and Chief Financial Officer received salary increases in line with the average increases awarded to the Czech Republic and Swiss wider workforces respectively. This is to reflect pay practices and salary inflation in the countries where the Executive Directors work and live. The table below sets out the base salary figures for 2021 along with comparative figures for 2020.

Executive Director	Salary from 1 January 2020	Salary from 1 January 2021	Salary increase
S.C. Harris	£597,254	£609,199	2.0%
D. Yates	£412,014	£420,254	2.0%

Pension

S.C. Harris and D. Yates received a salary supplement in lieu of pension at a rate of 24.5% of base salary during 2020.

Salary supplements in lieu of pension contributions will be reduced to 23.5% of base salary by 1 January 2022. This is so that they are aligned with the company pension contributions of the wider workforce in the country that the Executive Directors work and live.

Taxable benefits

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

Executive Director	Car/car allowance	Fuel	Healthcare
S.C. Harris	13,600	2,400	23,873
D. Yates	12,000	1,200	14,892

Board report on remuneration continued

Incentive outcomes for 2020

Annual bonus

At the start of the year a maximum salary opportunity was available for awards to be granted to the Group Chief Executive and Chief Financial Officer equal to 200% and 150% of base salary respectively. The annual bonus was split 77% in respect of headline operating profit, 10% in respect of headline operating cash flow and 13% on personal strategic objectives. Given the impact of the COVID-19 pandemic on financial performance and the experience of employees and shareholders, the Committee, in consultation with the Executive Directors, cancelled the bonus for 2020. This decision was made in May 2020. For completeness, the Group achieved headline operating profit of £75.3m and headline operating cash flow of £130.2m for 2020, which fell short of the threshold targets set at the start of the year prior to the bonus being cancelled.

Bodycote Incentive Plan (BIP)

BIP awards granted on 12 April 2018 had a three-year performance period ended 31 December 2020, with 50% of the award subject to ROCE targets and 50% subject to headline EPS targets. Furthermore, if headline EPS at the end of the performance period was below 42.5p, then no awards would vest.

The threshold targets were not achieved and the awards therefore lapsed in full. The Committee concluded that the vesting outcome was appropriate given the pandemic's impact on underlying financial performance and the experience of key stakeholders, and no discretion was exercised.

The threshold and maximum targets along with the vesting schedule are set out in the table below.

	ROCE ¹		Headline EPS	
	Performance target (pre IFRS16)	Vesting of element (% of max)	Performance target	Vesting of element (% of max)
Maximum performance	23.0%	100%	64.0p	100%
Threshold performance	17.0%	0%	50.0p	0%
Performance achieved	10.9%	0%	27.8p	0%

¹ For the purposes of the BIP, 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 2018) only.

	Grant date	Number of shares granted	End of performance period	% award vesting
S.C. Harris	12 Apr 2018	96,911	31 Dec 2020	0%
D. Yates	12 Apr 2018	69,924	31 Dec 2020	0%

BIP awards granted during the financial year

Awards consisting of conditional shares were granted to both Executive Directors, equivalent in value to 175% of their base salaries on 23 March 2020, and will vest after three years in March 2023. The performance period will end on 31 December 2022. Awards are subject to continued employment and the achievement of post-IFRS 16 ROCE and headline EPS growth performance targets, as summarised in the table below. The Committee considered the targets to be appropriately stretching taking into account internal and external forecasts at the time, the challenging market conditions and the level of uncertainty faced by the business over the next three years as a result of the pandemic.

	ROCE ¹		Headline EPS	
	Performance target	Vesting of element (% of max)	Performance target	Vesting of element (% of max)
Maximum performance	19.5%	100%	62.0p	100%
Threshold performance	14.0%	0%	44.0p	0%

¹ For the purposes of the BIP, 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 2020) only.

If headline EPS at the end of the performance period is below 37.4p, then no awards will vest. Dividend equivalents are payable in respect of those shares that vest. Shares that vest are subject to a two year post-vesting holding period.

The number of awards that were granted to the Executive Directors during the year is set out below.

	Grant date	Number of shares granted	Market price at grant date ¹	Face value at grant date
S.C. Harris	23 Mar 2020	183,611	£5.32	£976,810
D. Yates	23 Mar 2020	132,483	£5.32	£704,809

¹ The three day average share price following the announcement of results for 2019 (12, 13 and 16 March 2020).

The Committee has discretion to amend the vesting outcome where it considers that it is not a fair and accurate reflection of business performance. This includes consideration of any potential 'windfall gains' at the point of vesting.

Chair and Non-Executive Directors' fees

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

	Roles	Fee for 2019	Fee for 2020	% increase in NED role fees
A.C. Quinn	– Non-Executive Chair – Chair of Nomination Committee – Member of Nomination Committee	£231,750	£238,703	3.0
P. Larmon	– Non-Executive Director – Chair of Employee Engagement Groups – Member of Audit, Remuneration and Nomination Committees	£67,137 ¹	£69,151	3.0
E. Lindqvist	– Non-Executive Director – Chair of Remuneration Committee – Member of Audit, Remuneration and Nomination Committees	£67,137	£69,151	3.0
I.B. Duncan	– Non-Executive Director – Chair of Audit Committee – Member of Audit, Remuneration and Nomination Committees – Senior Independent Director	£76,647	£78,946	3.0
L. Chahbazi	– Non-Executive Director – Member of Audit, Remuneration and Nomination Committees	£57,627	£59,356	3.0
K. Boyd ²	– Non-Executive Director – Member of Audit, Remuneration and Nomination Committees	–	£59,356	–

¹ P. Larmon is chairing the Employee Engagement Groups and his fee was increased as of 1 April 2019 to reflect the additional time commitment, but the £67,137 shown is the annual fee which was not paid for the full 12 months.

² K. Boyd was appointed to the Board on 1 September 2020, but the £59,356 shown is the annual fee which was not paid for the full 12 months.

Non-Executive Director fees were increased for 2020 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 2020 the aggregate annual fee for all Non-Executive Directors, including the Chair, was £574,663, which is below the maximum aggregate fee allowed by the Company's Articles of Association of £1,000,000 p.a.

Board changes in 2020

Payments for loss of office

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

Payments to past Directors

No payments to past Directors were made during the year.

Board report on remuneration continued

Directors' shareholdings

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 Executive Directors is 200% of salary.

The interests in ordinary shares of Directors and their connected persons as at 31 December 2020, including any interests awarded under the annual bonus or BIP, are presented below along with whether Executive Directors have met the shareholding guidelines. Share awards under the annual bonus and the BIP are conditional on continued employment until vesting.

	Counted towards the shareholding requirement		Outstanding interests (not counted towards the shareholding requirement)	
	Beneficially owned	Deferred shares granted under the annual bonus ¹	Shares subject to performance conditions BIP ²	Shareholding requirement met as at 31 December 2020
Executive Directors				
S.C. Harris (200% of salary min holding requirement)	384,870	106,168	395,754	Yes
D. Yates (200% of salary min holding requirement)	299,981	49,444	285,551	Yes
Non-Executive Directors				
A.C. Quinn	20,000	–	–	n/a
P. Larmon	5,000	–	–	n/a
E. Lindqvist	12,200	–	–	n/a
I.B. Duncan	–	–	–	n/a
L. Chahbazi	–	–	–	n/a
K. Boyd	3,000	–	–	n/a

¹ Figures relate to deferred shares granted in 2018, 2019 and 2020.

² Figures relate to unvested awards granted under the BIP in 2018, 2019 and 2020. The BIP awards granted on 12 April 2018 lapsed in full in March 2021.

As at 12 March 2021, the Company has not been advised of any changes to the interests of Directors and their connected persons as set out in the above table.

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 plans as at 31 December 2020 are as follows.

		Interests as at 1 January 2020	Granted in year	Vested in year	Lapsed in year	Interests as at 31 December 2020 ¹
BIP	S.C. Harris	323,712	183,611	94,164	17,405	395,754
	D. Yates	235,984	132,483	69,981	12,935	285,551
Deferred bonus shares	S.C. Harris	69,139	37,029	–	–	106,168
	D. Yates	29,716	19,728	–	–	49,444

¹ The BIP awards granted on 12 April 2018 lapsed in full in March 2021.

End of auditable section

Fees retained for external Non-Executive Directorships

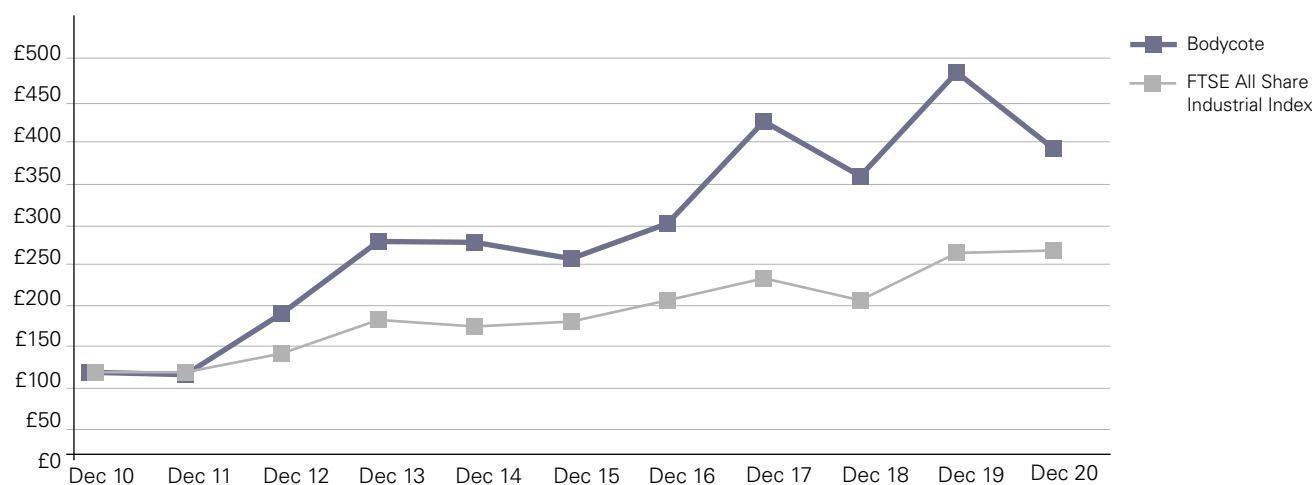
To broaden the experience of Executive Directors, the position of Non-Executive Director may be held in other companies, provided that permission is sought in advance. Any external appointment must not conflict with the Directors' duties and commitments to Bodycote plc. S.C. Harris has held the position of Non-Executive Director of Mondi plc since 1 March 2011 and in accordance with Group policy he retained fees for the year of £91,050.

Comparison of overall performance and pay

The chart below shows the value over the last 10 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 the Group operates. The points plotted represent the values at each financial year end.

Historical TSR Performance

Growth in the value of a hypothetical £100 holding over ten years
FTSE All Share Industrial Index comparison based on spot values



The table below shows how total remuneration for the Group Chief Executive, S.C. Harris, developed over the last 10 years.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Single figure of remuneration (£000)	3,252	3,840	3,089	1,803	771	875	2,280	2,728	1,862	783
Annual bonus (% of max)	95%	73%	46%	73%	20%	19%	98%	68%	50%	0%
Long-term incentive (% of max)	100%	100%	99%	44%	0%	0%	48%	89%	84%	0%

Percentage change in remuneration

The table below sets out the annual percentage change in remuneration from 2019 to 2020 for each of the Directors compared to that for an average employee.

	2019 to 2020		
	Salary/fees	Benefits ⁴	Annual bonus ³
Executive Director			
S.C. Harris	7.0%	2.8%	(100%)
D. Yates	2.3%	0.8%	(100%)
Non-Executive Directors			
A.C. Quinn	3.0%	-70.6%	–
P. Larmon	3.0%	-83.2%	–
E. Lindqvist	3.0%	-93.3%	–
I.B. Duncan	3.0%	-61.5%	–
L. Chahbazi	3.0%	-70.6%	–
K. Boyd ¹	n/a	n/a	–
Average employee ²	4.1%	2.4%	(100%)

1 K. Boyd was appointed to the Board on 1 September 2020.

2 The annual percentage change of the average remuneration of the listed parent entity employees (excluding Directors), calculated on a full-time equivalent basis.

3 No bonuses were paid to Executive Directors in respect of 2020.

4 Percentage change in Benefits is calculated on unrounded figures. Non-Executive Directors received benefits in the year of less than £500. Hence not showing 100% reductions from 2019.

Board report on remuneration continued

Pay ratio of Group Chief Executive to UK average employee

The table below sets out the Group Chief Executive's remuneration as a ratio against the full-time equivalent remuneration of the 25th, 50th (median) and 75th percentile UK employees.

Year	Method	25 th percentile pay ratio	Median pay ratio	75 th percentile pay ratio
2020	Option A	28:1	21:1	15:1
2019 ¹	Option A	70:1	55:1	40:1

¹ The 2019 CEO pay ratio figures disclosed in the 2019 Annual Report on Remuneration were based on salary, taxable benefits and pension only as Group annual bonus information was not available at the time. The 2019 CEO pay ratio figures have been updated so that they are based on single total single figure remuneration (i.e. salary, taxable benefits, pension, annual bonus outcome and BIP outcome).

Option A methodology was selected on the basis that it is a robust approach and is preferred by shareholders and proxy voting agencies. The calculations for the representative employees were performed as at the final day of the relevant financial year.

A substantial proportion of the Group Chief Executive's total remuneration is performance related and delivered in shares. The ratios will therefore depend significantly on the Group Chief Executive's annual bonus and BIP outcomes, and may fluctuate year-to-year.

2020 pay ratios have significantly decreased from 2019, largely due to a 58% reduction in the Group Chief Executives total remuneration. The Group Chief Executive's bonus and BIP 2020 remuneration was £nil (2019: £1.1m). In 2019 the Group Chief Executive's bonus and BIP remuneration equated to 60% of total remuneration.

Our broad remuneration policy reflects the diversity of cultures, legislative environments and employment markets of our geographical spread. However, in line with the UK reporting regulations we have reported solely on the UK employee population. The Board believes that the median pay ratio is consistent with the pay, reward and progression policies for the UK employee population.

Total pay and benefits used to calculate the ratios

The table below sets out the UK employee percentile pay and benefits used to determine the above pay ratios and the salary component for each figure.

	Group Chief Executive (£)	25 th percentile ^{2,3} (£)	Median ^{2,3} (£)	75 th percentile ^{2,3} (£)
2020				
Total pay and benefits	783,454 ¹	27,728	36,895	51,090
Salary component	597,254	26,150	34,859	47,373
2019				
Total pay and benefits	1,861,501 ¹	26,512	33,685	46,206
Salary component	558,181	25,248	32,166	42,643

¹ The Group Chief Executive remuneration is the total single figure remuneration for the relevant financial year.

² The UK employee percentile total pay and benefits has been calculated based on the amount paid or receivable for the relevant financial year. The calculations are on the same basis as required for the Group Chief Executive's remuneration for single 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 calculations and no remuneration components have been omitted.

³ For employees employed on a part-time basis, their remuneration has been annualised to reflect the full-time equivalent.

Relative importance of pay spend

The table below sets out the total expenditure in relation to staff and employee costs and distributions to shareholders in 2019 and 2020.

	2020 (£m)	2019 (£m)	% change
Staff and employee costs	235.1	280.6	-16.2%
Distribution to shareholders	25.1	74.7	-66.4%

Service contracts and letter of appointment

Executive Directors' service contracts are terminable by either side on 12 months' notice. All Directors' service contracts and letters of appointment are available for inspection at the Company's registered office. The dates of the Executive Directors' service contracts are set out below.

	Date of service contract
S.C. Harris	6 October 2008
D. Yates	1 November 2016

All Non-Executive Directors (including the Chair) are engaged for an initial period of three years which thereafter may be extended by a further three years and then on an annual basis. Non-Executive Directors (including the Chair) are subject to re-election at each Annual General Meeting. The appointment of Non-Executive Directors (including the Chair) may be terminated by either side on six months' notice. The dates of each Non-Executive Director's initial appointment are set out below.

	Date of initial appointment	Expiry of current term
A.C. Quinn	1 January 2018	AGM 2023
P. Larmon	13 September 2016	AGM 2022
E. Lindqvist	1 June 2012	AGM 2022
I.B. Duncan	17 November 2014	AGM 2022
L. Chahbazi	1 January 2018	AGM 2023
K. Boyd	1 September 2020	31 August 2023

Committee membership

During 2020 the Committee was chaired by E. Lindqvist. The Committee also comprised I.B. Duncan, P. Larmon, L. Chahbazi and K. Boyd as of 1 September 2020.

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.

Committee activities

During 2020 the Committee met five times to consider, amongst other matters:

Theme	Agenda items
Best practice	<ul style="list-style-type: none"> – Consideration of and responding to feedback from shareholders following the 2020 AGM – Update on market practice and corporate governance
Executive Directors' and senior executives' remuneration	<ul style="list-style-type: none"> – Base salary increases – Pension opportunities for Executive Directors – Granting annual bonus and BIP awards, including the setting of targets – Assessment of annual bonus and BIP outcomes
Reporting	<ul style="list-style-type: none"> – Consideration and approval of the Directors' Remuneration Report

Advisers to the Committee

The Committee appointed Deloitte LLP as Committee advisers as of 1 January 2020, following a competitive tender process. Deloitte LLP is a founder member of the Remuneration Consultants Group and as such voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK.

The Committee reviews the objectivity and independence of the advice it received from its remuneration consultants at a private meeting each year. The Committee is satisfied that the advice provided by Deloitte LLP on executive remuneration is objective and independent, and that no conflict of interest arises as a result of these services.

The fees paid to Deloitte LLP for their services to the Committee during the year, based on time and expenses, amounted to £56,580. Deloitte LLP also provided business tax services and financial advisory services to the Company during the year.

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 sets out the voting results in respect of the remuneration resolution to approve the Annual Report on Remuneration at the 2020 Annual General Meeting and to approve the Remuneration Policy at the 2019 Annual General Meeting.

	2020 Annual Report on Remuneration (% votes)	2019 Directors' Remuneration Policy (% votes)
Votes cast	85%	81%
For	74%	97%
Against	26%	3%
Number of abstentions	14,812	613,242

E. Lindqvist

Chair of the Remuneration Committee
12 March 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and 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, 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 Company and of the profit or loss of the Group 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and 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's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the 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's and Company's position and performance, business model and strategy.

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

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

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 2020 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the Group consolidated balance sheet and Company statement of financial position as at 31 December 2020; 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; the Group and Company accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in the Group accounting policies to the group financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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.

Other than those disclosed in note 3 to the group financial statements, we have provided no non-audit services to the group in the period under audit.

Independent auditors' report continued

Our audit approach

Context

Bodycote plc is a global business operating in the thermal processing sector. The business operates in a number of countries around the world and provides services primarily to the automotive, general industrial, aerospace, defence and energy markets. During 2020, the business has been impacted by COVID-19, resulting in a slow down in many of its key markets. The Group has undertaken a large-scale restructuring programme, resulting in a significant level of restructuring costs being incurred during the year, which have been recorded as exceptional items.

Overview

Audit scope

– The Group financial statements are a consolidation of a number of reporting units (each of which were deemed to be components) representing the Group's trading entities around the world, its centralised functions and consolidation adjustment reporting units. The reporting units vary in size, and our approach to scoping considers those entities which are of most significance to the Group as a whole, in particular in North America and Europe. We also requested component teams to perform full scope audit procedures over additional components to ensure we achieved an appropriate level of audit coverage.

Key audit matters

- Impairment assessment of goodwill and other intangible assets (group and parent)
- Restructuring costs (group)
- Acquisition of Ellison Surface Technologies (group)
- Uncertain tax positions (group)
- Impact of COVID-19 (group and parent)

Materiality

- Overall group materiality: £5,200,000 (2019: £6,200,000) based on approximately 5% of the 3-year average of profit before tax and exceptionals (2019: approximately 5% of annual profit before tax).
- Overall company materiality: £5,500,000 (2019: £5,100,000) based on approximately 1% of total assets.
- Performance materiality: £3,900,000 (group) and £4,125,000 (company).

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the *Auditors' responsibilities for the audit of the financial statements* section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of environmental regulations and health and safety regulations, 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 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 they 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;
- Substantive testing of journal entries which met a defined risk criteria, focusing on where and how fraud could arise; and
- Challenging assumptions and judgements made by management in its accounting estimates or judgements, in particular in relation to uncertain tax positions, restructuring provisions and its impairment assessment of goodwill.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Impact of COVID-19, Restructuring costs and Acquisition of Ellison Surface Technologies are new key audit matters this year. Adoption of IFRS 16, "Leases", which was a key audit matter last year, is no longer included because of the prior year being the year of adoption of this standard and, therefore, there being a lower level of associated audit risk in 2020. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

Impairment assessment of goodwill and other intangible assets (group and parent)

The Group has goodwill of £215.5 million as at 31 December 2020 (2019: £169.8 million). 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 the Group's customers operate, which impacts future cash flows, and the determination of the most appropriate discount rate. During 2020, COVID-19 had a significant impact on the business, and there is uncertainty around the rate of recovery for the Group in the coming years. Therefore, we considered the impairment assessment of goodwill to be a key audit matter.

Specifically, we identified the valuation of the North America ADE and North America AGI goodwill balances as significant risks due to their lower level of headroom relative to the carrying value of the CGUs and the material goodwill balances held in those CGUs.

In addition, during 2020, a £6.2m impairment was recorded against the Group's ERP system and other software assets, which will no longer be used in the business. The determination of the impairment charge was a judgement, given that elements of the ERP remain in development.

Refer to notes 11 and 12 of the Group financial statements, note 3 of the Company financial statements and the Audit Committee's views set out on page 60 of the Annual Report.

How our audit addressed the key audit matter

We obtained the Group's impairment analyses and tested the integrity of the calculation. We corroborated the 2021 forecast to the Board approved budget, and assessed the assumptions made by management in the budgeting process. We also understood management's process for forecasting longer term cash flows, in particular focusing on the assumptions used through to 2025 and the expected recovery in the Group's revenues.

We agreed the underlying carrying values of the CGUs to audited financial information.

We challenged management's key assumptions for profit and cash flow budgets by comparing them with third party forecast market data, where available, and considering the allocation of central costs to CGUs. We also performed look back testing to understand how accurate management had been in its forecasting historically, taking into account the unforeseen impact of COVID-19.

We used our valuations experts to assess the reasonableness of the discount rates used by management, by independently calculating a range for the weighted average cost of capital ("WACC") 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. We used this independently calculated WACC and our estimate of the long-term growth rate, alongside our view of an appropriate allocation of corporate overheads to each CGU and certain other assumptions, to determine the impact of these inputs on the recoverable amount.

We obtained management's sensitivity analyses, which showed the impact of its view of reasonably possible changes to key assumptions and performed our own sensitivity analyses.

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. We understood the rationale applied by management in determining the associated impairment charge and tested the balance written-off. We satisfied ourselves that, based on the non-recurring nature of the charge, the classification of this charge as exceptional was appropriate.

We also assessed the appropriateness of the related disclosures in notes 11 and 12 of the Group financial statements and note 3 of the Company financial statements.

Based on the procedures performed, we noted no material issues from our work.

Independent auditors' report continued

Key audit matter

How our audit addressed the key audit matter

Restructuring costs (group)

The Group has recorded significant exceptional restructuring costs of £52.2m during the year ended 31 December 2020, relating to programmes announced in 2020 in both the AGI and ADE divisions. These costs are split between impairment of £16.5m, and cash costs of £35.7m, including severance and site closure costs. Provisions of £24.1m are held at the year end date in relation to these items.

There is judgement involved in determining both the nature and quantum of amounts to impair under IAS 36, "Impairment of Assets", and to provide under IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", given the extensive nature of the restructuring programme, and what can be classified in exceptional items.

Refer to notes 6 and 23, and the Audit Committee's views set out on page 60 of the Annual Report.

Our audit work at the Group level included an assessment of management's accounting policies for provisions and exceptional items.

Audit procedures were performed to confirm the completeness of the provisions recognised by considering historical costs on similar site closures, in particular in determining the trigger point for recognising environmental restructuring provisions and the associated quantum of amounts recorded.

We tested severance costs paid and provided for, and agreed these to final settlements, where appropriate. We also validated that severance costs were underpinned by pre year-end communications to impacted employees.

We considered management's impairment assessment for property, plant and equipment to be scrapped and satisfied ourselves that the assets did not appear to have future value in the business.

We agreed that, based on the material and non-recurring nature of these items, presentation as exceptional items was appropriate.

Based on the procedures performed, we noted no material issues from our work.

Acquisition of Ellison Surface Technologies (group)

The Group acquired Ellison Surface Technologies in April 2020 for £130.0m. As part of the accounting for the transaction, material goodwill and other intangible assets have been recognised, namely customer relationships. The purchase price allocation remains provisional as at 31 December 2020. There is significant judgement in determining the value of these other intangible assets, and there were a number of assumptions used in management's valuation calculations. For these reasons, we determined that the valuation of the other intangible assets recognised was a significant risk for our audit and a key audit matter.

Refer to note 25 and the Audit Committee's views set out on page 61 of the Annual Report.

We obtained the purchase price allocation performed by management. With the support of our valuation experts, we examined management's methodology and the mathematical accuracy of its calculations and considered the useful economic lives of the identified intangible assets in the valuation model prepared by management.

For the intangible assets identified, we also tested other key assumptions, including assessing the cash flow projections that underpin management's valuations by comparing future cash flows with historical experience and validating the reasons for the profile of projections. Supported by our valuation experts, we also assessed the anticipated synergies giving rise to goodwill. This evaluation included benchmarking growth and profitability ratios against industry data. We also performed sensitivity analysis over key assumptions, such as revenue growth and the discount rate used in management's valuation.

In assessing the above factors, we challenged the completeness of intangible assets that were identified by management.

Finally, we assessed the disclosure in respect of the transaction to determine whether it meets the requirements of IFRS 3, "Business Combinations".

Based on the procedures performed, we noted no material issues from our work.

Key audit matter

Uncertain tax positions (group)

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.

In particular, the interpretation of complex tax regulations and the unknown future outcome of any pending rulings 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. These transactions result in the recognition of material provisions for tax, and for this reason, we considered uncertain tax positions to be a key audit matter.

Refer to notes 8, 21 and 31, and the Audit Committee's views set out on page 61 of the Annual Report.

How our audit addressed the key audit matter

Our audit work, which involved taxation audit specialists at the Group level, included the assessment of the Group's uncertain tax positions.

Our assessment included considering the current status of new and historical tax assessments and investigations to monitor developments in ongoing disputes, in addition to reviewing correspondence with tax authorities. We considered 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. We also considered significant transactions to identify uncertain tax positions that may arise from those transactions.

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 and measured in accordance with the relevant accounting standards.

Where provisions have not been established, including for material potential exposures like EU State Aid, we evaluated the basis for management's judgements, including an assessment of the treatment of similar exposures at comparable companies. We evaluated third party advice obtained by the Group as we independently formed our view about the likelihood of these possible tax risks crystallising in future cash outflows.

We considered the appropriateness of the related disclosures in notes 8, 21 and 31 to the financial statements.

Based on the procedures performed, we noted no material issues from our work.

Impact of COVID-19 (group and parent)

COVID-19 had a significant impact on the Group in 2020, resulting in a material decline in revenues and profits. Consequently, we have considered the impact of COVID-19 on the financial statements, including the accounting implications and associated disclosures. The following key areas were identified:

- The Group's going concern assessment (see the Group's accounting policies and the Going Concern section of our report below);
- Impairment assessment of goodwill (see key audit matter above);
- The ability of both management and us to conduct inventory counts where local restrictions were in place;
- Recoverability of trade receivables in the Group financial statements (see note 16 of the Group financial statements) and of investments in subsidiaries in the parent company financial statements (see note 6); and
- Restructuring costs included in exceptional items related to the restructuring of the business (see key audit matter above).

COVID-19 also required us to perform a remote audit due to international travel restrictions.

We issued specific audit instructions to component teams, requesting additional risk assessments to be performed on the impact of COVID-19 locally, and directed component auditors to perform further procedures to address the additional areas that may be subject to significant estimates or judgements to ensure the appropriateness and completeness of our audit risk assessment and planned audit response. These areas included the impact of COVID-19 on accounting estimates such as expected credit losses and the ability for management, and ourselves, to conduct appropriate inventory count procedures.

We assessed our ability to execute the audit when operating under lockdown and the related international travel restrictions, in particular given the Group finance function is based in the Czech Republic. We implemented alternative communication and review protocols with management and with our component auditors. We also held a planning meeting ahead of the year-end audit, involving management, and agreed ways to facilitate a remote audit, including agreeing how we could ensure appropriate access to relevant audit documentation.

We assessed management's disclosures in the Annual Report in relation to the impact of COVID-19, considering whether the disclosures were consistent with our underlying audit procedures both at the Group and at the component level.

With the support of our component teams where necessary, we also evaluated management's accounting estimates in light of COVID-19, including assessing the restructuring charges incurred in the year, as described in the above key audit matter on restructuring costs, and the recoverability of trade receivables. We also considered its impact on impairment as set out in the above key audit matter.

Our conclusions related to the audit of the going concern assessment are reported separately below.

Based on the procedures performed, we noted no material issues from our work.

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 (2019: one) as financially significant in 2020 (as defined within ISAs (UK)). We obtained full scope audit reporting from a further seven components (2019: eight), where we concluded that the component engagement leader is a Key Audit Partner (as defined under ISAs (UK)), and an additional fourteen components where full scope audits were also performed. Together, these components were in twelve countries, representing the Group's principal businesses, and accounted for 80% of the Group's revenue (2019: 78%), 73% of consolidated absolute profit before tax and exceptionals (2019: 70%) and 73% of consolidated absolute profit before tax (2019: 70%).

Specified procedures over a specific financial statement line item were performed at one further component (2019: one) and central testing was performed on selected items, such as goodwill, uncertain tax positions and the consolidation, primarily to ensure appropriate audit coverage.

The components included within our audit scope 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 exceptionals), 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 on 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. Due to COVID-19, all interactions with component auditors were virtual but, through the utilisation of technology, our interactions included attending certain component audit clearance meetings, as well as considering and assessing any matters reported. The Group engagement team also reviewed selected audit working papers for certain in-scope component teams, including those 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.

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:

	Financial statements - group	Financial statements - company
Overall materiality	£5,200,000 (2019: £6,200,000)	£5,500,000 (2019: £5,100,000).
How we determined it	Approximately 5% of the 3-year average of profit before tax and exceptionals (2019: approximately 5% of annual profit before tax).	Approximately 1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax and exceptionals is the primary measure used by shareholders in assessing the performance of the Group. Exceptional items are excluded as the directors consider that these items do not reflect the underlying performance of the business. The impact of COVID-19 on the Group has resulted in a significant reduction in profits during the year, but the consolidated balance sheet remains of a similar size to the prior year. On that basis it is appropriate to use a 3-year average of profits (2019: annual profits), which 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 is less than our overall group materiality. The range of materiality allocated across components was £375,000 to £2,800,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £3,900,000 for the group financial statements and £4,125,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £260,000 (group audit) (2019: £310,000) and £275,000 (company audit) (2019: £255,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the directors' assessment and understanding the assumptions used in the base case scenario and the severe but plausible scenario over the next twelve months;
- Agreeing the budget for 2021 used in the base case scenario to the Board approved budget and testing the assumptions used in determining these cash flows;
- For the period of the assessment not covered by the budget, we analysed the forecasts projected by management and considered these in the context of wider market data; and
- We reperformed the stress-testing applied by management to ascertain the resilience of the Group to ongoing economic downturn, including against any potential future impacts of COVID-19, and what it would take to cause a liquidity shortfall or a covenant breach.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 and the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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 the Directors' report.

Directors' Remuneration

In our opinion, the part of the Board report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Independent auditors' report continued

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

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

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, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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/auditorsresponsibilities. 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 obtained 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 Board report on remuneration to be audited are not in agreement with the accounting records and returns; or
- a corporate governance statement has not been prepared by the company.

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. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2019 to 31 December 2020.

Simon Morley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 March 2021

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Revenue	2	598.0	719.7
Cost of sales and overheads		(535.0)	(590.5)
Net impairment gains/(losses) on financial assets		0.4	(0.6)
Operating profit prior to exceptional items	2,3	63.4	128.6
Exceptional items	6	(58.4)	–
Operating profit	3	5.0	128.6
Finance income		0.2	0.2
Finance costs	7	(6.7)	(4.9)
(Loss)/profit before taxation		(1.5)	123.9
Taxation credit/(charge)	8	2.3	(29.9)
Profit for the year		0.8	94.0
Attributable to:			
Equity holders of the parent		0.4	93.8
Non-controlling interests		0.4	0.2
		0.8	94.0
Earnings per share	10		
		Pence	Pence
Basic		0.2	49.4
Diluted		0.2	49.2

All activities have arisen from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the year		0.8	94.0
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit pension schemes	30	0.5	(2.0)
Tax on items that will not be reclassified	21	(0.1)	0.9
Total items that will not be reclassified to profit or loss		0.4	(1.1)
Items that may be reclassified subsequently to profit or loss:			
Exchange losses on translation of overseas operations		(1.4)	(26.4)
Movements on hedges of net investments	20	1.1	–
Total items that may be reclassified subsequently to profit or loss		(0.3)	(26.4)
Other comprehensive income/(expense) for the year		0.1	(27.5)
Total comprehensive income for the year		0.9	66.5
Attributable to:			
Equity holders of the parent		0.8	66.4
Non-controlling interests		0.1	0.1
		0.9	66.5

Consolidated balance sheet

At 31 December 2020

	Note	2020 £m	2019 £m
Non-current assets			
Goodwill	11	215.5	169.8
Other intangible assets	12	108.0	42.6
Property, plant and equipment	13	522.6	534.5
Right-of-use assets	14	69.0	73.3
Investment in associate	26	4.1	4.2
Deferred tax assets	21	2.4	6.1
Trade and other receivables	16	2.1	1.2
		923.7	831.7
Current assets			
Inventories	15	15.8	14.8
Current tax assets		20.7	15.7
Trade and other receivables	16	116.2	142.9
Cash and bank balances	17	30.7	22.0
Assets held for sale	18	2.9	–
		186.3	195.4
Total assets		1,110.0	1,027.1
Current liabilities			
Trade and other payables	22	170.9	127.4
Current tax liabilities		30.7	31.2
Borrowings	19	53.2	1.1
Lease liabilities	14	13.6	13.4
Provisions	23	26.0	4.0
		294.4	177.1
Net current (liabilities)/assets		(108.1)	18.3
Non-current liabilities			
Lease liabilities	14	62.0	66.0
Retirement benefit obligations	30	16.2	17.9
Deferred tax liabilities	21	42.7	48.6
Provisions	23	11.0	9.5
Other payables	22	2.3	2.2
		134.2	144.2
Total liabilities		428.6	321.3
Net assets		681.4	705.8
Equity			
Share capital	24	33.1	33.1
Share premium account		177.1	177.1
Own shares		(6.9)	(11.6)
Other reserves		132.6	136.7
Translation reserves		37.9	37.9
Retained earnings		306.7	331.8
Equity attributable to equity holders of the parent		680.5	705.0
Non-controlling interests		0.9	0.8
Total equity		681.4	705.8

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 12 March 2021.

They were signed on its behalf by:

S.C. Harris

D. Yates

Consolidated cash flow statement

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Net cash from operating activities	27	139.1	177.3
Investing activities			
Purchases of property, plant and equipment		(57.8)	(77.7)
Proceeds on disposal of property, plant and equipment and intangible assets		1.9	7.4
Purchases of other intangible assets		(2.1)	(1.0)
Acquisition of businesses, net of cash acquired	25	(66.7)	(19.1)
Interest received ¹		0.3	0.2
Net cash used in investing activities		(124.4)	(90.2)
Financing activities			
Interest paid		(5.0)	(4.7)
Dividends paid	9	(25.1)	(74.9)
Principal elements of lease payments		(15.5)	(14.4)
Drawdown of bank loans		101.9	35.0
Repayments of bank loans		(62.1)	(37.3)
Own shares purchased		(0.5)	(6.0)
Net cash used in financing activities		(6.3)	(102.3)
Net increase/(decrease) in cash and cash equivalents		8.4	(15.2)
Cash and cash equivalents at beginning of year		20.9	36.2
Effect of foreign exchange rate changes		(0.1)	(0.1)
Cash and cash equivalents at end of year	27	29.2	20.9

¹ Interest received has been restated to present this as an investing activity cash flow item rather than a financing activity cash flow item.

Consolidated statement of changes in equity

For the year ended 31 December 2020

	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 2019	33.1	177.1	(14.8)	141.4	64.2	317.6	718.6	0.7	719.3
Profit for the year	-	-	-	-	-	93.8	93.8	0.2	94.0
Exchange differences on translation of overseas operations	-	-	-	-	(26.3)	-	(26.3)	(0.1)	(26.4)
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Total comprehensive income for the year	-	-	-	-	(26.3)	92.7	66.4	0.1	66.5
Acquired in the year/settlement of share options	-	-	3.2	(5.8)	-	(3.4)	(6.0)	-	(6.0)
Share-based payments	-	-	-	1.1	-	-	1.1	-	1.1
Deferred tax on share-based payment transactions	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Dividends	-	-	-	-	-	(74.7)	(74.7)	-	(74.7)
31 December 2019	33.1	177.1	(11.6)	136.7	37.9	331.8	705.0	0.8	705.8
Profit for the year	-	-	-	-	-	0.4	0.4	0.4	0.8
Exchange differences on translation of overseas operations	-	-	-	-	(1.1)	-	(1.1)	(0.3)	(1.4)
Movements on hedges of net investments	-	-	-	-	1.1	-	1.1	-	1.1
Actuarial gains on defined benefit pension schemes net of deferred tax	-	-	-	-	-	0.4	0.4	-	0.4
Total comprehensive income for the year	-	-	-	-	-	0.8	0.8	0.1	0.9
Acquired in the year/settlement of share options	-	-	4.7	(4.5)	-	(0.8)	(0.6)	-	(0.6)
Share-based payments	-	-	-	0.4	-	-	0.4	-	0.4
Dividends	-	-	-	-	-	(25.1)	(25.1)	-	(25.1)
31 December 2020	33.1	177.1	(6.9)	132.6	37.9	306.7	680.5	0.9	681.4

Included in other reserves is a capital redemption reserve of £129.8m (2019: £129.8m) and a share-based payments reserve of £2.0m (2019: £6.1m). 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 2020 865,565 (2019: 1,405,555) 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 28).

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

Group accounting policies

Year ended 31 December 2020

Basis of preparation

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 international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. There are no differences for the Group in applying each of these accounting frameworks.

The Group has adopted Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee of the IASB (IFRS IC). Individual standards and interpretations have to be adopted by the European Commission (EC) and the UK Endorsement Board (UKEB) respectively, and the process leads to a delay between the issue and adoption of new standards and in some cases amendments. International Financial Reporting Standards are subject to ongoing amendment by the IASB and subsequent endorsement by the EC and UKEB and are therefore subject to change.

The financial statements have been prepared on the historical cost basis, except for items that are required by IFRS to be measured at fair value, principally certain financial instruments measured at fair value, and retirement benefit assets. Historical cost is generally based on the fair value of the consideration given up in exchange for the assets.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Bodycote plc ('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 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 subsidiary financial statements 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.

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.

Going concern

In determining the basis of preparation for the Group's financial statements, the Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Chief Financial Officer's report included in this Annual Report includes a summary of the Group's financial position, cash flows, liquidity position and borrowings.

The current and plausible future impact of COVID-19 on the Group's activities and performance has been considered by the Board of Directors in preparing its going concern assessment. Whilst the situation is uncertain and evolving, the Group has modelled potential severe but plausible impacts on revenues, profits and cash flows in its assessment. In preparing its assessment, the Directors have considered the actual impact that COVID-19 has had on the business since the beginning of the outbreak and the related decline in revenues. Revenues on an organic basis for the last 9 months of the year ended 31 December 2020 were 25% below those in the prior year, reflecting the impact of shutdowns at the Group's customers' locations and reduced demand, particularly in the area of civil air traffic.

Management has modelled a base case scenario, built upon the budgeting process for 2021 and extended up to July 2022. This model shows an improvement on performance in 2020 in both revenue and profits, but still a decline on 2019 actuals. Management then established a severe but plausible downside scenario under which the crisis would have a prolonged impact, with a significant revenue shortfall compared with 2019 actuals modelled through to the end of July 2022, the period that has been modelled for the purpose of assessing going concern. The Group's record of cash conversion during recent months was used to estimate the cash generation and level of net debt over that period, with the cost reductions achieved during 2020 through restructuring programmes resulting in future improvements in operating margins.

The key covenants attached to the Group's Revolving Credit Facility relate to financial gearing (net debt to EBITDA) and interest cover, which are measured on a pre-IFRS 16 basis. The maximum financial gearing ratio permitted under the covenants is 3.0x (with an acquisition spike at 3.5x) and the minimum interest cover ratio permitted is 4x. In the severe but plausible downside scenario modelled, the Group continues to maintain sufficient liquidity and meets its gearing and interest cover covenants under the Revolving Credit Facility with substantial headroom.

The Group meets its working capital requirements through a combination of committed and uncommitted facilities and overdrafts. For the purposes of the going concern assessment, the Directors have only taken into account the capacity under existing committed facilities, being the Group's Revolving Credit Facility. The Group's uncommitted facilities totalled £61m as at 31 December 2020.

On 27 May 2020, the Group negotiated a new £250.9m Revolving Credit Facility for five years to May 2025. At 31 December 2020, the Group's Revolving Credit Facility had drawings of £51.7m (2019: £nil) and the Group's net debt was £22.5m (2019: net cash of £20.9m). The liquidity headroom was £221.7m at 31 December 2020 excluding uncommitted facilities.

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

Following this assessment, the Directors have formed a judgement, at the time of approving the financial statements, that there are no material uncertainties that cast doubt on the Group's going concern status and that it is a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Critical accounting judgements and significant accounting estimates

In the course of preparing the financial statements certain estimates and assumptions, and judgements in the process of applying the Group's accounting policies have been made that have had a significant effect on the amounts recognised in the financial statements. Although the estimates and judgements are based on management's best information about current circumstances and future events and actions, actual results may differ and result in material variances.

Critical accounting judgements

- 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. Refer to notes 8, 21 and 31 for more information.
- Certain items have been disclosed as exceptional costs where they meet this classification as outlined in the Group's accounting policy below and note 6.
- Goodwill allocation and valuation of acquired intangible assets, specifically the identification of customer relationships relating to the acquisition of business during the year which have been valued based on estimated customer loss ratios and projected sales values. Refer to notes 11, 12 and 25 for more information.

Significant accounting estimates

- 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 and the mortality rates applied in the calculation of scheme liabilities is a key source of estimation uncertainty for the Group. Details of the accounting policies applied in respect of retirement benefit schemes are set out on page 94 and see note 30 for further details.

Other areas of judgement and accounting estimates

- The Group has taken the decision not to recognise an asset in relation to the surplus on the UK defined benefit pension scheme.
- The Group has considered whether the valuation of goodwill and the related value-in-use calculation assumptions used for the annual impairment testing was a significant estimate and has concluded that there is no reasonably possible material change expected in the next 12 months. This estimate is therefore not considered as significant. Refer to note 11 for more information.
- The impact of the COVID-19 pandemic has brought considerable change to the risk landscape during the year. The Group has re-assessed its principal risks and where necessary, management have implemented several mitigation activities. Given the measures implemented during the year, our view is that there is no significant risk of COVID-19 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and therefore this does not represent a material estimation uncertainty.
- Climate change is a global challenge and an emerging risk for the Group. The Group has a role to play in limiting environmental impact by improving energy management, reducing carbon emissions and helping our customers do the same. Growing awareness of climate change will contribute to the Group's business growth as it provides products, services and solutions that increase efficiency and reduce energy use. As a result, the Group does not view climate change as a material estimation uncertainty. For further detail, refer to the Principal Risks section and Environmental, Social, Governance section of the Strategic Report.
- No key sources of estimation uncertainty have been identified in relation to Brexit and the recent Free Trade Agreement between the UK and the EU.

Group Accounting Policies

Revenue recognition

The Group predominantly has one revenue stream relating to 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, being the delivery of a service which happens either at a point in time or over a short timeframe. Revenue is recognised on completion of the service rendered and therefore any spread of revenue over time would not have a material impact on revenue recognition. 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. In general, there are limited instances of judgements made in assessing revenue recognition under IFRS 15 given the relative simplicity of the contracts, and that revenue is recognised at a point in time.

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

Group accounting policies continued

Year ended 31 December 2020

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 the functional currency 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 profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see pages 121 to 122); 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.

Government assistance

Economic support provided to the Group as part of government and state initiatives to support local economies is recorded in line with IAS 20, and is recognised in the income statement on the date at which the conditions attached to the receipt of such assistance have been met, in the period it becomes receivable. The income is presented net against the applicable staff costs within cost of sales and overheads in the income statement.

Operating profit/(loss)

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

Dividends

The dividend distributions (ordinary and special) to Bodycote plc's ordinary shareholders are recognised as a liability when the dividends are paid. Final dividends are accrued when approved by the ordinary shareholders at its Annual General Meeting.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred as finance costs. 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. Interest costs on borrowings are expensed to the consolidated Income Statement as they fall due and accounted for as financing cash flows as they are settled.

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, impairment charges, costs associated with significant restructuring and reorganisation costs, profits and losses on disposal of subsidiaries and other one-off items which meet this definition.

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 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 the 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 unit and then to assets of the unit on a pro-rata basis. Any impairment loss recognised for goodwill cannot be 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.

Other 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, which is included in cost of sales and overheads.

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 freehold land and assets under construction which is not depreciated, 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 in the consolidated income statement.

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 and they have been transferred to the relevant asset class.

Business combinations

Acquisitions of subsidiaries and businesses are generally accounted for under IFRS 3, where appropriate. 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 any 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 Payments.

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 in the consolidated income statement.

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 in the consolidated income statement immediately.

Group accounting policies continued

Year ended 31 December 2020

Retirement benefit schemes

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

The cost of providing pensions under defined benefit schemes are calculated in accordance with a qualified actuarial evaluation and are spread over the period during which the benefit is expected to be derived from the employees' services. The Group's net obligation or surplus is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. Past service costs resulting from plan amendments or curtailments and gains or losses on settlements are charged to the consolidated income statement.

The average discount rate for the plans' liabilities is based on investment grade rated corporate bonds or similar government bonds of suitable duration and currency. Plans' assets are measured using market values at the end of the reporting period. Actuarial gains and losses, differences between the expected and actual returns, and the effect of changes in actuarial assumptions are recognised in the Statement of Comprehensive income in the year they arise. Any scheme surplus (to the extent it is considered recoverable under the provisions of IFRIC 14) or deficit is recognised in full in the consolidated balance sheet.

Right-of Use assets

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 leases 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 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. 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. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the consolidated 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 to 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 easily determinable. If the rate cannot be readily determined, the lessee's incremental borrowing rate is used. Finance charges are recognised in the consolidated income statement over the period of the lease.

Lease arrangements that are short-term in nature 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 based on quantitative criteria.

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.

Assets held for sale

Assets are classified and presented as held for sale at lower of carrying amount and fair value less cost to sell 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.

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. Financial liabilities are classified according to the substance of the contractual arrangements entered into. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Financial liabilities are not generally interest-bearing and are stated at their nominal value unless otherwise described below.

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 original invoice amount (which is considered fair value) and are subsequently held at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate where applicable, 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.

For trade receivables 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 in the consolidated income statement.

Cash and bank balances

Cash and bank balances 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.

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 IFRS 9 Financial Instruments are recognised immediately in the consolidated 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.

Group accounting policies continued

Year ended 31 December 2020

Net investment hedge

The Group uses foreign currency debt to hedge its exposure to changes in the underlying value of net assets of overseas operations arising from foreign exchange rate movements. The Group maintains documentation of the relationship between the hedged item and the hedging instrument at the inception of a hedging transaction together with the risk management objective and the strategy underlying the designated hedge. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

To the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised in the consolidated statement of comprehensive income and accumulated in the hedging and translation reserve. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated income statement and is included in other operating expenses.

Trade and other payables

Trade and other payables are recognised at the amounts expected to be paid to counterparties and subsequently held at amortised cost.

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 consolidated 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 asset and 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 consolidated 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.

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 accrual's basis to the consolidated 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.

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. If the obligation is expected to be settled within 12 months of the reporting date the provisions are included within current liabilities and if expected to be settled after 12 months included in non-current liabilities.

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 difference between the carrying amount and the present value of those cash flows is material to the financial statements, the 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 consolidated income statement such that the cumulative expense reflects the revised estimates with a corresponding adjustment to the equity-settled employee benefits reserve.

Adoption of new and revised standards

IFRS 16, 'COVID-19-Related Rent Concessions'

During the year the IASB published an amendment to IFRS16, 'COVID-19-Related Rent Concessions' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification, effective for annual reporting periods beginning on or after 1 June 2020. As at 31 December 2020 there would have been no impact of this amendment had the effective date been required for the Group 2020 accounts.

IFRS 3 Business Combination amendments

The IASB issued amendments to IFRS 3 Business Combinations that revised the definition of a business, which assist entities with the evaluation of when an asset or group of assets acquired should be considered a business. This amended standard is effective to transactions entered into on or after 1 January 2020. The adoption of this amended standard on 1 January 2020 did not have a significant impact on the consolidated financial statements and is not expected to have a significant impact in future periods.

There are no other IFRS standards or interpretations not yet effective that would be expected to have a material impact on the Group.

General information

Bodycote plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 45.

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 Company. Foreign operations are included in accordance with the policies set out in the Foreign Currencies accounting policy on page 94.

Notes to the consolidated financial statements

Year ended 31 December 2020

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, headline operating margin, 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 (debt)/cash, net (debt)/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, exceptional items, acquisition costs and the amortisation of acquired intangible assets. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, to better represent the underlying performance of the business. The measures described above are also used in the targeting process for executive and management annual bonuses (headline operating profit and headline operating cash flow) with headline EPS and ROCE also used in executive share schemes.

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.

Headline operating profit

	2020 £m	2019 £m
Operating profit	5.0	128.6
Add back:		
Amortisation of acquired intangibles	9.8	4.6
Acquisition costs	2.1	1.7
Exceptional items	58.4	–
Headline operating profit	75.3	134.9

Headline operating margin

	2020 £m	2019 £m
Headline operating profit	75.3	134.9
Revenue	598.0	719.7
Headline operating margin	12.6%	18.7%

Headline profit before taxation

	2020 £m	2019 £m
(Loss)/profit before taxation	(1.5)	123.9
Add back:		
Amortisation of acquired intangibles	9.8	4.6
Acquisition costs	2.1	1.7
Exceptional items	58.4	–
Headline profit before taxation	68.8	130.2

1. Alternative performance measures (APMs) continued

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

	2020 £m	2019 £m
Operating profit	5.0	128.6
Depreciation and amortisation	91.9	84.2
Impairment of property, plant and equipment and other assets - recognised in exceptional items	16.5	–
Impairment of property, plant and equipment and other assets - recognised in operating profit	0.3	–
Impairment of other intangible assets - recognised in exceptional items	6.2	–
Loss/(profit) on disposal of property, plant and equipment	0.6	(4.4)
Share-based payments	0.4	1.1
Income from associate	(0.2)	(0.2)
EBITDA	120.7	209.3
Acquisition costs	2.1	1.7
Exceptional items, excluding impairments	35.7	–
Share-based payments	(0.4)	(1.1)
Headline EBITDA	158.1	209.9
Headline EBITDA margin	26.4%	29.2%

Headline operating cash flow

	2020 £m	2019 £m
Headline EBITDA	158.1	209.9
Less:		
Net maintenance capital expenditure	(45.1)	(50.2)
Net working capital movement	17.2	(4.2)
Headline operating cash flow	130.2	155.5

Free cash flow

	2020 £m	2019 £m
Headline operating cash flow	130.2	155.5
Less:		
Restructuring cash flows	(11.6)	(3.2)
Income taxes paid	(7.8)	(24.7)
Interest paid	(4.7)	(4.5)
Free cash flow	106.1	123.1

Headline operating cash conversion

	2020 £m	2019 £m
Headline operating cash flow	130.2	155.5
Headline operating profit	75.3	134.9
Headline operating cash conversion	172.9%	115.3%

Headline tax charge

	2020 £m	2019 £m
Tax (credit)/charge	(2.3)	29.9
Tax on amortisation of acquired intangibles	2.4	1.1
Tax on exceptional items	15.4	–
Headline tax charge	15.5	31.0

Notes to the consolidated financial statements continued

Year ended 31 December 2020

1. Alternative performance measures (APMs) continued

Headline tax rate

	2020 £m	2019 £m
Headline tax charge	15.5	31.0
Headline profit before taxation	68.8	130.2
Headline tax rate	22.5%	23.8%

Headline earnings per share

A detailed reconciliation is provided in note 10.

Net (debt)/cash and net debt plus lease liabilities

	2020 £m	2019 £m
Cash and bank balances	30.7	22.0
Bank overdrafts (included in borrowings)	(1.5)	(1.1)
Bank loans (included in borrowings)	(51.7)	–
Net (debt)/cash	(22.5)	20.9
Lease liabilities	(75.6)	(79.4)
Net debt plus lease liabilities	(98.1)	(58.5)

Return on capital employed

	2020 £m	2019 £m
Headline operating profit	75.3	134.9
Average capital employed ¹	770.5	762.4
Return on capital employed	9.8%	17.7%

Revenue and headline operating profit at constant exchange rates

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

	Year to 31 December 2020			
	ADE £m	AGI £m	Central cost and eliminations £m	Consolidated £m
Revenue	249.2	348.8	–	598.0
Constant exchange rates adjustment	0.3	2.0	–	2.3
Revenue at constant exchange rates	249.5	350.8	–	600.3
Headline operating profit	36.8	41.0	(2.5)	75.3
Constant exchange rates adjustment	(0.3)	0.7	0.1	0.5
Headline operating profit at constant exchange rates	36.5	41.7	(2.4)	75.8

¹ Average capital employed is defined as the average opening and closing net assets adjusted for net (debt)/cash plus lease liabilities.

2. Business and geographical segments

The Group has more than 165 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.

Group	ADE 2020 £m	AGI 2020 £m	Central costs and eliminations 2020 £m	Consolidated 2020 £m
Revenue				
Total revenue	249.2	348.8	–	598.0
Result				
Headline operating profit prior to share-based payments and unallocated central costs	36.8	41.0	–	77.8
Share-based payments (including social charges)	–	–	0.9	0.9
Unallocated central costs	–	–	(3.4)	(3.4)
Headline operating profit/(loss)	36.8	41.0	(2.5)	75.3
Amortisation of acquired intangible assets	(5.7)	(4.1)	–	(9.8)
Acquisition costs	(2.1)	–	–	(2.1)
Operating profit/(loss) prior to exceptional items	29.0	36.9	(2.5)	63.4
Exceptional items	(16.9)	(35.3)	(6.2)	(58.4)
Segment result	12.1	1.6	(8.7)	5.0
Finance income				0.2
Finance costs				(6.7)
Loss before taxation				(1.5)
Taxation				2.3
Profit for the year				0.8

Inter-segment sales are not material in either year.

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

Notes to the consolidated financial statements continued

Year ended 31 December 2020

2. Business and geographical segments continued

	Western Europe 2020 £m	North America 2020 £m	Emerging Markets 2020 £m	Total ADE 2020 £m
Aerospace, Defence & Energy				
Revenue				
Total revenue	103.1	143.3	2.8	249.2
Result				
Headline operating profit/(loss)	17.0	20.0	(0.2)	36.8
Amortisation of acquired intangible assets	-	(5.7)	-	(5.7)
Acquisition costs	-	(2.1)	-	(2.1)
Operating profit/(loss) prior to exceptional items	17.0	12.2	(0.2)	29.0
Exceptional items	(10.3)	(6.5)	(0.1)	(16.9)
Segment result	6.7	5.7	(0.3)	12.1
Automotive & General Industrial				
Revenue				
Total revenue	203.7	83.5	61.6	348.8
Result				
Headline operating profit/(loss)	26.7	(0.4)	14.7	41.0
Amortisation of acquired intangible assets	(0.5)	(3.2)	(0.4)	(4.1)
Acquisition costs	-	-	-	-
Operating profit/(loss) prior to exceptional items	26.2	(3.6)	14.3	36.9
Exceptional items	(24.8)	(9.4)	(1.1)	(35.3)
Segment result	1.4	(13.0)	13.2	1.6

2. Business and geographical segments continued

Group	ADE 2019 £m	AGI 2019 £m	Central costs and eliminations 2019 £m	Consolidated 2019 £m
Revenue				
Total revenue	301.4	418.3	–	719.7
Result				
Headline operating profit prior to share-based payments and unallocated central costs	76.8	65.6	–	142.4
Share-based payments (including social 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

	Western Europe 2019 £m	North America 2019 £m	Emerging Markets 2019 £m	Total ADE 2019 £m
Aerospace, Defence & Energy				
Revenue				
Total revenue	141.3	158.7	1.4	301.4
Result				
Headline operating profit prior to share-based payments	35.9	40.6	0.3	76.8
Share-based payments (including social 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
Automotive & General Industrial				
Revenue				
Total revenue	246.0	107.4	64.9	418.3
Result				
Headline operating profit prior to share-based payments	40.5	9.7	15.4	65.6
Share-based payments (including social 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

Notes to the consolidated financial statements continued

Year ended 31 December 2020

2. Business and geographical segments continued

Other information

Group	ADE 2020 £m	AGI 2020 £m	Central costs and eliminations 2020 £m	Consolidated 2020 £m
Gross capital additions	18.1	40.8	5.0	63.9
Depreciation and amortisation	35.8	53.2	2.9	91.9
Balance sheet				
Segment assets	484.9	571.4	53.7	1,110.0
Segment liabilities	(150.2)	(164.1)	(114.3)	(428.6)
Segment net assets	334.7	407.3	(60.6)	681.4

	Western Europe 2020 £m	North America 2020 £m	Emerging Markets 2020 £m	Total ADE 2020 £m
Aerospace, Defence & Energy				
Gross capital additions	6.8	9.0	2.3	18.1
Depreciation and amortisation	12.9	22.4	0.5	35.8
Balance sheet				
Segment assets	168.6	310.9	5.4	484.9
Segment liabilities	(47.8)	(100.5)	(1.9)	(150.2)
Segment net assets	120.8	210.4	3.5	334.7

	Western Europe 2020 £m	North America 2020 £m	Emerging Markets 2020 £m	Total AGI 2020 £m
Automotive & General Industrial				
Gross capital additions	17.1	16.0	7.7	40.8
Depreciation and amortisation	27.2	15.5	10.5	53.2
Balance sheet				
Segment assets	267.9	171.6	131.9	571.4
Segment liabilities	(97.1)	(30.2)	(36.8)	(164.1)
Segment net assets	170.8	141.4	95.1	407.3

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
Balance sheet				
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

2. Business and geographical segments continued

	Western Europe 2019 £m	North America 2019 £m	Emerging Markets 2019 £m	Total ADE 2019 £m
Aerospace, Defence & Energy				
Gross capital additions	10.4	17.0	0.1	27.5
Depreciation and amortisation	13.1	15.9	0.1	29.1
Balance sheet				
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
Automotive & General Industrial				
Gross capital additions	18.1	19.4	12.1	49.6
Depreciation and amortisation	27.4	15.3	10.1	52.8
Balance sheet				
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

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	
	2020 £m	2019 £m	2020 £m	2019 £m
USA	219.1	255.3	429.7	315.2
France	76.4	102.6	70.6	71.9
Germany	69.7	87.6	78.0	82.9
UK	44.3	62.3	83.2	96.5
Sweden	37.9	44.2	42.6	40.4
Netherlands	24.9	26.9	23.1	23.3
Others	125.7	140.8	192.0	194.2
	598.0	719.7	919.2	824.4

Notes to the consolidated financial statements continued

Year ended 31 December 2020

3. Operating profit

	2020 £m	2019 £m
Revenue	598.0	719.7
Cost of sales	(401.3)	(452.3)
Gross profit	196.7	267.4
Other operating income	4.4	14.4
Distribution costs	(15.6)	(21.6)
Administration expenses	(109.0)	(124.7)
Other operating expenses	(1.2)	(0.6)
Headline operating profit	75.3	134.9
Amortisation of acquired intangible assets	(9.8)	(4.6)
Acquisition costs (see note 25)	(2.1)	(1.7)
Operating profit prior to exceptional items	63.4	128.6
Exceptional items (see note 6)	(58.4)	–
Operating Profit	5.0	128.6

Further details of acquisition costs and exceptional items are included in the Chief Executive's and Chief Financial Officer's report.

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

	2020 £m	2019 £m
Net foreign exchange gain	(0.3)	(0.1)
Inventory expensed	48.8	52.9
Depreciation of property, plant and equipment	65.2	63.3
Depreciation of right-of-use assets	14.8	14.5
Amortisation of other intangible assets	11.9	6.4
Loss/(gain) on disposal of property, plant and equipment	0.6	(4.4)
Gain on disposal of leases	(0.1)	–
Staff costs (see note 4)	235.1	280.6
Government assistance support received (see note 5)	(4.3)	–
Acquisition costs	2.1	1.7
Impairment (gain)/loss on trade receivables	(0.4)	0.6
Impairments - recognised in exceptional items (see note 6)	22.7	–
Impairment of property, plant and equipment and other assets - recognised in operating profit	0.3	–
Share of profit of associate undertaking	0.4	0.2

The analysis of auditors' remuneration on a worldwide basis is as follows:

	2020 £m	2019 £m
Fees payable to the auditor for the audit of the annual accounts	0.7	0.4
Fees payable to the auditor and its associates for other services:		
The audit of the Group's subsidiaries	1.1	0.7
Total audit fees	1.8	1.1
Audit related assurance services ¹	0.2	0.1
Other non-audit fees ²	–	0.1
Total fees payable to the auditor	2.0	1.3

1 This includes £0.2m (2019: £0.1m) for the review of the half year report and nominal fees charged in connection with a merger statement between two legal entities in Sweden required by local regulation.

2 2019: Agreed upon procedures over adoption of IFRS 16.

The audit fees disclosed for 2020 include £0.1m of fees in connection with the 2019 audit. A description of the work of the Audit Committee, including an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor, is set out in the Audit Committee report.

4. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2020 Number	2019 Number
ADE:		
Western Europe	733	899
North America	947	810
Emerging Markets	12	21
AGI:		
Western Europe	1,687	1,894
North America	692	926
Emerging Markets	737	761
Shared services	215	223
Head office	45	39
	5,068	5,573
	2020 £m	2019 £m
Their aggregate remuneration comprised:		
Wages and salaries ¹	198.6	238.3
Social security costs	30.8	34.0
Pension costs	5.7	8.3
	235.1	280.6

¹ For the year ending 31 December 2020 the Group received government and state employee support towards wages and salaries of £3.6m which are presented as net against staff costs (2019: £nil). See note 5 for more information.

Included in wages and salaries are share-based payments (excluding social charges) resulting in a charge of £0.4m (2019: £1.1m). Included in pension costs are £7.3m relating to defined contribution schemes (2019: £7.8m) and a £1.2m credit relating to defined benefit schemes (2019: £1.1m charge).

Disclosure of individual Directors' remuneration, share interests, share options, long term incentive schemes, pension contributions and pension entitlements are shown in the tables in the Board report on remuneration on pages 64 to 75 and form part of these financial statements. See also note 30 for more information on retirement benefit schemes.

5 Government assistance

As a result of the COVID-19 pandemic, the Group has benefited from £4.3m of government assistance programmes relating to economic support as part of state initiatives to support local economies (£0.7m) and job retention assistance for costs of employees on 'short-time working' in Europe (£3.6m).

The Group has not taken advantage of all schemes available and returned all payments received in support of furloughed employees from the UK government in 2020. Government assistance income related to employee support is presented net against the applicable staff costs within cost of sales and overheads in the income statement.

6. Exceptional items

	2020 £m	2019 £m
Severance and redundancy costs	20.8	–
Property, plant and equipment impairments for assets no longer required	15.9	–
Impairment of other assets	0.6	–
Site closure costs	12.0	–
Environmental provisions – see note 23	2.9	–
Total exceptional restructuring items	52.2	–
Impairment of other intangible assets - see note 12	6.2	–
Total exceptional items	58.4	–

Notes to the consolidated financial statements continued

Year ended 31 December 2020

6. Exceptional items continued

Exceptional restructuring costs of £52.2m relate to initiatives across the Group (AGI (£35.3m) and ADE (£16.9m)), announced in 2020. The organisational restructuring was driven by a combination of both macroeconomic uncertainties and longer term automobile and aerospace market structural shifts. A total of 26 plants will close as a result of these restructuring activities, 20 plants in 2020 and 6 in 2021. These costs have been recorded as exceptional in line with the Group's accounting policy for exceptional items. Further detail of this restructuring programme is outlined in the Chief Executive's review on pages 11 to 12.

Restructuring cash spend to date amounts to £11.6m, with £24.1m held as provisions at 31 December 2020. Refer to note 23.

7. Finance costs

	2020 £m	2019 £m
Interest on bank overdrafts and loans	0.7	0.3
Interest on deferred consideration	0.8	–
Interest on lease liabilities	2.2	2.4
Total interest expense	3.7	2.7
Net interest on the defined benefit pension liability	0.1	0.3
Other finance charges	2.9	1.9
Total finance costs	6.7	4.9

8. Taxation

	2020 £m	2019 £m
Current taxation – charge for the year	9.4	24.8
Current taxation – adjustments in respect of previous years	(9.7)	(3.9)
Deferred tax (see note 21)	(2.0)	9.0
	(2.3)	29.9

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 which in 2020 is based on a loss before taxation is 24.1% (2019: 25.9%).

8. Taxation continued

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

	2020 £m	2019 £m
(Loss)/profit before taxation	(1.5)	123.9
Tax at the weighted average country tax rate of 24.1% (2019: 25.9%)	(0.4)	32.1
Tax effect of expenses not deductible in determining taxable profit ¹	0.3	0.7
Impact of recognition or derecognition of deferred tax balances	2.0	(0.5)
Tax effect of other adjustments in respect of previous years:		
Current tax ²	(9.7)	(3.9)
Deferred tax ²	8.7	2.9
Effect of financing activities between jurisdictions ³	(2.8)	(3.6)
Impact of trade and minimum corporate taxes	0.8	1.1
Effect of changes in statutory tax rates on deferred tax assets and liabilities	(1.1)	(0.1)
Other tax risk provision movements ⁴	(0.1)	1.2
Tax (credit)/expense for the year	(2.3)	29.9

Tax on items taken directly to equity is a charge of £0.1m (2019: credit of £0.5m).

1 Those costs in various jurisdictions are not deductible in calculating taxable profits.

2 2020 and 2019 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.

3 The Group is externally financed by a mix of cash flows from operations and short-term borrowings. Internally, operating subsidiaries are predominantly financed via intercompany loans. The effect is net of provisions based on management's estimation of tax risk relating to the potential disallowance of interest. £9.9m of interest deductions were restricted in the US in 2020 (2019: £1.7m).

4 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 £22.1m were recognised at 31 December 2020 (2019: £15.3m). £5.4m (2019: £3.0m) of the tax provisions are expected to crystallise within 12 months. The provisions included are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. Management judgement is exercised to determine the quantum of the tax risk provisions based on an understanding of the appropriate local tax legislation, taking into consideration the differences of interpretation that can arise on a wide variety of issues including the nature of ongoing tax audits and the experience from earlier enquires, and determining whether any possible liability is probable.

Note 31 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.

9. Dividends

	2020 £m	2019 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 13.3p per share	–	25.2
Special dividend for the year ended 31 December 2018 of 20.0p per share	–	38.1
Interim dividend for the year ended 31 December 2019 of 6.0p per share	–	11.4
Deferred dividend for the year ended 31 December 2019 of 13.3p per share	25.1	–
	25.1	74.7
Proposed final dividend for the year ended 31 December 2020 of 13.4p per share	25.5	–
Interim dividend for the year ended 31 December 2020 of 6.0p per share	11.4	–

As a consequence of the impact of COVID-19, the declared 2019 final dividend of 14.0p per share was deferred and was not presented for approval at the AGM. The Board approved a deferred 2019 dividend of 13.3p which was paid on 25 September 2020.

The Board approved the payment of an interim dividend for 2020 of 6.0p (£11.4m) on 24 November paid on 12 February 2021 to shareholders on the register at the close of business on 8 January 2021. The Board has proposed a 2020 final ordinary dividend of 13.4p per share to be paid on 4 June 2021 to shareholders on the register at close of business at 23 April 2021 subject to approval by shareholders at the Annual General Meeting. As the proposed dividend is subject to shareholder approval in 2021, it is not included as a liability in these financial statements.

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

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Year ended 31 December 2020

10. Earnings per share

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

	2020 £m	2019 £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	0.4	93.8
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	190,374,428	189,921,112
Effect of dilutive potential ordinary shares		
Shares subject to performance conditions ¹	–	794,287
Weighted average number of ordinary shares for the purpose of diluted earnings per share	190,374,428	190,715,399
	Pence	Pence
Earnings per share:		
Basic	0.2	49.4
Diluted ¹	0.2	49.2
	£m	£m
Headline earnings		
Net profit attributable to equity holders of the parent	0.4	93.8
Add back:		
Amortisation of acquired intangible assets (net of tax)	7.4	3.5
Acquisition costs (net of tax)	1.5	1.7
Exceptional items (net of tax)	43.6	–
Headline earnings	52.9	99.0
	Pence	Pence
Headline earnings per share:		
Basic	27.8	52.1
Diluted ¹	27.8	51.9

¹ As at 31 December 2020, in accordance with IAS 33 the related performance conditions for all open plans have not been met resulting in nil dilution of earnings per share (2019: 794,287).

11. Goodwill

	2020 £m	2019 £m
Cost		
At 1 January	230.7	225.2
Exchange differences	(4.4)	(4.9)
Recognised on acquisition of businesses	50.0	10.4
At 31 December	276.3	230.7
Accumulated impairment		
At 1 January	60.9	61.3
Exchange differences	(0.1)	(0.4)
At 31 December	60.8	60.9
Carrying amount	215.5	169.8

11. Goodwill continued

Goodwill acquired through business combinations is allocated to the cash generating units (CGUs) that are expected to benefit from the synergies of the combination. The recoverable amounts of these CGUs are the higher of fair value less costs to dispose and value-in-use. The goodwill arising on the recently acquired Ellison business has been included in the North America ADE CGU (refer to note 25) as the synergies arising on the acquisition are expected to benefit this CGU and the goodwill will, therefore, be monitored at this level. Goodwill is allocated to the CGUs as follows:

	2020 £m	2019 £m
ADE:		
Western Europe	27.0	26.8
North America	93.1	47.9
AGI:		
Western Europe	28.8	27.6
North America	54.3	55.5
Emerging Markets	12.3	12.0
	215.5	169.8

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 were determined from value-in-use calculations and are the sum of the discounted cash flows. The key assumptions for those calculations include the discount rates and both the rate of recovery and growth in revenues and their relative impact on future cash flows. The forecast recovery incorporates management's expectations of the limited impact of climate change on the Group.

Growth rates are determined by a combination of management's budget and forecasts based on certain revenue and operating profit assumptions for the first five years, together with a further estimate of cash flows into perpetuity using GDP growth rates based on the historical weighted average growth in GDP in the respective geographies. The cash flows are discounted using a pre-tax Weighted Average Cost of Capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the cash generating units, including country risk premium. The pre-tax rates used to discount the forecast cash flows for each cash generating unit were between 9.5% (2019: 11.7%) and 11.7% (2019: 12.7%).

The projected cash flows reflect management's expectation of how movements in revenues and operating profits are correlated and will develop, and the extent to which changes in these metrics will convert into cash. The correlation between movements in revenue and operating profits is referred to as operational gearing and is a key assumption in determining these cash flows. In formulating the view on future cash flows, consideration has been given to various external data sources on the strength and timing of any expected economic recovery and industry specific information, recognising the uncertainty regarding the near-term future economic outlook. In particular, the assessment for North America ADE is sensitive to the recovery of the Aerospace sector and management considers that the impairment assessment reflects a conservative but supportable view on NA ADE revenue recovery back to 2019 levels.

Maintenance capital expenditure projections are based on historical experience and include expenditure necessary to maintain the projected cash flows from existing assets and the replacement cost of assets in future years. The cash flows are adjusted for the expected working capital requirements to deliver sales and the timing of converting operating profits into cash. GDP growth rates used to determine cash flows for 2026 and into perpetuity are in the range of 2.2% (2019: 2.3%) to 5.3% (2019: 5.4%) depending on the geographical region of each CGU.

The majority of goodwill is allocated to two of the CGUs, being North America ADE and North America AGI. The long-term growth rates applied to cash flows after 2026 and the rates used to discount the projected cash flows for these CGUs are shown below:

	Goodwill carrying value 2020 £m	Long term growth rate 2020 %	Discount rate 2020 %
Cash generating unit			
North America ADE	93.1	2.8	9.5
North America AGI	54.3	2.8	9.5
	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

Expected future cash flows are inherently uncertain and could change materially over time. They are affected by a number of factors, including market and production estimates, together with economic factors such as prices, discount rates, currency exchange rates, estimates of production costs, and future maintenance capital expenditure, and therefore the Group has conducted sensitivity analysis on the key assumptions applied to the value-in-use calculations for the cash generating units. This uncertainty is especially relevant in light of the impact of the COVID-19 pandemic across the world and this has been reflected in the sensitivity analyses performed of reasonably plausible

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Year ended 31 December 2020

changes in the underlying assumptions for the cash generating units. This analysis included a reduction in long-term growth rates across all geographies to 1% and an increase in the discount rate of 1%. None of these scenarios resulted in an impairment.

While the reasonably possible changes summarised above do not indicate an impairment, the immediate outlook varies by sector, and it is difficult in the current environment to predict how the world's economies will recover. In the event that revenues do not ultimately recover to historical levels, or the Group is unable to achieve the anticipated cost savings from its recent restructuring, a risk of impairment may arise in the future, absent further management mitigating action. However based on current available information the Directors do not consider that there are any reasonable possible sensitivities that could arise in the next 12 months that would result in a material impairment charge being recognised. The Directors have concluded that no impairment charge is required in 2020.

12. Other intangible assets

	Software £m	Customer relationships £m	Non-competes agreements £m	Total £m
Cost				
At 1 January 2019	40.5	50.5	3.1	94.1
Exchange differences	(0.5)	(2.3)	–	(2.8)
Additions	1.0	–	–	1.0
Acquired on acquisition of businesses	–	5.7	0.1	5.8
At 1 January 2020	41.0	53.9	3.2	98.1
Exchange differences	0.2	(8.0)	–	(7.8)
Additions	2.1	–	–	2.1
Acquired on acquisition of businesses (see note 25)	–	87.3	0.6	87.9
Disposals	(1.8)	–	–	(1.8)
At 31 December 2020	41.5	133.2	3.8	178.5
Amortisation				
At 1 January 2019	17.4	30.6	3.1	51.1
Exchange differences	(0.4)	(1.6)	–	(2.0)
Charge for the year	1.8	4.6	–	6.4
At 1 January 2020	18.8	33.6	3.1	55.5
Charge for the year	2.0	9.9	–	11.9
Exchange differences	0.2	(1.5)	–	(1.3)
Impairment loss	6.2	–	–	6.2
Disposals	(1.8)	–	–	(1.8)
At 31 December 2020	25.4	42.0	3.1	70.5
Carrying amount				
At 31 December 2020	16.1	91.2	0.7	108.0
At 31 December 2019	22.2	20.3	0.1	42.6

Following a review of the production and finance ERP functionality, a new ERP software solution has been approved by the Board for development. Occasioned by the decision to invest in this new ERP software impairments of £6.2m (2019: £nil) have been recognised in exceptional items in the consolidated income statement, principally relating to the impairment of the production ERP software module (£3.6m), a proportion of Finance ERP software module (£1.4m) and HR management software module (£1.2m). The production ERP module has a retained carrying value of £7.7m, the finance ERP module has a retained carrying value of £7.1m while the HR management software module has a carrying value of £nil as at 31 December 2020.

Some elements of the Finance ERP software module will be retained in the new ERP solution (£2.9m) and these will continue be amortised over their current remaining useful life, while £4.2m will not be retained and used in the ERP solution and therefore amortisation will be accelerated.

These assets are all held centrally. The impairment assessments were carried out on a value-in-use basis to determine the retained value-in-use.

Included in software assets are £7.7m of ongoing development costs related to the new ERP software solution (held centrally). These costs are related to assets that are not yet available for use and are therefore not amortised. Contractual commitments related to the software development of the replacement ERP solution were £1.3m at 31 December 2020.

13. Property, plant and equipment

	Land and buildings			Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
	Freehold £m	Long leasehold improvements £m	Short leasehold improvements £m				
Cost or valuation							
At 1 January 2019	257.6	10.5	16.5	974.3	29.7	75.0	1,363.6
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 to 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)
At 1 January 2020	248.4	11.2	16.2	982.2	27.7	64.0	1,349.7
Additions	–	–	0.4	3.4	0.3	48.9	53.0
Acquisition of businesses	6.7	–	1.1	6.5	0.2	0.3	14.8
Exchange differences	7.4	0.1	(0.3)	14.4	0.6	0.5	22.7
Transfer to assets held for sale ¹	(10.3)	–	–	(0.1)	–	–	(10.4)
Recategorisation	4.1	0.2	1.5	47.2	0.7	(54.2)	(0.5)
Disposals	(1.9)	(1.4)	(0.7)	(33.6)	(0.9)	(0.3)	(38.8)
At 31 December 2020	254.4	10.1	18.2	1,020.0	28.6	59.2	1,390.5
Accumulated depreciation and impairment							
At 1 January 2019	119.6	4.6	7.9	661.5	23.4	–	817.0
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)
At 1 January 2020	118.6	5.5	7.5	661.7	21.9	–	815.2
Charge for the year	6.9	1.2	1.4	54.4	1.3	–	65.2
Impairment losses incurred	3.1	0.1	0.8	11.8	0.1	0.1	16.0
Exchange differences	3.9	–	(0.2)	11.7	0.5	–	15.9
Transfer to assets held for sale	(7.4)	–	–	(0.1)	–	–	(7.5)
Recategorisation	(0.2)	–	0.1	(0.4)	–	–	(0.5)
Eliminated on disposals	(1.8)	(1.4)	(0.7)	(31.6)	(0.9)	–	(36.4)
At 31 December 2020	123.1	5.4	8.9	707.5	22.9	0.1	867.9
Carrying amount							
At 31 December 2020	131.3	4.7	9.3	312.5	5.7	59.1	522.6
At 31 December 2019	129.8	5.7	8.7	320.5	5.8	64.0	534.5

At 31 December 2020 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.6m (2019: £1.3m).

¹ See note 18 for further detail on Non-current Assets Held for Sale

Notes to the consolidated financial statements continued

Year ended 31 December 2020

13. Property, plant and equipment continued

The Group restructured various operations during 2020 and identified plant and equipment impairments amounting to £16.0m for assets no longer required, to £nil carrying value at 31 December 2020, assessed on a value-in-use basis. Asset impairments broken down by business segment in the current year were as follows:

	2020 £m	2019 £m
ADE:		
Western Europe	1.5	–
North America	2.4	–
AGI:		
Western Europe	7.5	–
North America	4.6	–
	16.0	–

14. Right-of-use assets

As a lessee

Information about leases for which the Group is the lessee is presented below:

Amounts recognised in the balance sheet

	Right-of-use assets cost		Accumulated depreciation	
	2020 £m	2019 £m	2020 £m	2019 £m
Right-of-use assets				
Land and buildings	129.4	126.1	(72.2)	(66.6)
Plant and machinery	21.1	21.5	(15.0)	(13.5)
Vehicles	18.4	17.2	(12.9)	(11.5)
Fixtures and fittings	0.6	0.4	(0.4)	(0.3)
	169.5	165.2	(100.5)	(91.9)

Additions to right-of-use assets during 2020 were £8.7m (2019: £11.8m) and additions through acquisition of businesses amounted to £4.5m (2019: £6.1m). Asset impairments in the year due to plant closures amounted to £0.2m (2019: £nil) to £nil carrying value at 31 December 2020, assessed on a value-in-use basis.

Lease liabilities

	2020 £m	2019 £m
Maturity analysis – contractual undiscounted cash flows		
Less than one year	15.6	15.9
One to five years	37.5	41.5
More than five years	59.5	62.0
Total undiscounted cash flows	112.6	119.4
Total lease liabilities	75.6	79.4
Current	13.6	13.4
Non-current	62.0	66.0

The total cash outflow for leases in 2020 was £17.6m (2019: £16.8m).

14. Right of-use assets continued

Amounts recognised in the consolidated income statement

	2020 £m	2019 £m
Depreciation charge	14.8	14.5
Interest on lease liabilities	2.2	2.4
Expenses relating to short-term leases	1.1	1.2
Expenses relating to leases of low value assets	0.6	0.6
Right-of-use asset impairment charge	0.3	–

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.

15. Inventories

	2020 £m	2019 £m
Raw materials	15.1	13.1
Work-in-progress	1.6	1.8
Finished goods and goods for resale	0.2	0.4
Less: obsolescence provision	(1.1)	(0.5)
	15.8	14.8

Inventory expensed disclosed in note 3

16. Trade and other receivables

	2020 £m	2019 £m
Amounts falling due within one year:		
Amounts receivable for the supply of services	97.7	115.0
Allowance for expected credit loss	(4.5)	(4.8)
Net trade receivables	93.2	110.2
Other receivables	13.0	23.5
Prepayments	10.0	9.2
	116.2	142.9
Amounts falling due after more than one year:		
Trade and other receivables	2.1	1.2

The average credit period given to customers for the supply of services as at 31 December 2020 is 63 days (2019: 63 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £4.5m (2019: £4.8m). This allowance has been determined by reference to expected credit losses as set out in the Group's accounting policies on page 95.

The carrying amount of trade and other receivables approximates their fair value.

Notes to the consolidated financial statements continued

Year ended 31 December 2020

16. Trade and other receivables continued

Included in the Group's trade receivables balance are specific debtor balances with a carrying amount of £20.8m (2019: £26.5m) 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 34 days, with a range from 13 days to 66 days.

Ageing analysis of net trade receivables:

	2020 £m	2019 £m
Trade receivables within terms	72.4	83.7
Ageing of past due but not impaired receivables:		
31-60 days	11.1	13.1
60-90 days	6.6	8.8
91-120 days	2.3	2.6
Greater than 120 days	0.8	2.0
	93.2	110.2

Movement in the allowance for expected credit loss:

	2020 £m	2019 £m
At 1 January	4.8	5.1
Impairment losses recognised	1.1	1.3
Allowance acquired with businesses	0.5	–
Amounts written off as uncollectable	(0.6)	(0.7)
Impairment losses reversed	(1.5)	(0.7)
Exchange differences	0.2	(0.2)
At 31 December	4.5	4.8

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 £6.1m (2019: £4.8m). 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:

	2020 £m	2019 £m
Less than 3 months	0.1	0.1
3-12 months	1.7	2.6
Over 12 months	4.3	2.1
	6.1	4.8

17. 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:

	2020 £m	2019 £m
US dollar	7.1	6.0
Euro	10.0	5.4
Sterling	2.1	4.8
Swedish krona	2.0	1.7
Chinese yuan	4.7	1.5
Mexican peso	1.8	0.9
Other	3.0	1.7
Total cash and bank balances¹	30.7	22.0

1 Refer to note 19 for an analysis of overdraft by currency.

18. Assets held for sale

Included in Property, plant and equipment are £2.9m (2019: £nil) of assets held for sale resulting from restructuring related plant closures during the year. The assets have been classified as held for sale in line with the criteria set out in IFRS 5. All assets categorised as held for sale are recorded at the lower of their carrying amount and fair value less costs to sell and in line with IFRS 5 the assets will no longer be depreciated whilst categorised as held for sale.

These assets comprise of properties owned by the Group in Western Europe and North America.

The assets held for sale are analysed between operating segments as follows:

	2020 £m	2019 £m
AGI:		
Western Europe	2.5	–
North America	0.4	–
	2.9	–

19. Borrowings

	2020 £m	2019 £m
Revolving Credit Facility	51.7	–
Bank overdrafts	1.5	1.1
Total Borrowings	53.2	1.1
Weighted average interest rate paid	1.6%	1.7%
Analysis of Revolving Credit Facility drawdowns by currency:		
US dollar	16.6	–
Euro	18.1	–
Sterling	17.0	–
	51.7	–
Analysis of bank overdrafts by currency:		
US dollar	1.1	1.0
Other	0.4	0.1
	1.5	1.1

Bank overdrafts are repayable on demand. No overdrafts are secured.

The Group holds a Revolving Credit Facility in the amount of £250.9m. This new facility commenced on 27 May 2020 and matures on 27 May 2025. The Group has considered both qualitative and quantitative factors in accordance with IFRS 9 and has concluded that the former RCF has extinguished. Loan origination fees of £1.4m have therefore been capitalised and will be amortised over the life of the loan.

At 31 December 2020, the Group's revolving credit facility had drawings of £51.7m (2019: £nil). During the year the Group utilised £101.9m (2019: £35.0m) under the committed facility, £50.2m of which was subsequently repaid during the year.

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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Year ended 31 December 2020

19. 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 2020 £m	1-2 years 2020 £m	2-5 years 2020 £m	5+ years 2020 £m	Total 2020 £m
Non-interest bearing	65.5	0.4	0.5	0.3	66.7
Bank loans and overdrafts	53.2	-	-	-	53.2
Deferred consideration on acquisition of businesses	59.0	-	-	-	59.0
Lease liabilities	15.6	13.3	24.2	59.5	112.6
Derivative financial instruments	2.3	-	-	-	2.3
	195.6	13.7	24.7	59.8	293.8

	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

Of the £53.2m (2019: £1.1m) bank loans and overdrafts outflows disclosed above, £51.7m (2019: £nil) of bank loans are drawn under the committed facility maturing on 27 May 2025. The overdrafts are repayable on demand and some are part of pooling arrangements, which include offsetting cash balances. The net impact on the balance sheet of derivative cashflows were £nil (2019: £nil) being the net of £2.3m (2019: £1.4m) derivative financial instruments outflows disclosed above, and £2.3m (2019: £1.4m) derivative cash inflows.

	Financing activities				
	Borrowings £m	Leases £m	Total liabilities from financing activities £m	Cash/bank overdraft £m	Total £m
Net cash plus lease liabilities as at 1 January 2019	-	80.3	80.3	(36.2)	44.1
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)
Net cash plus lease liabilities as at 31 December 2019	-	79.4	79.4	(20.9)	58.5
Cash flows	-	(17.6)	(17.6)	(8.4)	(26.0)
New bank loans raised	101.9	-	101.9	-	101.9
Repayment of bank loans	(50.2)	-	(50.2)	-	(50.2)
Debt acquired on acquisition of businesses	11.9	-	11.9	-	11.9
Repayment of debt acquired on acquisition of business	(11.9)	-	(11.9)	-	(11.9)
Additions – leases	-	13.2	13.2	-	13.2
Foreign exchange adjustments	-	0.6	0.6	0.1	0.7
Net cash plus lease liabilities and borrowings as at 31 December 2020	51.7	75.6	127.3	(29.2)	98.1

20. Financial instruments

(a) Financial instruments by category

In accordance with IFRS 9, the group categorises its financial instruments as those measured at 'amortised cost', 'fair value through profit or loss' and 'fair value through other comprehensive income'.

	Fair value hierarchy	At amortised cost 2020 £m	At fair value through profit or loss 2020 £m	At fair value through OCI 2020 £m	Total 2020 £m
Financial assets					
Trade and other receivables		106.7	–	–	106.7
Cash and bank balances		30.7	–	–	30.7
		137.4	–	–	137.4
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
Cash and bank balances		22.0	–	–	22.0
		145.8	–	–	145.8
Financial liabilities					
	Fair value hierarchy	At amortised cost 2020 £m	At fair value through profit or loss 2020 £m	At fair value through OCI 2020 £m	Total 2020 £m
Borrowings - loans and overdrafts		53.2	–	–	53.2
Lease liabilities	Level 3	75.6	–	–	75.6
Trade and other payables		65.8	–	–	65.8
Deferred consideration		58.7	–	–	58.7
Other non-current liabilities	Level 2/3	1.2	–	–	1.2
		254.5	–	–	254.5
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
Other non-current liabilities	Level 2/3	2.2	–	–	2.2
		144.9	–	–	144.9

For information on derivative financial instruments with a fair value of £nil refer to section (d) of note 20.

Notes to the consolidated financial statements continued

Year ended 31 December 2020

20. 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, transacted 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, strategic planning, an annual budget agreed by the Board each year and re-forecasts undertaken during the financial year. To mitigate the risk, the resulting forecast net cash/(debt) is measured against the liquidity headroom policy which, at the current net 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 2020, the Group had £199.2m available on the committed revolving credit facility of £250.9m (2019: £230.0m) which, together with net cash and cash equivalents of £29.2m (2019: £20.9m), resulted in available funds of £228.4m (2019: £250.9m). 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 2020 the Group's principal committed bank facility of £250.9m had a maturity date of 27 May 2025 (4.4 years to maturity) and had drawings of £51.7m (2019: £nil).

Cash management pooling, netting and concentration techniques are used to minimise borrowings. As at 31 December 2020, the Group had gross cash of £30.7m (2019: £22.0m).

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 losses based on a simplified lifetime Expected Credit Loss (ECL) model to assess trade receivables for impairment where ECL is the present value of all cash shortfalls over the expected life of a trade receivable. In response to the changing economic environment resulting from COVID-19 additional processes were put in place to access customer credit terms and management of trade receivables and Bodycote has not experienced a notable increase in credit losses resulting from the COVID-19 impact on the wider economy. An allowance for impairment is made when one or more events have occurred that have a significant impact on the expected future cash flows of the financial asset such that there is sufficient evidence of a reduction in the recoverability of the asset. The quantitative analysis of credit risk relating to receivables is included in note 16.

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. The credit risk on liquid funds (cash balances) and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and 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.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

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 rates in the UK, Europe and USA. 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. By the end of 2021, LIBOR is expected to be phased out, which necessitates adopting a new interest reference rate for new and existing loan agreements. The impact of this on existing loans is under review.

20. Financial instruments continued

Interest rate sensitivity

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, which did not indicate any material impact on the financial statements. This analysis was for illustrative purposes only. The sensitivity analysis excludes the impact of market risks on net post employment benefit obligations.

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 2020 would reduce or increase profit before tax by approximately £0.2m (2019: £0.1m). 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/losses and net assets of these entities are consolidated into the Group accounts.

Ninety-three per cent of the Group's revenues are in currencies other than sterling (EUR 35%, USD 37% and SEK 6%). Cumulatively over the year, sterling rates moved such that the sales for the year were £2.3m lower than if sales had been translated at the rates prevailing in 2019.

It is Group policy not to hedge exposure for the translation of reported profits. Refer to section (e) for further disclosure of the Group's financial instrument risk management activities.

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 generally borrows in sterling but also maintains debt in US dollars and euro, 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 (see section e).

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 is 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 93% 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 2020 sales by currency, a 10% weakening/strengthening in the 2020 cumulative average rates for all currencies versus sterling would have given rise to a +£61.5m/-£50.3m 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 2020 operating profit mix, a 10% weakening/strengthening in 2020 cumulative average rates for all currencies would have given rise to a +£7.0m/-£5.9m movement in headline operating profit.

(d) Derivative financial instruments

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).

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 gains recognised in the income statement on the contracts which matured in 2020 amounted to £0.4m (2019: £0.1m). The unrecognised gains and losses were not material in either 2020 or 2019.

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 2020 £m	Fair value 2020 £m	Contractual or notional amount 2019 £m	Fair value 2019 £m
Currency forward foreign exchange contracts	2.3	–	1.4	–

In accordance with IFRS 7 Financial Instruments: Disclosures, fair value is determined using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

All forward foreign exchange contracts are on demand or due within one year.

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 (2019: nil).

Notes to the consolidated financial statements continued

Year ended 31 December 2020

20. Financial instruments continued

(e) Net Investment hedge

Whilst low levels of debt are typically maintained, at the balance sheet date the Group has drawn on the Revolving Credit Facility (RCF) to partly fund the Ellison acquisition. The related loans are denominated in USD and EUR and the amounts designated as hedges of the net investments of the Group's subsidiaries with matching functional currency on a 1:1 ratio. The effects and performance of the net investment hedges at 31 December 2020 are set out as follows:

	£m	€m	\$m
Carrying amount (bank loan) and denominations	(34.7)	20.0	23.0
Hedge Ratio	1:1	–	–
Change in bank loan carrying amount as a result of foreign currency movements since 1 January 2020	1.1	–	–
Change in value of hedged item used to determine hedge effectiveness	(1.1)	–	–

The foreign exchange gain of £1.1m on translation of borrowings to GBP at the end of the reporting period is recognised in other comprehensive income and accumulated in the foreign currency translation reserve in shareholder's equity. There was no ineffectiveness to be recorded from the net investment hedges.

21. 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 £m	Total £m
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 1 January 2020	52.8	(2.0)	(4.9)	(3.4)	42.5
Charge/(credit) to the consolidated income statement	1.5	(0.6)	1.5	(4.7)	(2.3)
Debit to equity	–	–	0.1	–	0.1
Acquisition of businesses	1.1	–	–	–	1.1
Transfers	–	–	–	(1.8)	(1.8)
Exchange differences	0.6	–	(0.3)	0.1	0.4
Effect of change in tax rate:					
Income statement	0.1	–	–	0.2	0.3
At 31 December 2020	56.1	(2.6)	(3.6)	(9.6)	40.3

21. Deferred tax continued

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 £m	2019 £m
Deferred tax liabilities	42.7	48.6
Deferred tax assets	(2.4)	(6.1)
	40.3	42.5

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.

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 £50.9m (2019: £19.8m) available for offset against future profits. A deferred tax asset has been recognised in respect of £9.0m (2019: £7.3m) 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 £41.9m (2019: £12.5m) 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 (2019: £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 £1.1m (2019: £1.0m) 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.

The majority of the deferred tax liability is expected to reverse in over 12 months.

22. Trade and other payables

	2020 £m	2019 £m
Amounts falling due within one year:		
Trade payables	28.3	31.3
Other taxes and social security	22.6	28.8
Deferred consideration on acquisition of businesses	58.7	–
Other payables	11.8	12.1
Accruals ¹	49.5	55.2
	170.9	127.4
Amounts falling due after more than one year:		
Other payables	2.3	2.2

¹ Accruals include £21.0m (2019: £28.0m) 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 2020 is 35 days (2019: 33 days). The Directors' consider the carrying value of trade payables to equate to their fair value.

Notes to the consolidated financial statements continued

Year ended 31 December 2020

23. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
At 1 January 2020	3.0	2.4	8.1	13.5
Increase in provision	32.8	2.9	–	35.7
On acquisition of subsidiary	–	–	0.2	0.2
Utilisation of provision	(11.2)	(0.4)	(0.5)	(12.1)
Exchange difference	(0.1)	(0.1)	(0.1)	(0.3)
At 31 December 2020	24.5	4.8	7.7	37.0
Included in current liabilities				26.0
Included in non-current liabilities				11.0
				37.0

£35.7m of restructuring provisions have been recorded following the announcement of several restructuring initiatives across the Group. The restructuring provisions consist of provisions for employee severance and redundancy (£20.8m) and costs associated with closing plants (£12.0m) and (£2.9m) for environmental provisions. These restructuring provisions have been included in exceptional items and further details of this programme can be found in the Chief Executive's report on pages 11 to 12 and in note 6.

Cash outflows in relation to restructuring initiatives were £11.6m with the remaining outflows to occur in 2021 and 2022.

The Group provides for the costs of environmental remediation that have been identified at the time of plant closure if there is a probable outflow of economic resources identified, as part of acquisition due diligence, or in other circumstances where remediation by the Group is required and a probable outflow of economic resources is identified. 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.

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.

24. Share capital

	2020 £m	2019 £m
Issued and fully paid:		
191,456,172 (2019: 191,456,172) ordinary shares of 17 3/11p each	33.1	33.1

25. Acquisition of businesses

During the year the Group completed the acquisition of 100% of the ordinary share capital of Ellison Surface Technologies ('Ellison') for total provisional consideration of £130.0m. Ellison is a Surface Technology business located in North America with a number of sites primarily serving the aerospace sector.

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

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

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

	2020 £m
Fair value of net assets acquired:	
Other intangible assets	87.9
Property, plant and equipment	14.8
Right-of-use assets	5.1
Inventories	2.6
Trade and other receivables	7.3
Trade and other payables	(19.4)
Lease liabilities	(5.1)
Deferred tax liabilities	(1.1)
Provisions	(0.2)
Bank loans	(11.9)
	80.0
Goodwill	50.0
Total consideration	130.0
Satisfied by:	
Cash consideration	66.1
Deferred consideration	63.9
Total consideration transferred	130.0
Net cash outflow arising on acquisition:	
Cash consideration	66.1
Deferred consideration paid	0.6
Payment of debt and other payables acquired post completion	28.8
	95.5

Acquisition related costs amounted to £2.1m (2019: £1.7m of which £1.3m related to the Ellison acquisition) and have been included in the Income Statement.

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

Deferred consideration is settled in US dollars which translated to £63.9m at the acquisition date, on a discounted basis. £0.6m of the original deferred consideration was paid in October as per agreement with the seller. The remaining deferred consideration is payable on 3 April 2021, being 12 months after the completion date of the acquisition.

As the deferred consideration is settled in US dollars, it is subject to exchange rate movements of £5.4m when translated at 31 December 2020 rates. This foreign exchange difference is recorded within foreign exchange reserves in the financial statements. The deferred consideration payable held on the balance sheet at 31 December 2020 is £58.7m, including the impact of £0.3m due to discounting.

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

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

The business was acquired on 3 April 2020 and contributed £22.6m revenue, £0.9m headline operating profit and £4.0m operating loss, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on the first day of the financial year, the acquisition would have contributed £34.3m to Group revenue, £1.7m to Group headline operating profit and £3.2m operating loss.

In the prior year the group acquired two facilities that were accounted for as business combinations for total consideration of £20.0m resulting in £10.4m of goodwill being recognised in the consolidated financial statements, and payments totalling £0.1m were made in respect of deferred consideration due on acquisitions made in 2016. Refer to note 23 in the 2019 Annual Report for further information.

Notes to the consolidated financial statements continued

Year ended 31 December 2020

26. Investment in associate

Set out below are the details of the Group's investment in Techmeta Engineering SAS, 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 2018.

	2020 £m	2019 £m
Investment in associate	1.8	1.6
Loan receivable from associate	2.3	2.6
	4.1	4.2
Profit after tax from continuing operations	0.4	0.2

Prior to disposal in 2018 the Group provided an interest bearing credit facility of £3.6m to Techmeta Engineering repayable over 10 years. During the year, Techmeta Engineering reimbursed £0.3m of the loan receivable. There were no other transactions.

27. Notes to the cash flow statement

	2020 £m	2019 £m
Profit for the year	0.8	94.0
Adjustments for:		
Finance income	(0.2)	(0.2)
Finance costs	6.7	4.9
Taxation (credit)/charge	(2.3)	29.9
Operating profit	5.0	128.6
Adjustments for:		
Depreciation of property, plant and equipment	65.2	63.3
Depreciation of right-of-use assets	14.8	14.5
Amortisation of other intangible assets	11.9	6.4
Loss/(profit) on disposal of property, plant and equipment	0.6	(4.4)
Share-based payments	0.4	1.1
Income from associate	(0.2)	(0.2)
Impairment of property, plant and equipment and other assets - recognised in exceptional items	16.5	-
Impairment of property, plant and equipment and other assets - recognised in operating profit	0.3	-
Impairment of other intangible assets - recognised in exceptional items	6.2	-
EBITDA (See note 1)	120.7	209.3
Decrease/(increase) in inventories	2.1	(1.5)
Decrease/(increase) in receivables	35.6	(1.1)
Decrease in payables	(35.1)	(2.1)
Increase/(decrease) in provisions	23.6	(2.6)
Cash generated by operations	146.9	202.0
Income taxes paid	(7.8)	(24.7)
Net cash from operating activities	139.1	177.3

	2020 £m	2019 £m
Cash and cash equivalents comprise:		
Cash and bank balances	30.7	22.0
Bank overdrafts (included in borrowings)	(1.5)	(1.1)
	29.2	20.9

28. 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 headline earnings per share (EPS) performance condition for Executive Directors and in the event that threshold performance for both EPS and ROCE is not achieved, none of the conditional awards will vest. Senior Executives target measures are subject to headline operating profit and headline operating cash flow.

The number of outstanding share awards is as follows:

	BIP 2020	BIP 2019
At 1 January	1,898,174	2,512,501
Granted during the year	1,137,145	691,088
Exercised during the year	(639,850)	(1,140,967)
Expired during the year	(79,366)	(164,448)
At 31 December	2,316,103	1,898,174
Average fair value of share awards granted during the year at date of grant (pence)	571.9	725.6
Fair value of awards granted during the year (£)	6,503,332	5,014,535

The exercise price of shares exercised was £nil. As at year ended 31 December 2020 10,279 shares were exercisable.

The inputs to the Black-Scholes simulation model, used to determine the charge to the income statement for BIP, are as follows:

	2020	2019
Weighted average share price (pence)	571.9	725.6
Weighted average exercise price (pence)	nil	nil
Expected life (years)	3.0	3.0
Expected dividend yields (%)	3.5	4.2
Average fair value of share awards granted during the year at date of grant (pence)	571.9	725.6
Fair value of awards granted during the year (£)	6,503,332	5,014,535

The Group recognised a total charge to the income statement of £0.4m (2019: £1.1m) related to equity-settled share-based payment transactions.

29. Related party transactions

Transactions between subsidiaries of the Group, which are related parties to each other, have been eliminated on consolidation and are not disclosed in this note. Transactions with investments in associates are disclosed in note 26.

The remuneration of the Board of Directors, who are considered key management personnel of the Group, was as follows:

	2020	2019
Short-term employee benefits	1.6	2.4
Share-based payments	-	1.5
Pensions	0.3	0.2
	1.9	4.1

Further information about the remuneration of the individual Directors is provided in the Board Report on Remuneration on pages 64 to 75.

Notes to the consolidated financial statements continued

Year ended 31 December 2020

30. 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 £7.3m (2019: £7.8m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2020 contributions of £0.2m (2019: £0.2m) due in respect of the current reporting period had not been paid over to the schemes.

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

	2020 £m	2019 £m
UK Scheme	–	–
Non-UK Schemes	16.2	17.9
	16.2	17.9

Total (credit)/expense recognised in the income statement

	2020 £m	2019 £m
UK Scheme	0.4	0.1
Non-UK Schemes	(1.6)	1.0
	(1.2)	1.1

UK Scheme

The Group sponsors the Bodycote UK Pension Scheme ("the Scheme") which is a funded defined benefit arrangement for certain former UK employees, and pays out pensions at retirement based on service, final pensionable pay and price inflation. The Scheme is funded by the Group. The Scheme exposes the Group 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 in respect of the 6 April 2017 actuarial valuation. The actuarial valuation of the Scheme as at 6 April 2017 was completed by a qualified independent actuary and the results of this have been updated on an approximate basis to 31 December 2020.

The contributions made by the employer over the financial year have been £0.4m in respect of ongoing expenses. It is the policy of the Group to recognise all actuarial gains and losses in the year in which they occur outside of the profit and loss account and in Other Comprehensive Income. The UK scheme was closed to new entrants in 2019.

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, IFRIC 14. 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 material uncertainty over whether the power to wind-up the Scheme is wholly within the Group's control as would be required under the terms of IFRIC 14 in order to recognise a surplus on the balance sheet. Consistent with previous years, given this uncertainty the Group has adopted the provisions of IFRIC 14 and the associated additional reporting requirements. As the Scheme is in surplus as at 31 December 2020 a restriction has been applied to the balance sheet, and the net surplus recognised on the balance sheet has been restricted to £nil. On this basis, the net balance sheet position as at 1 January 2019 would remain the same, and therefore the restatement of disclosures is limited to those referencing the opening balance sheet position in the prior year. There is no impact on the net balance sheet position at 31 December 2019.

30. Retirement benefit schemes continued

Over the period, the Scheme Trustee undertook work to consolidate the Scheme Rules which identified changes to the understanding of certain Scheme benefits from 1985 to 1999. Further investigation resulted in additional liabilities of £4.6m being recognised by restating the liabilities as at 1 January 2019. After recognition of the additional liabilities as at 1 January 2019, the Scheme remains in a surplus position. Due to the provisions of IFRIC14, this surplus would be restricted to a net surplus recognised on the balance sheet of £nil. On this basis, the net balance sheet position as at 1 January 2019 would remain the same, and therefore the restatement of disclosures is limited to those referencing the opening and closing balance sheet position of the liabilities in the prior year. The gross interest on the restated liabilities of the scheme and the imputed actuarial movement have not been restated given these items would not be material. There is no impact on the net balance sheet position at 1 January 2019 and 31 December 2019.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2020 £m	Restated 2019 £m
Defined benefit obligation at start of year	111.2	104.8
Current service cost	–	0.1
Interest expense	2.0	2.6
Contributions by plan participants	–	–
Actuarial gains arising from changes in demographic assumptions	(0.5)	(0.6)
Actuarial losses arising from changes in financial assumptions	15.5	12.1
Benefits paid, death in service insurance premiums and expenses	(3.5)	(7.5)
Past service cost/(credit)	0.2	(0.3)
Defined benefit obligation at end of year	124.9	111.2

Reconciliation of opening and closing balances of the fair value of the assets

	2020 £m	2019 £m
Fair value of assets at start of year	115.4	111.0
Interest income	2.1	2.9
Return on scheme assets excluding interest income	13.0	8.8
Scheme administration expenses	(0.2)	(0.3)
Contributions by employer	0.4	0.5
Benefits paid, death in service insurance premiums and expenses	(3.5)	(7.5)
Fair value of assets at end of year	127.2	115.4

Total expense recognised in the income statement

	2020 £m	2019 £m
Current service cost	–	0.1
Past service cost/(credit)	0.2	(0.3)
Net interest on the defined benefit asset	–	–
Scheme administration expenses	0.2	0.3
Total expenses	0.4	0.1

Assets

	2020 Quoted £m	2020 Unquoted £m	2019 Quoted £m	2019 Unquoted £m
Bonds	35.8	9.0	33.7	9.8
Cash	1.7	–	2.9	–
Liability Driven Investment	32.1	–	23.7	–
Diversified credit funds	35.6	13.0	32.1	13.2
	105.2	22.0	92.4	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.

Notes to the consolidated financial statements continued

Year ended 31 December 2020

30. Retirement benefit schemes continued

Assumptions

	2020 % per annum	2019 % per annum
RPI inflation	3.00	3.00
CPI inflation	2.55	2.20
Salary increases	n/a	n/a
Rate of discount	1.30	1.85
Allowance for pension in payment increases of RPI or 3% p.a. if less	2.42	2.43
Allowance for revaluation of deferred pensions	2.55	2.20

Mortality – current pensioners:

	2020 S2PxA YoB CMI 2019 1.5% long term trend	2019 S2PxA YoB CMI 2018 1.5% long term trend
Actuarial tables used		
Life expectancy for members currently aged 65	22.3	22.3

Mortality – future pensioners:

	2020 S2PxA YoB CMI 2019 1.5% long term trend	2019 S2PxA YoB CMI 2018 1.5% long term trend
Actuarial tables used		
Life expectancy at age 65 for members currently aged 45	23.9	24.0

	2020 All members commute 75% of maximum permitted	2019 All members commute 75% of maximum permitted
Cash commutation		

The weighted average duration of the defined benefit obligation at 31 December 2020 is approximately 18 years (31 December 2019: 18 years).

The defined benefit obligation at 31 December 2020 can be approximately attributed to the scheme members as follows:

- Active members: 0% (31 December 2019: 0%)
- Deferred members: 50% (31 December 2019: 50%)
- Pensioner members: 50% (31 December 2019: 50%)

All benefits are vested at 31 December 2020 (unchanged from 31 December 2019).

Present value of defined benefit obligations, fair value of assets and deficit

	2020 £m	Restated 2019 £m
Present value of defined benefit obligation	124.9	111.2
Fair value of plan assets	(127.2)	(115.4)
Scheme surplus	(2.3)	(4.2)
Adjustment relating to asset ceilings and minimum funding requirements	2.3	4.2
Net defined benefit asset before deferred tax	–	–

30. Retirement benefit schemes continued

Reconciliation of asset ceiling

	2020 £m	Restated 2019 £m
Restriction due to asset ceiling at beginning of period	4.2	6.2
Interest on asset restriction	0.1	0.3
Other changes in asset restriction	(2.0)	(2.3)
Restriction due to asset ceiling at end of period	2.3	4.2

The best estimate of contributions to be paid into the plan for the year ending 31 December 2021 is £0.4m.

Amounts recognised in Other Comprehensive Income

	2020 £m	2019 £m
Return on scheme assets excluding interest income	13.0	8.8
Effects of changes in financial assumptions underlying the present value of the liabilities	(15.5)	(12.1)
Effects of changes in demographic assumptions underlying the present value of the liabilities	0.5	0.6
Gain due to change in asset restriction	2.0	2.3
Total loss recognised in Other Comprehensive Income	-	(0.4)

Impact of changes to assumptions

	2020		2019	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	(5.7)	5.7	(4.9)	4.9
0.25% change in price inflation (and associated assumptions)	2.7	(2.7)	2.0	(2.0)
1 year change in life expectancy at age 65	5.7	(5.7)	4.3	(4.3)

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

	2020 £m	2019 £m
Defined benefit obligation at start of year	27.5	26.3
Current service cost	0.8	0.7
Interest expense	0.3	0.5
Actuarial losses arising from changes in financial assumptions	1.0	2.9
Experience gains on liabilities	(0.6)	(0.4)
Benefits paid, death in service insurance premiums and expenses	(1.2)	(1.4)
Employee contributions	0.1	0.1
Curtailments	(0.9)	-
Past service credit	(1.7)	-
Exchange rate loss/(gain)	1.1	(1.2)
Defined benefit obligation at end of year	26.4	27.5

Notes to the consolidated financial statements continued

Year ended 31 December 2020

30. Retirement benefit schemes continued

Reconciliation of opening and closing balances of the fair value of plan assets

	2020 £m	2019 £m
Fair value of assets at start of year	10.1	9.5
Interest income	0.1	0.2
Return on scheme assets excluding interest income	1.1	1.2
Contributions by employer	0.2	0.2
Contributions by employees	0.1	0.1
Benefits paid, death in service insurance premiums and expenses	(0.6)	(0.9)
Exchange rate gain/(loss)	0.2	(0.2)
Fair value of assets at end of year	11.2	10.1

Total expense/(credit) recognised in the income statement

	2020 £m	2019 £m
Current service cost	0.8	0.7
Net interest on the defined benefit liability	0.2	0.3
Curtailments	(0.9)	–
Past service credit	(1.7)	–
Total (credit)/expense	(1.6)	1.0

Assets

	2020		2019	
	Quoted £m	Unquoted £m	Quoted £m	Decrease £m
Equities	5.1	–	4.6	–
Insurance contracts	–	6.1	–	5.5
Total	5.1	6.1	4.6	5.5

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 2020

	Salary increases % per annum	Rate of discount % per annum	Inflation % per annum	Pension increases % per annum
USA	n/a	2.3	n/a	n/a
France	2.5	0.5	1.5	1.0
Germany	2.5	1.0	n/a	1.8
Italy	2.5	0.3	1.5	n/a
Turkey	8.5	13.5	8.5	n/a
Liechtenstein	2.5	0.2	n/a	n/a
Switzerland	n/a	0.2	n/a	n/a

There were no significant changes to these assumptions compared to the prior year.

Duration

The weighted average durations of the defined benefit obligations of the overseas schemes at 31 December 2020 range from 12 years to 21 years. The durations ranged from 12 years to 18 years as at 31 December 2019.

30. Retirement benefit schemes continued

Present value of defined benefit obligations, fair value of assets and deficit

	2020 £m	2019 £m
Present value of defined benefit obligation	26.4	27.5
Fair value of plan assets	(11.2)	(10.1)
Deficit in the schemes	15.2	17.4
Adjustment relating to asset ceilings and minimum funding requirements	1.0	0.5
Net defined benefit liability, before deferred tax	16.2	17.9

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2020 is that recognised in the balance sheet.

Amounts recognised in Other Comprehensive Income

	2020 £m	2019 £m
Gain from experience on plan liabilities	0.6	0.4
Loss due to change in asset restriction	(0.4)	(0.5)
Return on scheme assets excluding interest income	1.1	1.2
Effects of changes in financial assumptions underlying the present value of the liabilities	(1.0)	(2.9)
Total gain/(loss) recognised in Other Comprehensive Income	0.3	(1.8)

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 2021 is £0.2m.

Sensitivities (changes to total defined benefit obligations)

	2020		2019	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	(1.0)	1.0	(1.0)	1.0
0.25% change in price inflation (and associated assumptions)	0.5	(0.5)	0.6	(0.6)

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.

31. 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 £22.0m (2019: £21.6m). 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.

Five year summary (unaudited)

	2020 £m	2019 £m	2018 ¹ £m	2017 ² £m	2016 ² £m
Revenue	598.0	719.7	728.6	690.2	600.6
Profit:					
Headline operating profit	75.3	134.9	140.7	123.9	99.6
Amortisation of acquired intangible fixed assets	(9.8)	(4.6)	(3.7)	(4.5)	(4.5)
Acquisition costs	(2.1)	(1.7)	(0.5)	–	(0.6)
Operating profit prior to exceptional items	63.4	128.6	136.5	119.4	94.5
Exceptional items	(58.4)	–	–	–	–
Operating profit	5.0	128.6	136.5	119.4	94.5
Net finance costs	(6.5)	(4.7)	(4.3)	(2.4)	(2.6)
(Loss)/Profit before taxation	(1.5)	123.9	132.2	117.0	91.9
Taxation	2.3	(29.9)	(28.6)	(19.7)	(24.9)
Profit after taxation	0.8	94.0	103.6	97.3	67.0
Non-controlling interests	(0.4)	(0.2)	(0.4)	(0.2)	–
Profit attributable to the equity holders of the parent	0.4	93.8	103.2	97.1	67.0
Headline earnings per share (pence)	27.8	52.1	55.9	49.2	37.0
Dividend per share (pence)	19.4	19.3	19.0	17.4	15.8
Special dividend per share (pence)	–	–	20.0	25.0	–
Assets employed					
Intangible assets	323.5	212.4	206.9	201.0	206.7
Property, plant and equipment	522.6	534.5	546.6	520.5	509.0
Other assets and liabilities	(66.6)	17.4	9.9	(63.6)	(88.5)
	779.5	764.3	763.4	657.9	627.2
Financed by					
Share capital	33.1	33.1	33.1	33.1	33.1
Reserves	647.4	671.9	685.5	663.9	594.8
Shareholders' funds	680.5	705.0	718.6	697.0	627.9
Non-controlling interests	0.9	0.8	0.7	0.5	0.4
Lease liabilities	75.6	79.4	80.3	–	–
Net debt/(cash)	22.5	(20.9)	(36.2)	(39.6)	(1.1)
Capital employed	779.5	764.3	763.4	657.9	627.2
Net assets per share (pence)	355.4	368.2	375.3	364.1	328.0
Return on capital employed:					
Headline operating profit divided by the average of opening and closing capital employed	9.8%	17.7%	18.9%	19.3%	17.1%

1 Restated following adoption of IFRS 16, Leases on 1 January 2018.

2 Periods prior to the adoption of IFRS 16, Leases on 1 January 2018 have not been restated.

Company statement of financial position

At 31 December 2020

	Note	2020 £m	2019 £m
Fixed assets			
Intangible fixed assets	3	15.4	21.5
Tangible fixed assets	4	0.7	0.1
Right-of-use assets	5	0.3	0.5
Investments in subsidiaries	6	391.0	391.0
Receivables	7	148.3	101.1
		555.7	514.2
Current assets			
Receivables	7	5.7	4.6
		5.7	4.6
Current liabilities			
Payables	8	(27.0)	(10.3)
		(21.3)	(5.7)
Net current liabilities			
Total assets less current liabilities			
		534.4	508.5
Payables: Amounts falling due after more than one year	8	(1.3)	(0.8)
		533.1	507.7
Net assets			
Capital and reserves			
Called-up share capital	10	33.1	33.1
Share premium account		177.1	177.1
Other reserves		125.4	124.8
Profit for the year		44.6	176.7
Retained earnings/(accumulated losses)		152.9	(4.0)
		533.1	507.7
Total shareholders' funds			

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 12 March 2021.

They were signed on its behalf by:

S.C. Harris
Director

D. Yates
Director

Company statement of changes in equity

Year ended 31 December 2020

	Called-up share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
1 January 2019	33.1	177.1	126.3	71.6	408.1
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
31 December 2019	33.1	177.1	124.8	172.7	507.7
Profit for the year	–	–	–	44.6	44.6
Actuarial gain on defined benefit pension schemes net of deferred tax	–	–	–	0.3	0.3
Total comprehensive income for the year	–	–	–	44.9	44.9
Dividends paid	–	–	–	(25.1)	(25.1)
Shares acquired	–	–	(0.5)	–	(0.5)
Share-based payments	–	–	0.4	–	0.4
Settlement of share options	–	–	0.7	5.0	5.7
31 December 2020	33.1	177.1	125.4	197.5	533.1

Details of dividends paid are set out in note 9 of the consolidated financial statements.

Details of share-based payment transactions are set out in note 28 of the consolidated financial statements.

The other reserves are stated after deducting £7.0m (2019: £11.6m) 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 2020 865,565 (2019: 1,405,555) 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 £6.5m (2019: £13.4m).

Included in other reserves is £2.0m (2019: £6.0m) relating to a share option reserve and a capital redemption reserve of £129.8m (2019: £129.8m). 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.

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 the Companies Act 2006 as applicable to companies using FRS 101. The financial statements have been prepared under the historical cost convention and in accordance with applicable law. The principal accounting policies are summarised below, and have been applied consistently. 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, 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.

Dividends

The dividend distributions to Bodycote plc's ordinary shareholders are recognised as a liability when the dividends are declared and approved by the Board and the ordinary shareholders at its Annual General Meeting. Further detail is contained in note 9 of the Group consolidated financial statements.

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 at least the next 12 months and continue to adopt the going concern basis of accounting in preparing the Company's financial statements. Further detail is contained in the Group going concern accounting policy on pages 90 to 91.

Investments

Investments are held at cost less provision for impairment. Any potential impairment is determined on a basis of the carrying value of the investment against the higher of net assets or discounted future cash flows.

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 year.

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 as per the requirements of IAS 19 Employee Benefits, as described in further detail in the accounting policies of the Group consolidated financial statements on page 94.

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.

Right-of-use assets

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 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 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 Company'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.

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%

Company accounting policies continued

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%

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company 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).

Recoverable amount is the higher of fair value less costs to dispose and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

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.

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 2022. On each 30 June anniversary the loan facility is to be extended for a further 12 months. The interest rate for such facility was at LIBOR plus 1.20% margin in 2020.

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 2022. On each 30 June anniversary the loan facility is to be extended for a further 12 months. The interest rate for such facility was at LIBOR plus 1.95% margin in 2020.

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.

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.

The Company recognises and maintains the share-based payment reserve for all eligible Group employees. Appropriate provisions for non-Company employees vesting share awards are passed on to other Group companies in the form of a non-interest bearing loan payable to the Company. When share awards are exercised by non-Company employees the Company charges other Group companies for the weighted average cost to purchase the shares exercised. The Company reduces the loan receivable from the other Group company for the shares exercised, recognising the difference between grant and exercise price within retained earnings settlement of share options.

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 source of estimation uncertainty have been identified. Refer to note 12 for judgements identified in recognised pension commitments.

Notes to the company financial statements

Year ended 31 December 2020

1. Profit for the year

Bodycote plc has made use of the exemption from presenting a profit and loss account, in accordance with Section 408 of the Companies Act 2006.

Bodycote plc reported a profit for the financial year ended 31 December 2020 of £44.6m (2019: £176.7m).

The auditor's remuneration for audit and other services is disclosed in note 3 of the Group's consolidated financial statements.

2. Staff costs

	2020	2019
Average monthly number of employees	56	61
	£m	£m
Their aggregate remuneration comprised:		
Wages and salaries	3.0	7.4
Social security costs	(0.5)	1.1
Pension costs	0.6	0.5
	3.1	9.0

The above table has been included in 2020 to comply with Companies Act 2006 s411.

Included in wages and salaries are share-based payments (excluding social charges) resulting in a charge of £0.1m (2019: £0.4m).

All Directors of the Group with exception to Dominique Yates are remunerated through the Company and these costs are reflected in the financial statements of the Company. Dominique Yates is remunerated through Bodycote (Suisse) SA, a direct subsidiary of the Company and these costs are reflected in the financial statements of the Group and Bodycote (Suisse) SA. Disclosure of individual Directors' remuneration, share interests, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 are shown in the tables in the Board Report on remuneration on pages 64 to 74 and form part of these financial statements.

3. Intangible fixed assets

	Software £m
Cost	
At 1 January 2020	32.3
Additions	1.9
Disposals	(1.6)
At 31 December 2020	32.6
Amortisation	
At 1 January 2020	10.8
Charge for the year	1.8
Disposals	(1.6)
Impairment losses	6.2
At 31 December 2020	17.2
Net book value	
At 31 December 2020	15.4
At 31 December 2019	21.5

The Company completed a valuation assessment of its ERP and HR management software during the year. Impairments of £6.2m (2019: £nil) were recognised relating to ERP software assets (£5.0m) and HR management software assets (£1.2m). Further details are contained in note 12 of the Group consolidated financial statements.

Included in software assets are ongoing development costs related to the Group's ERP solutions. £7.6m (2019: £9.8m) 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.

Notes to the company financial statements continued

For the year ended 31 December 2020

4. Tangible fixed assets

	Fixtures and fittings £m
Cost	
At 1 January 2020	0.9
Additions	0.6
At 31 December 2020	1.5
Depreciation	
At 1 January 2020 and 31 December 2020	0.8
Net book value	
At 31 December 2020	0.7
At 31 December 2019	0.1

5. Right-of-use assets

	Buildings and vehicles £m
Cost	
At 1 January 2020 and 31 December 2020	2.3
Depreciation	
At 1 January 2020	1.8
Charge for the year	0.2
At 31 December 2020	2.0
Net book value	
At 31 December 2020	0.3
At 31 December 2019	0.5

	2020 £m	2019 £m
Lease liabilities		
Maturity analysis – contractual undiscounted cash flows		
Less than one year	0.2	0.2
One to five years	0.3	0.5
Total undiscounted cash flows	0.5	0.7
Current	0.2	0.2
Non-current	0.3	0.5
Total lease liabilities	0.5	0.7

Notes to the company financial statements continued

For the year ended 31 December 2020

6. Investments in subsidiaries

	£m
Cost	
At 1 January 2020 and 31 December 2020	397.6
Provision for impairment	
At 1 January 2020 and 31 December 2020	6.6
Net book value	
At 31 December 2020	391.0
At 31 December 2019	391.0

The following subsidiaries in the UK 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 these businesses. These subsidiaries have been included in the consolidated financial statements of Bodycote plc as at 31 December 2020.

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.

7. Receivables

	2020 £m	2019 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	0.3	1.9
Corporation tax	2.7	2.6
Deferred taxation (note 9)	1.7	–
Other receivables and prepayments	1.0	0.1
	5.7	4.6
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings ¹	147.3	101.1
Other receivables	1.0	–
	148.3	101.1
	154.0	105.7

¹ An assessment regarding the expected credit losses (ECL) of these amounts has been made and no allowance for ECL has been recognised on the basis that the loans do not exceed the borrowers liquid assets. Loans are repayable on 30 June 2022 and on each 30 June anniversary the loan facility is to be extended for a further 12 months.

Notes to the company financial statements continued

For the year ended 31 December 2020

8. Payables

	2020 £m	2019 £m
Amounts falling due within one year:		
Bank loans	17.0	–
Amounts owed to subsidiary undertakings	4.6	0.9
Other taxes and social security	0.3	0.9
Lease liabilities due within one year	0.2	0.2
Other payables	0.9	3.1
Accruals	4.0	5.2
	27.0	10.3
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings ¹	1.0	0.3
Lease liabilities due after one year	0.3	0.5
	1.3	0.8

1 Intercompany loan from Bodycote Finance Limited, repayable on 30 June 2022. On each 30 June anniversary the loan facility is to be extended for a further 12 months.

9. Deferred tax

The following are the deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior year.

	Accelerated tax depreciation	Retirement benefit obligations £m	Other timing differences £m	Total £m
At 1 January 2019	(0.3)	–	0.6	0.3
(Charge) to profit or loss	(0.2)	(0.1)	(0.1)	(0.4)
Credit to other comprehensive income	–	0.1	–	0.1
At 1 January 2020	(0.5)	–	0.5	–
Credit/(Charge) to profit or loss	1.8	(0.1)	(0.1)	1.6
Credit to other comprehensive income	–	0.1	–	0.1
At 31 December 2020	1.3	–	0.4	1.7

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:

	2020 £m	2019 £m
Net deferred tax asset	1.7	–

10. Called-up share capital

Share capital:

Ordinary shares (allotted, called-up and fully paid)

	Number of shares	£m
At 1 January 2020	191,456,172	33.1
At 31 December 2019	191,456,172	33.1

Details of share options in issue on the Company's share capital and share-based payments are set out in note 28 of the consolidated financial statements.

11. Contingent liabilities

The Company has guaranteed bank overdrafts, loans and letters of credit of certain subsidiary undertakings amounting to £3.6m (2019: £0.7m).

Notes to the company financial statements continued

For the year ended 31 December 2020

12. Pension commitments

The Company participates in a final salary defined benefit scheme in the UK, the details of which are disclosed in note 30 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 of pension scheme surplus is an area of accounting judgement, which depends on the wording of the scheme rules and IFRIC 14. The pension asset not recognised at 31 December 2020 was £2.3m (2019: £8.8m). Full disclosures concerning the scheme as required by IAS 19 (revised) are set out in note 30 of the consolidated financial statements and full disclosure concerning IFRIC 14 is set out in note 30 on pages 128 to 129.

Over the period, the Scheme Trustee undertook work to consolidate the Scheme Rules which identified changes to the understanding of certain Scheme benefits. This has resulted in additional liabilities of £4.6m being recognised by restating the liabilities as at 1 January 2019 and 31 December 2019. After recognition of the additional liabilities as at 1 January 2019 and 31 December 2019, the Scheme remains in a surplus position. Due to the provisions of IFRIC 14, this surplus would be restricted to a net surplus recognised on the balance sheet of £nil. Given that there would be no change in the net balance sheet position, the additional liabilities have been disclosed but the disclosures for the year to 31 December 2019 have not been restated.

The contributions made by the Company over the financial year to the defined contribution scheme amounted to £0.4m (2019: £0.5m). As at 31 December 2020, contributions of £nil (2019: £nil) due in respect of the current year had not been paid over to the scheme.

13. Related party transactions

Other than payments made to Directors, which are set out in the Board Report on Remuneration on pages 64 to 75 and note 29 of the consolidated financial statements, 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.

Subsidiary undertakings

Incorporated in the UK

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

Bodycote America Capital Limited⁶
 Bodycote America Finance Limited⁶
 Bodycote America Treasury Limited⁶
 Bodycote Developments Limited^{2,4}
 Bodycote Finance Limited⁶
 Bodycote Finance UK Limited⁶
 Bodycote Heat Treatments Limited¹
 Bodycote H.I.P. Limited¹
 Bodycote HIP Germany Limited³
 Bodycote International Limited³
 Bodycote Investments⁶
 Bodycote K-Tech Limited²
 Bodycote Nominees No. 1 Limited²
 Bodycote Nominees No. 2 Limited²
 Bodycote Pension Trustees Limited⁵
 Bodycote Processing (Skelmersdale) Limited^{2,4}
 Bodycote Surface Technology Limited¹
 Bodycote Thermal Processing Limited²
 Bodycote Thermal Processing Mexico Limited¹
 Bodycote Treasury Services Limited⁶
 Expert Heat Treatments Limited^{2,4}
 Taylor & Hartley Fabrics Limited²

Incorporated in Belgium

Font Saint Landry 11, 1120 Brussels, Belgium

Bodycote Belgium SA¹

Industrie Park Noord 7, 9100 Sint-Niklaas, Belgium

Bodycote Hot Isostatic Pressing NV¹

Incorporated in Canada

630 Newpark Boulevard, Newmarket ON L3X 2S2, Canada

Bodycote Canada Property Inc.⁴
 Bodycote Thermal Processing Canada, Inc.¹

50 Queen Street North, Suite 1020, Kitchener ON N2H 6M2, Canada

Bodycote Heat Treatment Canada, Inc.¹

30 de l'Aéroport Boulevard, Bromont Québec JSL 1S6, Canada

Bodycote Surface Technology Canada Property, Inc.⁴
 Bodycote Surface Technology Canada Ltd.¹

Incorporated in China

No. 68 Ningbo East Road, Taicang Economic Development Area, Taicang City, Jiangsu, China

Bodycote Heat Treatments Technology (Taicang) Co., Limited¹

2012 Kehang Road, High Tech District, Jinan City, Shandong, China

Bodycote (Jinan) Heat Treatments Technology Co., Ltd.¹

No.12 Building, No. 78, Gu Cheng Zhong Road, Yu Shan Town, Kunshan City, Jiangsu Province, China

Bodycote (Kunshan) Heat Treatments Technology Co., Ltd.¹

No.B2-A, Wuxi National Hi-New Tech Industrial Development Z, Wuxi City, Jiangsu Province, 214028, China

Bodycote Wuxi Technology Co., Ltd.¹

Incorporated in Czech Republic

Liberec 30, Tanvaldska 345, PSC, 46311, Czech Republic

Bodycote HT s.r.o¹

Rohanske nabrezi 671/15, Karlin, 186 00, Praha 8, Czech Republic

Bodycote SSC s.r.o⁶

Subsidiary undertakings continued

Incorporated in France

Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France

Bodycote Bourgogne SAS¹
 Bodycote France Holdings SA³
 Bodycote Haute-Savoie SAS²
 Bodycote Lyon SNC⁶
 Bodycote Metz-Tessy SAS¹
 Bodycote SAS¹
 Bodycote Sud-Ouest SAS¹
 HITEC SAS²
 Nitruvid SAS¹

Incorporated in Germany

Schiessstrasse 68, 40549 Düsseldorf, Germany

Bodycote Deutschland GmbH⁶
 Bodycote European Holdings GmbH³
 Bodycote Hirzenhain GmbH¹
 Bodycote Specialist Technologies GmbH¹
 Bodycote Specialist Technologies Deutschland GmbH¹
 Bodycote VHK Vakuum-Härterei Köllner GmbH¹
 Bodycote Wärmebehandlung GmbH¹

Incorporated in Ireland

12 Merrion Square North, Dublin 2, Ireland

Bodycote Ireland Finance DAC⁶
 Bodycote Ireland Treasury Limited⁶ – A and B ordinary shares

Incorporated in Jersey

50 La Colomberie, St Helier, JE2 4QB, Jersey

Bodycote Jersey Finance Limited⁶
 Bodycote Jersey Holdings Limited³

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.¹
 Bodycote de SLP, S. de R.L. de C.V.¹
 Bodycote Testing de Mexico, S. de R.L. de C.V.²
 Bodycote Thermal Processing de Mexico, S. de R.L. de C.V.¹
 Bodycote Thermal Processing de Mexico Servicios, S. de R.L. de C.V.⁶

Incorporated in Sweden

Box 209, 735 23, Surahammar, Sweden

Bodycote Hot Isostatic Pressing AB¹

Box 353, 681 23, Kristinehamn, Sweden

Bodycote Kristinehamn AB¹ – being merged into Bodycote Värmebehandling AB

Box 124, 424 23, Angered, Sweden

Bodycote Fabrikören 7 AB⁴ – company sold 1/2/2021
 Bodycote Sweden AB³
 Bodycote Thermotreat AB²
 Bodycote Utmeland 73:15⁴ AB
 Bodycote Värmebehandling AB¹
 Bodycote Ytbehandling AB¹

Incorporated in USA

12750 Merit Drive, Suite 1400, Dallas, TX 75251, USA

Bodycote Americas, Inc.³
 Bodycote IMT, Inc.¹
 Bodycote K-Tech, Inc.¹
 Bodycote Syracuse Heat Treating Corporation¹
 Bodycote Thermal Processing, Inc.¹
 Bodycote USA, Inc.³

8118 Corporate Way Suite 201, Mason OH 45040, USA

Bodycote Surface Technology Property LLC⁴
 Bodycote Surface Technology Mexico LLC¹
 Bodycote Surface Technology, Inc.¹
 Bodycote Surface Technology Group, Inc.⁶

1237 Knoxville Hwy, Wartburg TN 37887, USABodycote Surface Technology Wartburg, Inc.¹**Incorporated in other overseas countries****Boehlerdurplatz 1, 8605 Kapfenberg, Austria**Bodycote Austria GmbH¹**Groethofstraat 27, 5916PA Venlo, Netherlands**Bodycote Hardingscentrum BV¹Bodycote Hardingscentrum No.2 BV³**Orczy ut 46, Budapest, H-1089, Hungary**Bodycote Hungary Hökezelő KFT¹**Kemalpasa OSB, Izmir Kemalpasa Asfalti No:17/1, 35730 Kemalpasa-IZMIR, Turkey**Bodycote Istas Isil Islem Sanayi ve Ticaret AS (79.3% owned)¹**Gesällvägen 7, 01730 Vantaa, Finland**Bodycote Lämpökäsittely Oy¹**Wilgowa 65D, Czestochowa, 42-271, Poland**Bodycote Polska sp z.o.o.¹**Im alten Riet 123, 9494 Schaan, Liechtenstein**Bodycote Rheintal Wärmebehandlung AG¹**Matušková 48, Vikanová, Banksá Bystrica, 976 31, Slovakia**Bodycote Slovakia s.r.o.¹**Avenue Perdtemps 23, 1260 Nyon, Switzerland**Bodycote (Suisse) SA⁶**Via Moie 28, 25050, Rodengo Saiano, Italy**Bodycote Trattamenti Termici SpA¹**Brasov, str. Zizinului nr. 119, cod 500407, Romania**Bodycote Tratamente Termice SRL¹**Industribuen 16-18, 5592, Ejby, Denmark**Bodycote Varmebehandling A/S¹**Other:****Incorporated in France****Lieu-dit Champ Corbert, 74370, Metz Tussy, 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-Härtereie Köllner GmbH, and Bodycote Wärmebehandlung GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2020, 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 2020 are included in the consolidated annual accounts of Bodycote plc.

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 (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. Shareholders can easily access and maintain their shareholding online by registering at www.shareview.co.uk. To register, shareholders will require their shareholder reference number which was recently provided. 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 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

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 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 2 March 2021:

Holding range	Number of shareholders	%	Number of shares	%
1 to 1,000	825	43.8	339,332	0.2
1,001 to 10,000	697	37.0	2,222,073	1.2
10,001 to 100,000	189	10.1	6,935,487	3.6
100,001 to 500,000	94	5.0	22,302,135	11.6
500,001 and over	78	4.1	159,657,145	83.4
	1883	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	33.4	98.4
Other shareholdings	66.3	1.2
	100.0	100.0

As at 23 February 2021 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	18,684,960	9.8
Franklin Templeton Fund Management Limited	12,915,775	6.7
Alantra Asset Management SGIC, S.A.	10,814,128	5.6
BlackRock Investments Management (UK) Ltd	7,945,690	4.2
The Vanguard Group, Inc.	7,832,431	4.1
Baillie Gifford & Co.	6,998,080	3.7
Schroder Investment Management Ltd	6,404,430	3.3
Aberdeen Asset Managers Ltd.	6,357,356	3.3
Dimensional Fund Advisors, LP	5,779,641	3.0

Company information

Advisers

Auditor

PricewaterhouseCoopers LLP

Principal bankers

HSBC UK Bank plc, National Westminster Bank plc, Handelsbanken plc, UniCredit Bank AG, Wells Fargo Bank, N.A., and KBC Bank N.V.

Solicitors

Herbert Smith Freehills LLP and DLA Piper UK LLP.

Financial calendar

Annual General Meeting

27 May 2021

Final dividend for 2020

4 June 2021

Interim results for 2021

July 2021

Interim dividend for 2021

November 2021

Results for 2021

March 2022

www.bodycote.com

For the online version of this report go to
www.bodycote.com/investors

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