Annual Report 2021

Bodycote plc

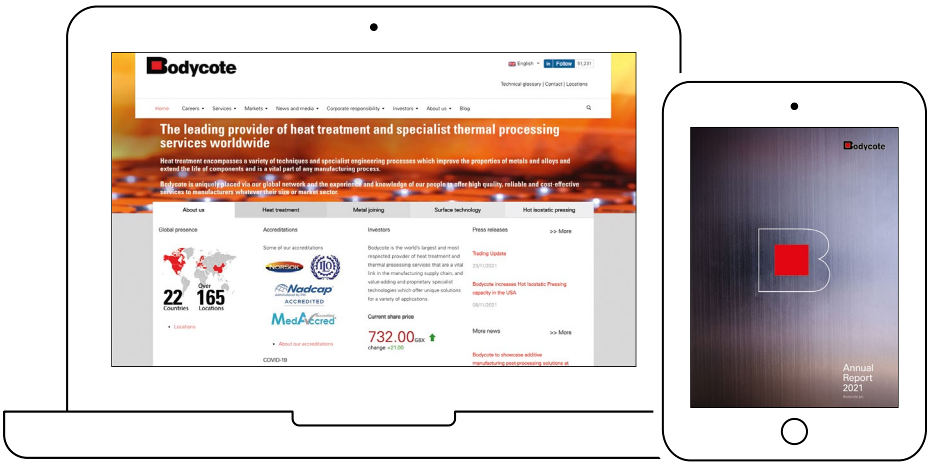
Contents

Strategic report

Governance

Financial statements

Additional information



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 36 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 supporting prime aerospace manufacturers and their supply chains.

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.

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 minimising downtime.

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 our local plant networks, combined with 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 service levels 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 human life every day, whether it's a vehicle 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, resulting in the 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 positively impacts the environment by reducing waste.

Specialist Technologies

Our Specialist Technologies business is a selection of highly differentiated, early-stage processes with high margins, significant market opportunities, and solid growth prospects. Our Specialist Technologies are generally lower carbon-emitting and therefore better for the environment. 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.

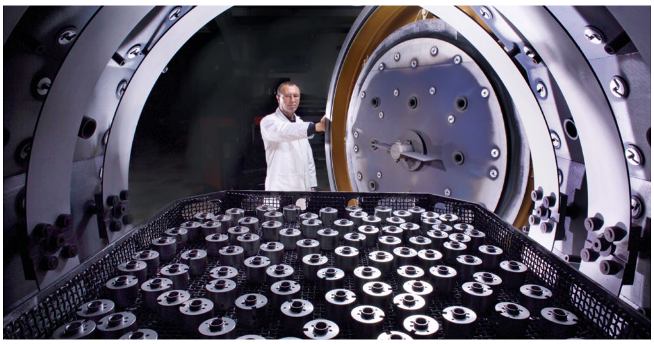
HIP PF inc. Powdermet®
Additive manufacturing of often complex components by combining with HIP.

Specialty Stainless Steel (S³P) Processes
Improves the strength, hardness, and wear resistance of stainless steels. Standard heat treatments negatively impact the corrosion resistance of stainless steel, but our proprietary S³P process 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 thermal processing services, Bodycote offers 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 benefiting 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 assist them. They know that they can obtain the same process to the same quality standards from multiple locations. Customers understand that Bodycote can operate their facilities more efficiently and reduce their overall impact on climate change.

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 its 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.

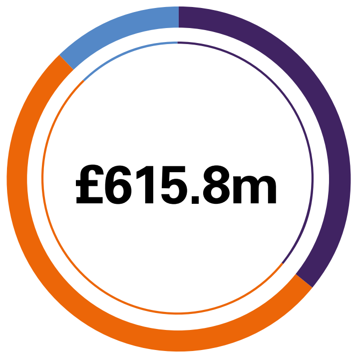
>40,000
customers

4,757[1]
employees

>165
facilities

22
countries

Revenue by geography



North America	**36%**
Western Europe	**52%**
Emerging Markets	**12%**

Revenue by market sector

Aerospace and Defence	**24%**
Energy	**8%**
Automotive	**27%**
General Industrial	**41%**

1 At year end 2021.

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	**43%**
Energy	**9%**
Automotive	**22%**
General Industrial	**26%**

>60 facilities

1,533 employees

Western Europe

Bodycote operates facilities across 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	**15%**
Energy	**8%**
Automotive	**24%**
General Industrial	**53%**

>80 facilities

2,271 employees

Emerging Markets

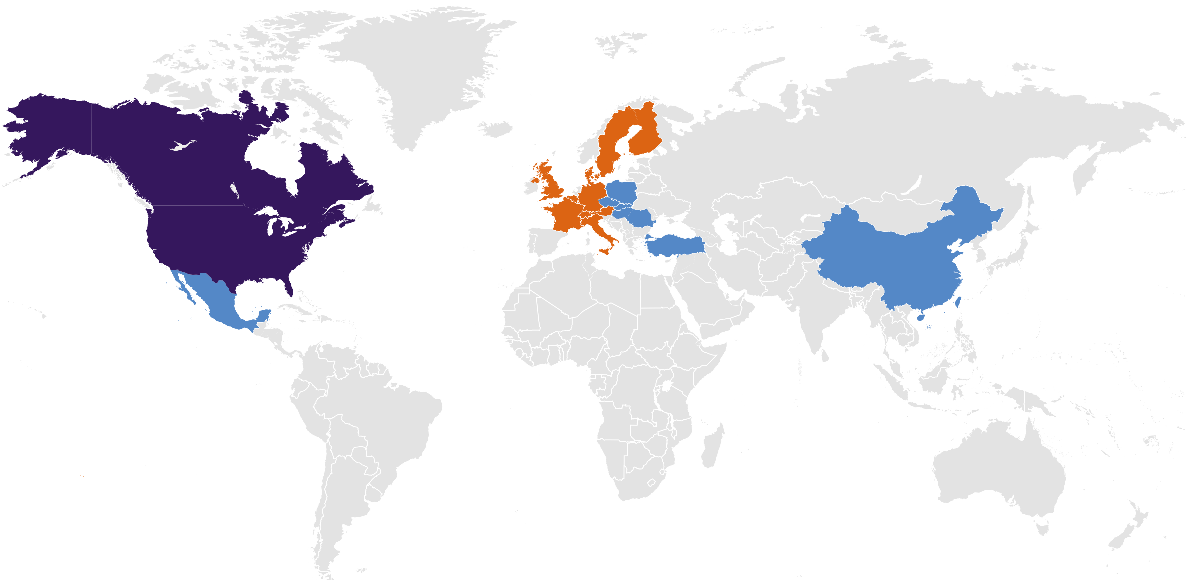
Bodycote has facilities across our Emerging Markets covering Eastern Europe, China, and Mexico. Bodycote is the number one thermal processing provider in Eastern Europe and is the leading Western provider in China.

Revenue by market sector – £m

Aerospace and Defence	**8%**
Energy	**1%**
Automotive	**57%**
General Industrial	**34%**

>25 facilities

953 employees



Understanding Bodycote
Highlights

Highlights

Financial summary

	2021	2020
Revenue	**£615.8m**	£598.0m
Headline operating profit[1]	**£94.8m**	£75.3m
Headline operating margin[1]	**15.4%**	12.6%
Exceptional items[3]	**–**	£(58.4)m
Free cash flow[1]	**£105.0m**	£106.1m
Basic headline earnings per share[1,2]	**35.8p**	27.8p
Ordinary dividend per share	**20.0p**	19.4p
Return on capital employed[1]	**12.0%**	9.8%

Additional statutory measures

Operating profit	**£83.8m**	£5.0m
Profit after tax	**£60.0m**	£0.8m
Net cash generated from operating activities	**£144.3m**	£139.1m
Basic earnings per share	**31.2p**	0.2p

- Financial performance
  - Revenues up 7.1% at constant currency to £615.8m (organic revenues up 5.2%)
  - Headline operating margin at 15.4% (2020: 12.6%)
  - Free cash flow of £105m
  - Closing net debt[1] of £52m
- Strategic Progress
  - 2020 restructuring programme completed, with permanent cost savings of £20m delivered in 2021
  - Incremental £10m of permanent cost savings to come in 2022
  - Emerging Markets' revenues up 17% at constant currency
  - Specialist Technologies' revenues up 7%[4], outperforming Classical Heat Treatment
  - Strong margin improvement anticipated as revenues grow
  - Final ordinary dividend 13.8p, total year 20.0p (2020: 19.4p)

1 The headline performance measures represent the statutory results excluding certain non-operational items. Net debt excludes lease liabilities. These are deemed alternative performance measures under the European Securities and Markets Authority guidelines. Please refer to page 149 for a reconciliation to the IFRS equivalent.

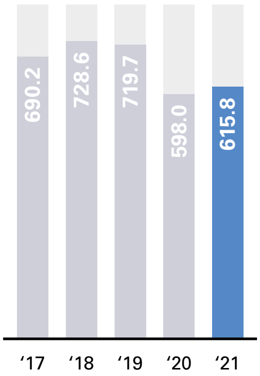
2 A detailed EPS reconciliation is provided in note 8 of the consolidated financial statements.

3 Detail of exceptional items is provided in note 4 of the consolidated financial statements.

4 Organic constant currency.

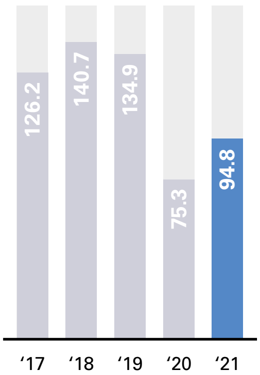
Financial highlights

Revenue
£m



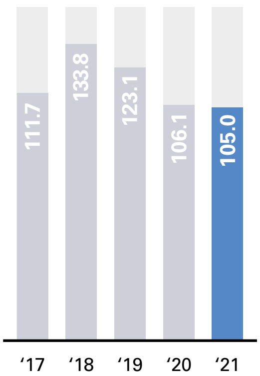
£615.8m

Headline operating profit
£m



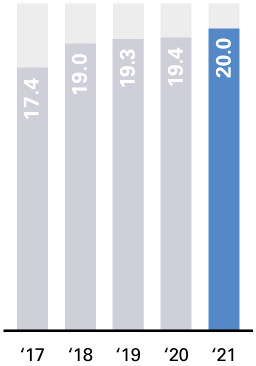
£94.8m

Free cash flow
£m



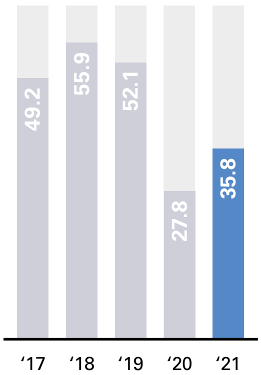
£105.0m

Dividend per share
pence



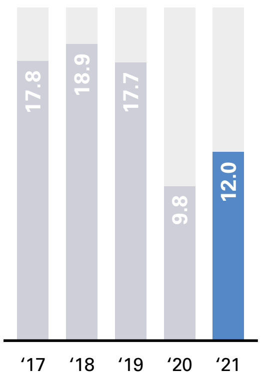
20.0p

Headline earnings per share
pence



35.8p

Return on capital employed
%



12.0%

Understanding Bodycote
The investment case

We provide expertise in classical heat treatment and specialist thermal processes across a wide variety of markets.

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

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

Significant barriers to entry across the 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

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

Plentiful investment opportunities to drive margins and returns

Resilient Classical Heat Treatment is robust in downturns

Part of the solution to reducing global emissions

Positioned for the future

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

Key investment strengths

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

– Increasing the size of our Specialist Technologies business with its superior margins, higher growth characteristics, and lower emissions
– Investment in development and localisation opportunities in growth markets
– Improving the mix in parts of the Classical Heat Treatment business
– Proactive approach on ESG and sustainability
– Investment in structural end-market growth opportunities
– Investment in acquisitions and greenfield sites
– Strategy that can accommodate widely differing market outcomes

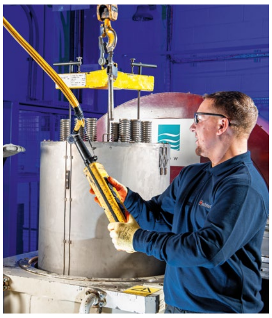
Robust balance sheet strength through:

c.£365m
invested in capacity growth in last five years

>£250m
returned to shareholders in last five years

What you can expect?

Specialist Technologies 30% of Group revenue – higher margin and growth opportunities; expected to consistently outperform the organic Classical Heat Treatment business



Classical Heat Treatment should perform ahead of the market, driven by:

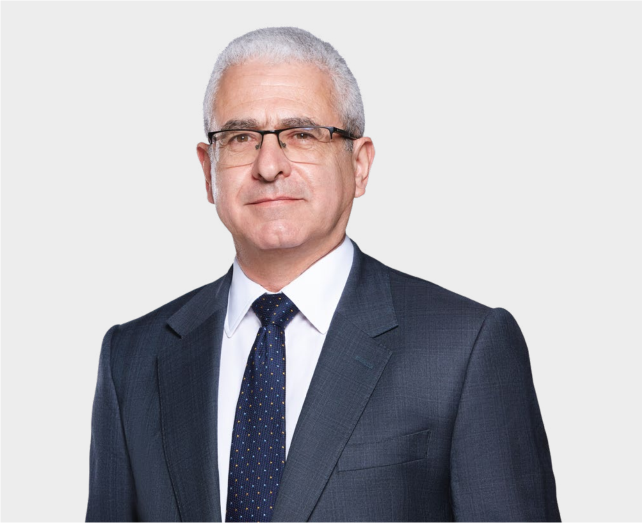
– Increasing demand for improved materials and quality
– Investment in Emerging Markets that allows for high-growth opportunities
– Additional outsourcing as customers understand that Bodycote is part of the solution to reducing their environmental impact

Continued selected acquisitions

– 6 key acquisitions in the last five years, including Ellison Surface Technologies

All on top of underlying Industrial Production growth

Chair's statement



"This is a service business, reliant on its people at all levels, and Bodycote has good people who understand the business and are committed to outstanding performance."

D. Dayan
Chair

Overview

I am pleased to be contributing to the Annual Report for the first time as Bodycote's Chair, having taken up the position on 1 January 2022. It is encouraging to see that the Group made good progress in 2021 as our markets began a patchy recovery from the pandemic-induced downturn of 2020. The rigorous actions taken promptly by the management team delivered the necessary flexibility and strengthened Bodycote's foundations for future growth.

Dividend

The Board is proposing a final dividend of 13.8p, an increase of 3.0%, which will be paid on 3 June 2022, subject to shareholder approval at the 2022 Annual General Meeting (AGM). This brings the total ordinary dividend for 2021 to 20.0p (2020: 19.4p), a year on year increase of 3.1%, returning £38.3m to shareholders.

Board and governance

My predecessor, Anne Quinn CBE, stepped down as Chair of the Board at the end of 2021. On behalf of the Board and the Group as a whole, I would like to thank Anne for her guidance and leadership during her time as Chair.

The Chair is primarily responsible for the composition of the Board and for ensuring high standards of governance. As Chair, I will continue to place great importance on the breadth of relevant experience and complementary skills amongst the Group's Directors and on the development of the Board's understanding of the Bodycote business. By maintaining high standards of corporate governance, we enhance business performance, underpinning the execution of our strategy and the constant review and refinement of our business model. The approach to governance is set by the Board and our Executive Committee ensures that the approach is effectively implemented across the business. Effective and robust governance remains a strong pillar supporting the sustainable success of the Group. I am confident that the Bodycote Board remains well-positioned to meet our governance duties.

On 11 March 2022, we announced the appointment of new Non-Executive Director Cynthia Gordon with effect from 1 June 2022. This is an important building block for our Board succession planning.

People

As part of my induction to Bodycote, I have been able to visit several facilities and meet many people, including all the Senior Management team. I am impressed. This is a service business, reliant on its people at all levels, and Bodycote has good people who understand the business and are committed to outstanding performance. The Group places great importance on ensuring the safety and wellbeing for all Bodycote employees and performed very strongly in this area in spite of the challenges posed by the pandemic. The Board remained very engaged, despite the challenges in 2021. Although travel remained severely constrained, the Board and its committees met frequently (albeit virtually) with the Executive Team and a wide variety of employees to review updates on the business and culture. The Board engaged with employees around the world on subjects pertinent to the business, including meeting with employee engagement groups, reviewing the Group's strategy and in the enhanced programme to combat climate change. While we do not have business in Ukraine, Russia or Belarus, we are deeply saddened by the impact of the current conflict. Now is a time to focus on our common humanity and care for the people affected.

Sustainability

Throughout 2021, Bodycote focused on sustainability with a particular emphasis on enhancing our contribution to combatting climate change. We are proud to have signed our commitment to the Science Based Target initiative and will publish our targets during 2022. The focus on climate change includes both action plans to continue to minimise Bodycote's own emissions as well as helping current and new customers reduce their carbon footprint by outsourcing work to Bodycote's well-invested, carbon-efficient operations. Heat treatment and our other specialty metal processes, despite their fundamental energy intensity, are vital to ensuring the performance and longevity of crucial components in almost every part of the modern world and enable light-weighting and the minimisation of resource consumption. It is gratifying to be part of a business with the opportunity to reduce the environmental impact of so many companies worldwide.

Shareholders

In 2021, the AGM was held 'behind closed doors' due to COVID restrictions, equally most shareholder meetings were required to be virtual due to restrictions. We will continually review the regulations and best practice, and I look forward to engaging with shareholders throughout 2022, either virtually or in a COVID-19 safe environment.

Summary

We expect the uncertainties of the pandemic to continue to recede, notwithstanding the further uncertainties arising from the current conflict. I am confident that Bodycote will continue to perform well and deliver value to our customers, shareholders and employees.

D. Dayan
Chair
14 March 2021

Chief Executive's review

"2021 was a year of good progress, as margins improved to 15.4%, with Bodycote benefiting from strong recovery in General Industrial markets and completion of the restructuring programme. The results also highlight the continued progress we are making with our strategic focus areas."

S. C. Harris
Group Chief Executive

Results overview

We saw good progress in 2021, with margins increasing to 15.4%, as Bodycote benefited from strong recovery in General Industrial markets and completion of the restructuring programme. The results also highlight the progress we are making in our strategic focus areas.

We achieved £615.8m overall revenues, an increase of 7.1% at constant currency (up 3.0% at actual currency). This included a full year revenue contribution from the Ellison acquisition. Organic constant currency revenues increased 5.2%.

Headline operating profit increased to £94.8m from £75.3m in 2020, notwithstanding a £4.4m foreign exchange translation headwind. Headline operating margin recovered to 15.4% (2020: 12.6%).

Statutory operating profit increased from £5.0m to £83.8m (2020's result included a £58.4m exceptional charge).

The Group again delivered strong free cash flow of £105.0m, with free cash flow conversion of 111%. The balance sheet remains healthy, with closing net debt excluding lease liabilities of £51.9m, after having settled the remaining £57.8m of consideration for the Ellison acquisition, as well as having paid £49.0m in ordinary dividends during the year.

Basic headline earnings per share for the Group was 35.8p (2020: 27.8p). Basic earnings per share was 31.2p (2020: 0.2p), reflecting the increase in statutory operating profit.

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

Market sectors

General Industrial revenues increased 14% to £254m, with robust recovery through the year. Organic general industrial revenues in the second half of the year were 5% ahead of 2019's revenues. This growth was initially driven by recovery in customers' operating expenditure as production lines were restarted, as well as some restocking in specific sub sectors. Towards the end of the year, sub sectors that are driven by customers' capital expenditure started to improve. This is particularly encouraging, as the capital goods cycle is typically quite robust and long-lasting.

Automotive revenues increased 9% in the year, to £168m. Automotive revenues were 13% below 2019 pre-pandemic levels, which is disappointing. However, heavy truck was relatively strong. The well-publicised supply chain disruptions and chip shortages affected most of our car & light truck customers during the year. This has continued into 2022, although we are seeing evidence that these issues are starting to abate. Once our customers' supply chains stabilise, we would expect revenues and margins to grow strongly in this sector and margins will achieve levels well above those seen in 2019. This is particularly the case in our strategic focus areas of emerging markets and electric vehicles.

Aerospace and Defence revenues were 1% lower than the prior year. Taking account of the full year contribution from the Ellison acquisition, organic revenues were down 7%, and 34% below 2019 levels. The rate of narrow-body plane build is ramping up substantially and is expected to increase further through 2022 and beyond. Indeed, our Civil Aerospace revenues were up 37% in the fourth quarter. This is particularly important for Bodycote where our narrow-body focus has increased our share of content on these planes significantly over the last 5 years. While wide-body plane build is largely static, our wide-body revenues were particularly strong, primarily in the UK where Q4 revenues showed good improvement, driven by increased flying hours and overhaul programmes. Substantial levels of inventory were in place in the aerospace supply chains at the onset of the COVID-19 pandemic and while this inventory has been reducing through the year there is still excess inventory in parts of the supply chains coming into 2022. As this excess inventory is utilised and the rate of plane build increases in the coming years, we would expect to see revenue growth accelerate further, accompanied by strong margin and profit growth. It is worth noting that at this point there is no evidence of any supply chain disruptions affecting this sector.

Energy revenues represent some 8% of Bodycote's entire business, at £47m. In 2021, Energy experienced a decline of 4%. Industrial Gas Turbines (IGT) revenues grew, while subsea orders softened after a strong 2020. Lead times on subsea projects are longer and there is normally a lag in subsea activity when compared with underlying oil and gas price movements. Non-fossil fuel power generation experienced a modest decline.

Chief Executive's review continued

Specialist Technologies

Expanding Specialist Technologies activities is a key strategic focus for Bodycote. These technologies 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 address multiple market sectors. We continue to invest in these technologies organically, in both capital and people, and through acquisitions. Specialist Technologies' revenues increased 13% to £184m in 2021, boosted by the full-year contribution from the Ellison acquisition. Organic Specialist Technologies' revenues increased 7%. Bodycote's AGI-focused Specialist Technologies' revenues grew 22% during the year, which compares favourably with the 9% increase in the combined AGI Classical Heat Treatment revenues. Bodycote's ADE-focused Specialist Technologies' revenues declined 2% organically during the year, outperforming the 4% decline in the comparable organic ADE Classical Heat Treatment revenues. Specialist Technologies' revenues constituted 30% of Bodycote's revenues in the year and 42% of headline operating profit.

Emerging Markets

Investment in Emerging Markets (12% of Group revenues) continues to be a strategic priority. Our Emerging Market footprint comprises Eastern Europe, China and Mexico. Emerging Market's revenues grew 17% in the year, despite a decline in our Automotive revenues in Mexico which are largely dependent on developments in the US car & light trucks market. Automotive revenues were up 20% elsewhere. General Industrial revenues were up 30% across the emerging markets.

Restructuring

The Group embarked on a strategic restructuring plan in January 2020 and expanded it significantly post the March onset of the pandemic. The plan was aimed at repositioning the Group to better focus on our strategic growth areas as well as permanently eliminating cost. The restructuring programme has been successfully completed. As part of the plan 26 plants were closed and five new ones were opened (two already opened in 2020, and three opened in 2021).

The restructuring programme has generated a total of £30m in permanent cost savings, with £20m benefitting 2021 and an additional £10m of benefit in 2022.

As part of the restructuring, virtually all the productive assets have been retained and relocated to facilities that can make better use of them. These are predominantly in higher growth markets and geographies. A large number of customers have also been transferred. The result is that Bodycote has significant production capacity available not only to service the revenue recovery that has started across a number of our markets, but also to accommodate a significant amount of further growth.

Cost inflation

The Group saw inflationary pressure build through the year, most notably in energy costs during the second half. We are, once again, ensuring that cost inflation is passed on to customers. Indeed, Bodycote has achieved this year in, year out for more than 10 years.

Cost inflation principally impacts us through increases in energy prices (historically circa 10% of revenues) and labour costs (circa 40% of revenues). In a volatile inflationary environment, energy cost increases are passed on through customer surcharges or contractual indexation. In contrast, labour inflation is addressed by price increases or contractual indexation. Surcharges and price increases typically take effect in one to three months. Contractual indexation, which covers about 20% of our business, lags the cost impact by six to 12 months. The significant cost inflation we experienced in energy, and to some extent labour, in 2021 negatively impacted Q4 profitability. This negative impact will continue into early 2022 until the surcharges, price increases and contractual indexation catch up.

Bodycote generally achieves higher furnace fill rates than in-house facilities in manufacturing companies and is more energy efficient as a result. Energy used in the processes is largely independent of fill rates. As a result, in the mid- to long-term higher energy costs actually increase Bodycote's competitive advantage, motivating more companies to outsource to us. This is amplified by the growing demand for companies to reduce their carbon footprint.

Ukraine invasion

Bodycote has no direct exposure to Russia, Belarus or Ukraine. Furthermore, we have no facilities, customers or suppliers in any of these territories, nor any raw materials or energy supply contracts from them. At this stage, it is too early to predict the broader potential impacts on the Group but we continue to monitor the situation closely and will take any necessary actions warranted by unfolding events.

Strategic progress and sustainability

Bodycote's strategy is based on:

1. Ensuring the safety of our employees and reducing our direct environmental impact, specifically on climate change.
2. Improving the overall quality of the business and focusing investment to drive long term profitable growth.
3. Growing our Classical Heat Treatment business focused on electric vehicles and narrow-body aerospace platforms.
4. Growing our Emerging Markets' business.
5. Growing our Specialist Technologies' business.
6. Targeted acquisitions that support these growth areas.

The 2021 results highlight the continued progress we are making with our strategic focus areas. During the year, we opened three new facilities including one in our Emerging Markets, all of which contained Specialist Technologies. One of our HIP facilities in North America has undergone a major expansion and a new HIP facility is nearing completion. In December, we completed the acquisition of a small HIP operation in Western Europe.

I am pleased to report that we have continued to make progress on our sustainability strategy. Managing energy and reducing our impact on climate change has long been part of our corporate culture. We have committed to the Science Based Targets initiative (SBTi). The external focus on carbon emissions and climate change has increased significantly in recent years and most companies have correspondingly increased the attention they are paying to this important issue. It may not be immediately obvious, but Bodycote is part of the solution. Thermal processing, including heat treatment enables products to be lighter, more efficient, and longer lasting. Our inherently higher utilisation and energy efficiency than manufacturers' in-house heat treatment facilities, helps drive them to outsource to Bodycote, in turn lowering the overall carbon footprint. Moreover, our Specialist Technologies are inherently lower emissions technologies. Therefore, encouraging accelerated conversion to these technologies also plays a role in reducing overall emissions. This increased attention and our commitment to SBTi is an opportunity to increase our efforts to combat climate change, while at the same time helping to drive growth.

Summary and outlook

We saw good progress in 2021, with margins increasing to 15.4%, as Bodycote benefited from strong recovery in General Industrial markets and completion of the restructuring programme. The results also highlight the progress we are making in our strategic focus areas. The results also highlight the continued progress we are making with our strategic focus areas.

As we moved into 2022, General Industrial continued to perform strongly, and Civil Aerospace growth has accelerated. Bodycote's Automotive business continued to be impacted by supply chain disruption for our customers, but signs of improvements are evident. And while we expect cost inflation to persist, we will continue to manage its impact on the business. In summary, the Board expects further progress this year, but remains mindful of the current geopolitical and macro-economic landscape.

Looking further ahead, the outlook for the business remains positive as we benefit from high profit drop through on revenue growth across all our market sectors.

S.C. Harris
Group Chief Executive
14 March 2022

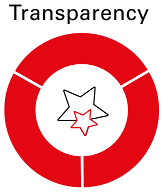
Strategy and objectives

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
1 Safety and Climate Change	We have a strategic commitment to ensuring the safety of our employees and reducing our direct environmental impact, specifically on climate change.
2 Driving operational improvement	Continuous improvement of business processes and systems makes us more efficient and responsive.
3 Investing in structural growth opportunities	We invest in markets with long-term structural opportunities, such as civil aerospace and medical markets.
4 Investing in Emerging Markets	Expanding with our customers in rapid growth countries with an emphasis on Eastern Europe, Mexico, and China.
5 Capitalising on and investing in our Specialist Technologies	Delivering unique solutions that provide customers with innovative, high value-added products to meet the changing needs within component manufacturing, as well as helping them reduce their impact on the environment.
6 Acquisitions	Adding bolt-on acquisitions to improve our plant network in Classical Heat Treatment and investing in larger acquisitions and adjacent technologies to grow Specialist Technologies.

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

Core 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, and taking ownership of our actions.

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

Core markets

- Aerospace and Defence
- Automotive
- Energy
- General Industrial

Our business model

Our business model focuses on ensuring we are the supplier of choice for our 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, as well as by offering substitute Specialist Technologies' processes which are inherently lower emissions processes. Our global network of engineers and metallurgists collaborate with customers to solve complex challenges, enhance operational efficiencies, and help improve product performance. Our services allow our customers' parts to last longer and reduces their environmental impact, supporting a more sustainable future.

...utilising our strategic competitive advantages...

A global network

- A global network of more than 165 market-focused facilities in 22 countries. We have global expertise but are located near our customers.

See our global network on pages 4-5

Unmatched expertise

- Our people make the difference in the service we provide. 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 36-38

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 transferring knowledge, skills and technology across the network.

See our customer component journeys throughout the strategic report.

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 enhance/extend beyond customers' in-house capabilities, combining identification and provision of technical solutions to deliver value-adding material properties with a lower environmental impact on climate change, and often at 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 carbon-reduction benefits versus in-house operations
- Reducing the overall carbon emissions from their value chain

For Bodycote

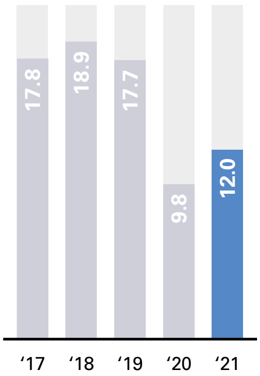
- Mutually beneficial customer relationships
- Vast customer-base means Bodycote is not reliant on any one customer
- Ideally positioned to promote growth in emerging markets and selected technologies

For our investors

- Financially stable and sustainable business
- Good growth drivers
- Superior return on investment
- Strong margins and cash flows
- Proactive approach to ESG climate change and ESG matters

Measuring progress
Our key performance indicators

Return on capital employed
(%)



Performance

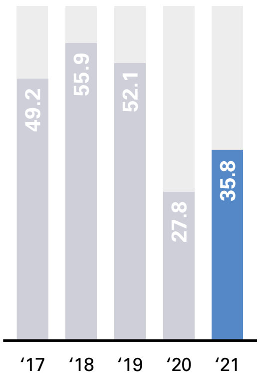
Return on capital employed increased by 2.2 percentage points during the year, up from 9.8% in 2020 to 12.0% in 2021.

Definition

Headline operating profit[1] 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)



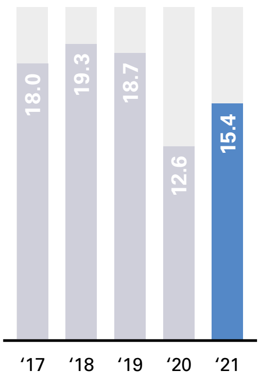
Performance

Headline earnings per share increased by 8.0p (29%) from 27.8p in 2020 to 35.8p in 2021.

Definition

Headline earnings per share is defined in the alternative performance measures section to this annual report on page 149.

Headline operating margin
(%)



Performance

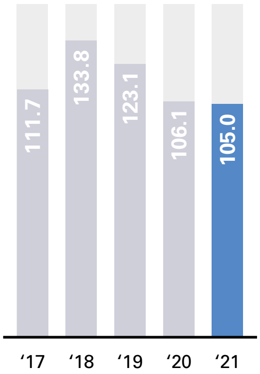
Headline operating margin increased by 2.8 percentage points during the year, from 12.6% in 2020 to 15.4% in 2021. Headline operating profit increased by 26% from £75.3m in 2020 to £94.8m in 2021, while revenue increased by 3% from £598.0m in 2020 to £615.8m in 2021.

Definition

Headline operating profit as a percentage of revenue.

1 Defined on page 149.

Free cash flow
(£m)



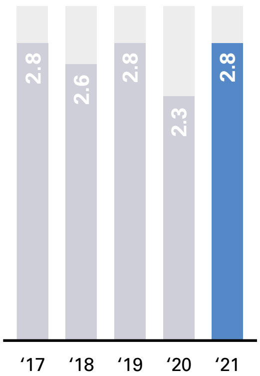
Performance

Free cash flow for the Group was £105.0m (2020: £106.1m). This was 111% of headline operating profit (2020: 141%).

Definition

Free cash flow is defined in the alternative performance measures section to this annual report on page 149.

Total Reportable Case Rate (TRC)



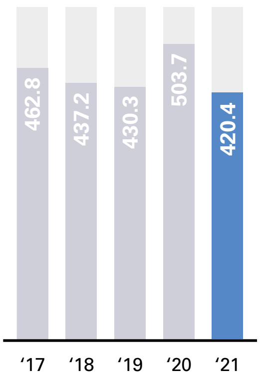
Performance

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 increased to 2.8 this year (2020 2.3). Further details are included in the Sustainability Report section on page 36.

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 CO_2e/£m sales normalised[1])



Performance

On a normalised basis, the carbon footprint decreased by 16% from 503.7 tonnes per £m sales to 420.4 tonnes per £m sales. Further details are included in the Sustainability Report section.

Definition

Carbon footprint is defined as tonnes of CO_2 equivalent emissions divided by £m revenue. CO_2 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

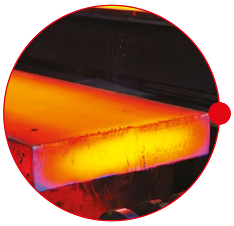
Engagement undertaken	Reason for engagement	Stakeholders' key interests
Investors		
– Annual Report and Accounts/Annual General Meeting – Corporate website, including investor relations section – Results presentation and regular engagement with top shareholders – Meetings throughout the year with existing and prospective shareholders – Meetings throughout the year with existing and prospective banking partners – Press releases (including LSE announcements) – Addressing regular analysts' enquiries	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.	– 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		
– 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	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.	– Reputation – Wages, benefits and social packages – Employee development/engagement – Talent retention/career opportunities – Safety, Health and Environment performance – Diversity and inclusion
Customers		
– Management of ongoing customer relationships – Participation in industry forums/events – Full customer marketing communication programme including utilisation of the corporate website Engaging with our customers helps us to understand their needs and identify opportunities and challenges.	We collaborate with our customers to improve our customers' product characteristics and to develop a project pipeline.	– Customer satisfaction – Service performance, efficiency and quality – Sustainable performance – Supply chain transparency
Society/Communities		
– Individual employee volunteering – Corporate website – Local site community activities	Bodycote operates in a very large number of local communities across the world and we aim to ensure that the business is seen as something that contributes positively to these communities and their inhabitants.	– Local employment – Future talent pipeline – Local operational impact – Environmental impact – Safety, health and environmental performance

A component journey

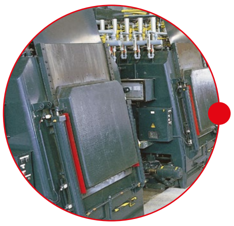
Safety critical service

Aerospace engine shaft.

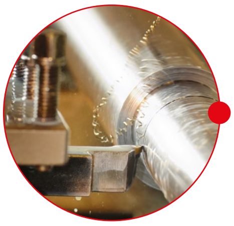
The main drive shaft in a civil aircraft engine is a safety critical component. In service, part failure could mean disaster. Thermal processing is essential to ensure this part has the necessary material properties to operate effectively, keeping the aircraft in the air.



The component begins life as a steel bar from which a forging is made.



The forged shaft is hardened and tempered to give the correct tensile strength.



Rough machining is carried out, usually to within 1/16th inch of the final part size.

The shaft is stabilised at approximately 50°C below the final tempering temperature to remove any machining stresses.

The part undergoes final machining and grinding.

Areas that do not require surface hardening are masked using bronze, tin or copper plating, and the shaft is then gas nitrided at a temperature not exceeding the stabilising temperature. This diffuses nitrogen on to the surface to provide high hardness and excellent wear resistance.

Post-nitriding, the plating and the white layer (nitrogen-rich layer which does not diffuse on to the surface) are removed.

End application:
aircraft, or land-based gas turbine, engine.

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

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. Following on from our successful restructuring programme, we are in a good position to benefit from the continued recovery of our end-markets. The Company's strong underlying financial position enables us to pursue new opportunities for the Group within our disciplined financial framework.

Performance

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 impact on climate change.

In 2021 a recordable injury frequency rate of 2.8 was achieved. The number of recordable injuries fell 12% versus 2017. The safety, health and well-being 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.

The Board also focuses on maintaining financial discipline and delivering strong earnings, cash flow, and returns to shareholders.

A core pillar of the Group's strategy is growth via selected acquisitions. In 2021, Bodycote acquired a new HIP facility in Western Europe, thereby further strengthening our Specialist Technologies business.

People

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.

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 2021 these forums were held virtually. Feedback was generally very positive and no material concerns were expressed by employees during the year.

Governance

The Board 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 2021. The Board discussed the findings of this review and recommendations, such as reviewing the strategy in depth including climate change, ESG and focusing on people and succession have been implemented. The governance framework continues to drive the highest levels of business standards and best practices, 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.

Relevant section 172 factors

Decision-making | **Decision-making**

The Board
(including delegation of authority)

Engagement

Investors

Capital is rewarded through dividends and share price increases. Our investment proposition builds upon our strengths to create value for shareholders. We communicate progress on our financial and non-financial plans in order to cultivate the support of our investors, analysts, banks and proxy voting agencies.

£38m

in dividends

Employees

The knowledge, expertise, and skill of our employees are a major part of the Group's intangible value. We work to attract, develop and retain the best talent, equipped with the right skills for the future. Our people have a crucial role in delivering against our strategy and creating value.

£253m

in staff remuneration

Customers

Our services are provided to the aerospace, defence, energy, automotive and general industrial markets. We work closely with our customers to understand their evolving needs so we can continually improve and adapt to meet them.

>40,000

customers worldwide

Society/Communities

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

We consult through our plant network to gain valuable perspectives on the ways in which our activities could impact the local community or environment.

>165 facilities

in 22 countries

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	20,47
	Restructuring	12
	Financial report	25-27
	Going Concern and Viability statements	27, 34
	Principal Risks	29-33
Interests of employees	Chair and Chief Executive statements	10-13
	Our stakeholders	18
	Sustainability report	36-42
	Board activities in the year	18, 20-21
Fostering business relationships with suppliers, customers and others	Our stakeholders	10-13, 18
	Sustainability report	36-42
	Board activities in the year	50-53
Impact of operations on the community and the environment	Sustainability report	36-42
Maintaining high standards of business conduct	Sustainability report	36-42
	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

Bodycote services all of the major manufacturers in the aerospace industry as well as a large portion of their supply chains.

Within ADE, we have more than 55 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 2021 was £245.6m, an increase of 2% (2% decline at actual rates), including the benefit of the contribution to revenues from the Ellison acquisition. On an organic basis, revenues declined 3% (down 7% at actual rates). Organic aerospace, defence and energy revenues declined 9%, while general industrial revenues increased 14%.

Despite the decline in revenues, headline operating profit increased to £44.2m (2020: £36.8m), and headline operating margin increased to 18.0% (2020: 14.8%), reflecting tight cost control and the benefit of cost savings from the restructuring programme. Statutory operating profit increased to £32.8m (2020: £12.1m, after a £16.9m restructuring charge taken in the year).

Expansionary capital expenditure was £3.7m, with investment predominantly in capacity growth for the HIP business. The Group also invested £8.2m for the acquisition of a business in Western Europe to strengthen its Specialist Technologies network.

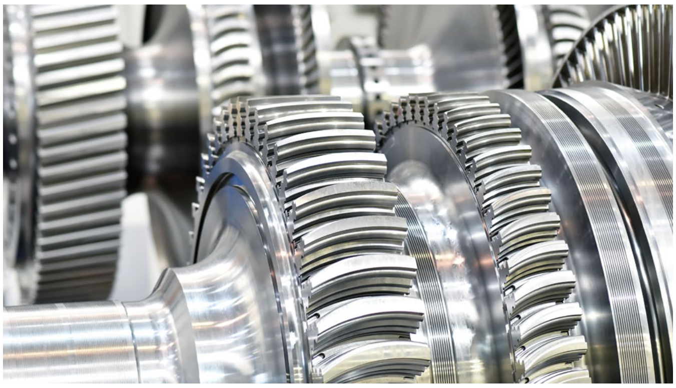
Return on capital employed increased to 10.8% (2020: 10.3%) as a result of the improved profitability.

ADE revenue by market sector and geography
£m

Market sector	
Aerospace and Defence	136.0
Energy	39.3
Automotive	12.3
General Industrial	58.0
Total	**245.6**

Geography	
North America	136.0
Western Europe	105.3
Emerging Markets	4.3
Total	**245.6**

The AGI Business



Our extensive network of more than 100 AGI facilities enables the business to offer customers 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.

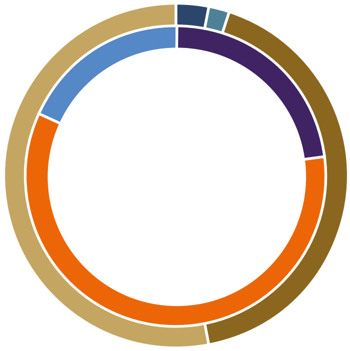
Revenue was £370.2m, an increase of 10% on the prior year (6% at actual rates).

Headline operating profit was £69.5m (2020: £41.0m), and headline operating margin correspondingly increased to 18.8% (2020: 11.8%), as the business benefited from the recovery in revenues, as well as cost savings from the restructuring programme. Statutory operating profit increased to £65.3m (2020: £1.6m, after a £35.3m restructuring charge taken in the year).

We spent £11.4m on expansionary capital expenditure, with ongoing expansion in emerging markets and expenditure on two new plants in North America, which, in part, have facilitated the restructuring programme. Return on capital employed increased to 15.9% (2020: 8.8%), mainly reflecting the increased profitability.

AGI revenue by market sector and geography

£m



Market sector	
Aerospace and Defence	11.5
Energy	7.9
Automotive	155.2
General Industrial	195.6
Total	**370.2**

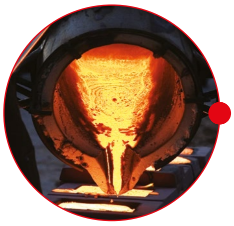
Geography	
North America	85.3
Western Europe	217.0
Emerging Markets	67.9
Total	**370.2**

A component journey
Inner strength

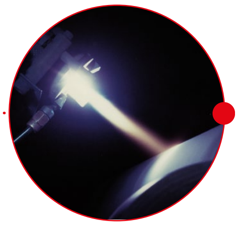
Medical implants.

The stress on a hip or knee joint when a person jumps off a chair is equal to around 100 tonnes per square inch. Our bones, effectively composites, absorb such stresses regularly and effectively for much of our lifetime.

When joints fail, they are often replaced with metal alloy implants. These implants must be incredibly strong, biocompatible, and able to last the lifetime of the patient. A combination of heat treatment, hot isostatic pressing and coating makes this possible.



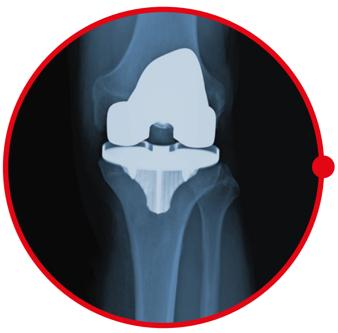
Cobalt chromium alloy billets are investment-cast to form implant shape.



The castings are thermally sprayed with a biomedical coating to allow a bond to form between the implant and body tissue, promoting bone growth.

The implants are then HIPed to eliminate porosity, improve fatigue life, and enhance the bonding of the biocompatible coating.

Solution and ageing heat treatment is used to strengthen the implant.



End application:
joint replacement

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

Chief Financial Officer's report

"Free cash flow was £105m – the Group continues its great track record of converting profits to cash."

D. Yates
Chief Financial Officer

Financial overview

	2021 £m	2020 £m
Revenue	**615.8**	598.0
Headline operating profit	**94.8**	75.3
Amortisation of acquired intangible assets	**(10.3)**	(9.8)
Acquisition costs	**(0.7)**	(2.1)
Exceptional items	**–**	(58.4)
Operating profit	**83.8**	5.0
Net finance charge	**(6.3)**	(6.5)
Profit/(loss) before taxation	**77.5**	(1.5)
Taxation (credit)/charge	**(17.5)**	2.3
Profit for the year	**60.0**	0.8

Group revenue was £615.8m, representing an increase of 3.0% at actual exchange rates, and 7.1% at constant currency.

Headline operating profit for the year increased by 25.9% to £94.8m (2020: £75.3m), with a good improvement in the headline operating margin to 15.4% (2020: 12.6%), reflecting the positive operational gearing from increased revenues, positive business mix and cost savings from the 2020 restructuring programme. Statutory operating profit increased significantly to £83.8m (2020: £5.0m), as a result of the increased headline operating profit, and the £58.4m exceptional charge taken in 2020.

Chief Financial Officer's report continued

Finance charge

The net finance charge was £6.3m (2020: £6.5m) analysed in the table below.

	2021 £m	2020 £m
Interest on loans and bank overdrafts	(1.3)	(0.7)
Interest charges	(2.0)	(3.0)
Financing and bank charges	(3.3)	(3.0)
Total finance charge	(6.6)	(6.7)
Interest received	0.3	0.2
Net finance charge	(6.3)	(6.5)

As at 31 December 2021, headroom on the Group's £250.9m Revolving Credit Facility was £160.6m (2020: £199.2m). The Facility has a remaining life of 4.4 years.

Profit before taxation

	2021 £m	2020 £m
Headline profit before taxation	88.5	68.8
Amortisation of acquired intangibles	(10.3)	(9.8)
Acquisition costs	(0.7)	(2.1)
Exceptional items	–	(58.4)
Profit/(loss) before taxation	77.5	(1.5)

The statutory profit before taxation in the year increased to £77.5m (2020: loss of £1.5m) while headline profit before tax increased to £88.5m (2020: £68.8m).

Taxation

The tax charge for the year was £17.5m (2020: credit of £2.3m). The headline tax rate for the Group was 22.3% (2020: 22.5%), being stated before accounting for amortisation of acquired intangibles, acquisition costs and exceptional items. This is in line with guidance given to the market during the year. The Group's overall tax rate reflects the blended average of the tax rates in 24 jurisdictions around the world in which the Group trades and generates profit.

The effective statutory tax rate was 22.6%. Provisions of £24.0m (2020: £22.1m) are carried in respect of potential future additional tax assessments related to 'open' historical tax years. Reference is made to note 6 to the financial statements for more information.

Bodycote has been advised by the UK tax authorities that the enquiry into the possibility of State Aid in respect of the UK Group Financing Exemption has been closed and, consequently, the Group believes that there is no longer a contingent liability in respect of this issue.

Earnings per share

Basic headline earnings per share rose 29% to 35.8p (2020: 27.8p) as a result of the higher headline operating profit. Basic earnings per share for the year increased to 31.2p (2020: 0.2p).

	2021 £m	2020 £m
Profit/(loss) before taxation	77.5	(1.5)
Taxation (charge)/credit	(17.5)	2.3
Profit for the year	60.0	0.8
Basic headline EPS	35.8p	27.8p
Basic EPS	31.2p	0.2p

Return on capital employed

Return on capital employed (including right-of-use assets) rose in the year to 12.0% from 9.8% in 2020. The increase mainly reflects the improvement in the Group's headline operating profit. The Group continues to exert strong financial discipline over capital expenditure projects in order to target strong returns.

Cash Flow

	2021 £m	2020 £m
Headline operating profit	94.8	75.3
Depreciation and amortisation	73.4	82.0
Impairment of PPE	–	0.4
Income from associates prior to disposal	(0.1)	(0.2)
Loss of disposal of associate	0.4	–
Loss on disposal of PPE	–	0.6
Headline EBITDA[1]	168.5	158.1
Net maintenance capital expenditure	(43.1)	(45.1)
Net working capital movement	(3.4)	17.2
Headline operating cash flow	122.0	130.2
Restructuring	(2.3)	(11.6)
Financing costs	(5.2)	(4.7)
Tax	(9.5)	(7.8)
Free cash flow	105.0	106.1
Expansionary capital expenditure	(15.6)	(20.0)
Ordinary dividend	(49.0)	(25.1)
Acquisition spend	(65.4)	(99.3)
Own shares purchased less SBP and others	4.7	(0.1)
Increase in net debt	(20.3)	(38.4)
Opening net (debt)/cash	(98.1)	(58.5)
Foreign exchange movements	2.0	(1.2)
Closing net debt	(116.4)	(98.1)
IFRS 16 lease liabilities	64.5	75.6
Net debt excluding lease liabilities	(51.9)	(22.5)

1 Refer to page 149 of the annual report for a reconciliation of Operating Profit to Headline EBITDA.

Net debt (excluding lease liabilities) increased by £29.4m to £51.9m after the payment of the remaining deferred consideration of £57.8m for the acquisition of Ellison Technologies, and ordinary dividends of £49.0m during the year. The Group's headline operating cash flow fell to £122.0m (2020: £130.2m), but still represents very healthy headline operating cash flow conversion of 129% (2020: £173%). The statutory measure, net cash from operating activities, increased to £144.3m (2020: £139.1m). Free cash flow also remained strong at £105.0m (2020: £106.1m), with free cash flow conversion of 111% (2020: 141%). Net debt (including lease liabilities) was £116.4m at 31 December 2021, with well over 80% of the Group's outstanding lease liabilities relating to operational property leases.

Expansionary capital expenditure and acquisitions

The Group invested £15.6m (2020: £20.0m) in expansionary projects, mainly related to investment in two new AGI plants in North America and expansion activities in our North American HIP business. The two new North American facilities 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.

In December, the Group acquired a HIP business in Western Europe for consideration of £8.2m, strengthening further the strategically important Specialist Technologies' businesses.

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 13.8p (2020: 13.4p), bringing the total ordinary dividend to 20.0p (2020: 19.4p). The interim dividend of 6.2p, approved by the Board on 27 July 2021, was paid on 5 November 2021 to shareholders on the register at the close of business on 8 October 2021. The final ordinary dividend will be paid on 3 June 2022 to shareholders on the register at the close of business on 22 April 2022.

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.

During the year, the Group extended its £250.9m Revolving Credit Facility by one year and this will now expire in May 2026. As at 31 December 2021, £90.3m (2020: £51.7m) was drawn on this facility, leaving headroom of £160.6m (2020: £199.2m) at year end.

Facility	Expiry date	Facility £m	Facility utilisation £m	Facility headroom £m
£250.9m Revolving Credit	27 May 2026	250.9	90.3	160.6

Alternative performance measures

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, organic sales, headline profit before taxation, headline operating cash flow, organic sales, headline operating cash conversion, free cash flow and return on capital employed together with current measures restated at constant currency. The Directors believe that these assist users of the financial statements to gain a clearer understanding of the trading performance of the business, allowing the impact of restructuring and reorganisation activities and amortisation of acquired intangible assets to be identified separately. These alternative performance measures can be found on page 149.

Going concern

As described on pages 98 to 99 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 at least the next 12 months. In making this judgement, they have considered the impacts of current and severe but plausible consequences arising from the Group's activities. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

D. Yates
Chief Financial Officer
14 March 2022

A component journey
A twist to resist – Bi-metallic extrusion screw

Plastic extrusion technology is used to create a huge number of everyday items for industries such as plastics, pharmaceuticals and food.

The equipment used to compound the polymer feedstock, such as extrusion screws and barrels, must be highly resistant to brittleness, wear and abrasion.

Parts produced from monolithic materials cannot be optimised to produce the desired specification, so the use of bi-metallic parts produced by hot isostatic pressing (HIP) and powder metallurgy overcomes this limitation by bonding a high wear and abrasion resistant powder alloy onto a tough substrate.

The extruder screw begins life as a forged steel bar.

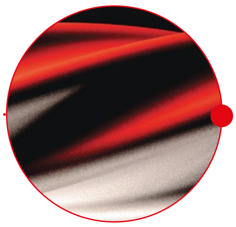
An empty cylindrical steel capsule is manufactured. The steel bar is placed into the centre and the free volume is filled with metal powder.

The bar requires cladding to add a layer of wear-resistant material. This material will be produced from high quality steel powder.

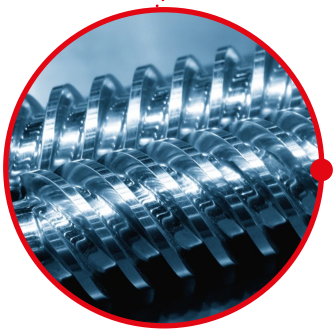
The capsule is HIPed to fully densify the powder metal and bond the steel bar creating a coating.

The outer profile is machined to the final shape and dimensional tolerances.

The finished screw is hardened and tempered using a thermal cycle engineered to allow the material to retain toughness whilst allowing optimum hardness characteristics in the (clad) surface.



K-Tech coating applied for increased wear resistance, corrosion protection, and anti-galling.



End application:
plastic extrusion equipment

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. Senior Management has taken ownership of specific business risks. Each risk is evaluated based on its likelihood of occurrence and severity of impact on our strategy. Then, risks are assessed at both a gross and net level, i.e. before and after the effect of mitigation. This approach allows the identification and consistent evaluation of significant risks, as well as consideration of the effect of current lines of defence in mitigation. In addition, the Risk and Sustainability Committee, which met twice during 2021, assists in the identification of critical risks. 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 Group's risk framework continues to operate as normal despite the COVID-19 pandemic. These activities help embed risk management and facilitate the identification and implementation of risk management measures throughout the Group. In addition, internal audit provides independent assurance that the Group's risk management, governance and internal control processes are operating effectively.

An update is provided 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 are 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 2021 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, see page 14.

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 18 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.

Cross-border trading between the UK and the EU member states as a result of the UK's departure from the EU at the end of the Brexit transition period on 31 December 2020 continues to be a very small part of the Group's 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.

We are mindful of developments in Ukraine in recent weeks. We have no direct exposure to Russia, Belarus, or Ukraine. Bodycote has no facilities, customers, or any suppliers in any of these territories. Neither do we have any raw materials or energy supply contracts from these territories. At this stage, it is too early to predict the broader potential knock-on impacts on our customers, end market developments and energy input costs, but we continue to monitor the situation and will take any necessary actions warranted by unfolding events.

Emerging risk

Bodycote's emerging risk identification process is based on horizon scanning. 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; and more than five years.

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.

As in previous years, in 2021 each division was requested to identify emerging risks for consideration. No additional emerging risks were identified through this process. However, given the effects of climate change on the Group's emerging risk profile and the wider impacts of both physical and transitional risk, the Group has refocused its previous Environmental, Social and Governance risk to Climate Change risk.

Our emerging risk process has identified a number of potential risks including those arising from the effects of climate change risk on the Group's operations which have also been reflected in the 2021 risk review.

These 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, as well as increased focus from both regulators and the investment community around climate change, has started to influence customers to reduce their carbon footprints. There is the potential that this could start to impact some of the sectors Bodycote operates in, such as civil aerospace. It also presents opportunities for the Group as Bodycote tends to have higher furnace fill rates than other heat treaters, and the consequent energy consumption and emissions per component treated is lower. Customers may, therefore, have a greater incentive to outsource their heat treatment activities to Bodycote.
- 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 over time.
- The COVID-19 pandemic, as well as the potential for more pandemics in the future, including the 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			
Markets Bodycote operates in 22 countries. Changes in macroeconomic trends and the economic environment will impact the end markets that the Group serves, and, consequently, the amount of parts that need to be treated. Cost inflation, if not passed on to customers, also presents a risk to the Group's profitability.	**Stable** COVID-19 had a material impact on the markets in which Bodycote operates. While considerable uncertainty with new variants remains, and end markets (particularly automotive) have been impacted by wider issues in global supply chains, these markets have begun to recover in 2021. The high proportion of short-term fixed costs in the business means that a movement in sales can have a significant impact on the Group's profitability. The emergence of higher levels of cost inflation in 2021, most notably the significant increase in energy prices, will reduce the Group's profitability if it cannot be successfully passed on.	– Bodycote's presence in 22 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. – Bodycote has demonstrated the ability to manage its costs in response to revenue shocks, protecting profitability and returns. – The 2020 restructuring activity was aimed at adapting the Group's facilities' footprint to respond to trends in end markets. – Bodycote has a long track record of passing on cost inflation to its customers via price increases and surcharges and has acted quickly in the second half of 2021 to ensure that the surge in cost inflation is offset by price increases to our customers.	1 2 3 4 5
Competitor action The threat of new and existing competitors into one or more of the Group's Specialist Technologies.	**Stable** A number of small and mid-sized HIP furnaces have been installed by competitors, but investment in large HIP furnaces, where Bodycote has a very strong market position, has been limited to date. The entrance of new competitors could result in the erosion of market share with a loss of revenue and profitability.	– The close control of proprietary knowledge. – Expansion in 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.	5
Corporate and community risks			
Safety and health The inherent nature of Bodycote's activities and the equipment operated presents safety and health risks. 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. As well as the obvious increase in risk to the health of our employees, the COVID-19 pandemic has resulted in a greater risk of potential working time loss as a result of an increase in sick days or prevention measures employees may have to undergo.	**Stable** Bodycote is committed to providing a safe work environment for its employees.	– Group-wide health and safety policies developed by the Group Head of SHE, ratified by the Risk and Sustainability 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 Risk and Sustainability Committee. In response to COVID-19, where deemed 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 checks, masks, gloves, social distancing measures, and staff communication and discussion sessions.	1

Risk description	Risk rating	Mitigation and control	Relevance to strategy
Environment			
Climate Change Thermal processing by its very nature consumes a significant amount of energy. There is a risk that we do not adapt competitively to the requirement for lower emissions and that we do not anticipate the impact of climate change to ensure that the Group's operations are sustainable. In addition, actual or potential environmental contamination in any of our facilities could lead to health risks, disruption of business, financial costs and loss of reputation.	**Increasing** Climate change risk is increasing and has become a focus of interest to the investment community and Bodycote stakeholders specifically, seeking to understand how we manage environmental impact, including carbon management. Extreme weather events are unlikely to materially impact our operations.	– We manage, measure and report our impacts, risks and opportunities due to climate change through the TCFD model as described on page 41. – The Risk and Sustainability Committee oversees the strategy and action plans to reduce our carbon footprint. – Environmental procedures and measures in place conforming to ISO 14001. – Remediation of contaminated sites or additional emissions abatements.	1
Operational risks			
Service quality The Bodycote brand is reliant on the repeatable delivery of parts to agreed specification to an agreed time. There is a risk that Bodycote fails to meet the needs of customers in terms of quality, delivery, innovation and problem solving.	**Stable** The risk of poor 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.	– 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.	2
Contract review There is risk that parts are not treated according to contractually agreed specification or additional customers amendments.	**Stable** Non-compliance with agreed specifications or failure to update the process at a plant to comply with specification changes requested by the customer may potentially lead to parts being rejected or failing, which could result in material claims against Bodycote with significant reputational damage, financial penalties and a loss of future revenue.	– 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. – Certain potential damages resulting from this risk are fully or partially covered through the Group's various insurance policies.	2

1 Safety and Climate Change
2 Driving operational improvement
3 Investing in structural growth opportunities
4 Investing in Emerging Markets
5 Capitalising on, and investing in, our Specialist Technologies
6 Acquisitions

Principal risks and uncertainties continued

Risk description	Risk rating	Mitigation and control	Relevance to strategy
Operational risks continued			
Loss of key accreditations Bodycote is required to maintain specific accreditations in order to provide heat treatment and thermal processing services on parts for certain customers. Failing to keep such accreditations would prevent Bodycote from delivering services to customers in these markets.	**Stable** 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.	– 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 is implemented. – Bodycote has a global network of more than 165 facilities and this enables work to be transferred to another accredited facility.	2
Major disruption at a facility 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.	**Stable** Any significant incident at a site could result in the service to Bodycote's customers from the affected site being disrupted.	– 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. – Independent insurer physical inspections to facilities to assess hazard and business interruption risks have been conducted during the year. – Insurance cover, including business interruption cover. – Scheduled equipment maintenance and inspections.	2 3
Machine downtime Bodycote relies upon its operational equipment, across the network of plants, being available to meet the requirements of its customers. Therefore unexpected equipment breakdowns would potentially affect Bodycote's ability to service its customers. Moreover, without an effective preventative maintenance programme there is a risk that equipment redundancy would need to be built in to facilities in order to cope with equipment breakdowns.	**Stable** Significant periods of equipment downtime would impact customer service and revenue.	– A project is underway to further study and mitigate the risk, for example, by using historical 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, and work can be transferred to another facility in the network.	2 3

Risk description	Risk rating	Mitigation and control	Relevance to strategy
Operational risks continued			
Information technology and cybersecurity	**Increasing**		
The Group relies upon its IT systems, including a range of ERP solutions, to manage its operations. Therefore, IT systems interruptions could lead to business process disruption and interruption to key business services. A cyber attack breach could result in the theft, manipulation or destruction of confidential and sensitive information and severely disrupt business operations.	There is an increase in the risk of sophisticated cyber attacks, including ransomware and phishing, and the impacts of these attacks has also been increasing. 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.	– 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 backup procedures. During the year, we deployed multifactor authentications for a number of our key applications and we also increased phishing awareness via a targeted training exercise.	2
Regulatory risks			
Regulatory and legislative compliance	**Stable**		
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 advantages associated with the UK's controlled foreign companies that the Group has employed in its financing structures.	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.	– 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 (lawyers; accountants; tax specialists; trade compliance consultants; and freight forwarders) to support Bodycote at local, divisional and Group levels. – Regular audits of the effectiveness of implemented procedures.	2

1 Safety and Climate Change
2 Driving operational improvement
3 Investing in structural growth opportunities
4 Investing in Emerging Markets
5 Capitalising on, and investing in, our Specialist Technologies
6 Acquisitions

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 2021 financial year. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern (on page 98). The Directors have determined that a three-year period is an appropriate period over which the business could be restructured in the event that any material changes to demand for the Group's services transpired. This period is also consistent with that used for the Group's planning process. As a result, the Board determined that a period of three years would be used for the purpose of concluding on longer term viability.

The base case forecasts which underpin this assessment are based on the Board approved 2022 budget and the approved three-year strategic plan. These projections reflect an ongoing recovery of the Group's end markets over the forecast period. The performance of the Group over the period of the assessment has then been assessed against the covenants that exist in the Group's Revolving Credit Facility, as explained on page 98, and the Group's liquidity.

In conducting the review of the Group's prospects, the Directors assessed the three-year plan alongside the Group's current position, the Group's strategy and the principal risks facing the Group (all of which are detailed in the Strategic Report on pages 1 to 43). This assessment included consideration 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. The assessment included two scenarios designed to stress-test the Group's base case forecasts, and were as follows:

– Plausible downside scenario which reflected the impact of another significant, global pandemic or other economic shock. This assumed a 25% reduction in revenues from the base case, followed by a recovery profile that was more conservative than what the Group experienced following the initial impact of the COVID-19 pandemic. This scenario was designed to be severe, but plausible, as they incorporate potential financial impacts identified in our principal risks and uncertainties, specifically market and operational risks.
– An even more severe downside scenario. This scenario assumed a 36% reduction in revenue compared to the base case, with a very slow recovery in revenues, which is significantly more severe than has been experienced with the COVID-19 pandemic. Whilst this scenario is not considered plausible, it was designed to stress-test the financial resilience of the Group.

In both scenarios, capital expenditure was reduced, reflecting the reduced maintenance capital expenditure required in a scenario with lower furnace utilisation, and the lower levels of growth capital expenditure that would be invested in the economic climate modelled in these scenarios.

In all scenarios there were no breaches of the Group's covenants, and substantial headroom was maintained.

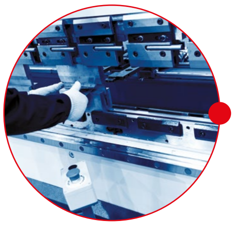
In making this viability statement the Directors considered the other mitigating actions (including, but not limited to, cost reduction initiatives, further discretionary capital expenditure reduction and the reduction of dividends) that may be taken by the Group in the event that the principal risks 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 both scenarios. The Directors also took into consideration the Group's financial position at 31 December 2021, with available liquidity of £202.8m 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 2026.

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 2024.

A component journey
Stress ball

Ball studs.

Used in virtually every automobile made, ball studs are located within the ball joints in a vehicle's steering system, between the wheels and suspension, allowing rotating movement – similar to the way a human hip joint works. Because of their function and position within the vehicle, they must be extremely strong, corrosion resistant and able to cope with weight and stress. Their effective operation is critical to the safety of the vehicle and, therefore, the driver. Bodycote's proprietary Corr-I-Dur® process ensures the parts achieve the necessary material properties.



The ball studs are cold-forged from heat-treatable steel.

The parts are quenched and tempered to obtain the necessary core material strength.

The part surface is machined and roller burnished.

The ball studs receive Bodycote's proprietary Corr-I-Dur® process to improve their corrosion resistance and hardness.

The parts are polished to achieve specified roughness values – essential for the function of the joint and the steering behaviour of the vehicle.

The parts are inspected and tested for roughness, surface and core hardness, and corrosion resistance.

End application: **vehicle**

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

Sustainability report

Our approach to sustainability

Bodycote's approach to sustainability begins with ensuring we operate our business responsibly and prioritise the safety of our people, customers, and communities.

We recognise that the long-term success of our business depends on our ability to create lasting value for our stakeholders and local communities. Our Core Values provide a framework for our sustainable progress. Sustainability has long been part of our DNA through the contribution that our solutions have in reducing the impact on the environment. Pushing forward with our sustainability approach, in 2021, Bodycote committed to the Science Based Targets initiative (SBTi), thus reinforcing our steadfast commitment to reducing our carbon footprint and minimising our impact on climate change while improving the business.

Through our Sustainability strategy, we aim to reinforce our services that make the world more resilient and sustainable, thus helping to maintain our competitiveness today, and in the future. Bodycote is dedicated to improving the management of sustainability issues and has policies and initiatives to achieve this goal. We are committed to being accountable for all reporting requirements.

Our people

The Group's strength comes from our diverse and talented network of people who are experts in their fields and share common Core Values. Throughout 2021, as the world continued to navigate the pandemic, Bodycote came together to manage challenging circumstances for a second consecutive year. Our people enable the Group to be well-positioned for today and the future. The Group kept the health and well-being of our employees at the forefront of all decisions.

Our sustainability approach focuses on the broader impact we have on the environment, the communities where we operate, our employees, shareholders, and society as a whole. Bodycote's stakeholder model (see page 18) shows how its interactions on various levels contribute towards socio economic growth and development. Our people are at the heart of our sustainability activities.

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. Bodycote invests in the training and development of its people both at local and Group levels. Regular internal satisfaction surveys are undertaken that provide feedback on the level of satisfaction of centrally provided services. Overall satisfaction ratings reach appropriate levels.

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

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 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 is 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.

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. Our Equality, Diversity and Inclusion Policy and Recruitment Policy dictates that we maintain equal opportunities and 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 2021 was 38% (2020: 38%) and at Senior Manager level, it is 28% (2020: 30%). Females represent 19% (2020: 18%) of our total workforce.

	Male	Female	**Total**	Male	Female	**Total**
Directors	5	3	**8**	62%	38%	**100%**
Senior managers	36	12	**48**	72%	28%	**100%**
Other staff	3794	907	**4701**	81%	19%	**100%**
	3835	922	**4757**	81%	19%	**100%**

The overall U.K. gender pay gap figures are published on our website www.bodycote.com. The U.K. mean gender pay gap is 5% in favour of women.

Health and well-being

Bodycote has a long history of supporting the health and well-being of our employees. Throughout 2021, as the variants of the COVID-19 virus spread, protecting the well-being of our employees took on a new meaning. Adapting workspaces, schedules, locations, and plans became second nature as we took care of employees first.

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 well-being of all employees. Bodycote sponsors Group-wide fitness initiatives that encourage employees to be more active and regularly supports local fitness activities. The Group promotes total well-being through regular communications on managing stress and supporting mental well-being through the pandemic.

Safety, Health and Environment

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.

A key element in our approach to Safety, Health, and Environment 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. Bodycote manages hazards and 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 consistent and thorough reporting of workplace injuries, near misses, and unsafe conditions. During the year, we upgraded our global SHE reporting system to improve the overall quality of reporting and track SHE incidents. By installing this new, more robust safety management system, we are more able to identify improvement areas to support the organisation's occupational health and safety goals.

In Bodycote the most frequent cause of reportable cases remains related to manual handling of parts and lifting operations and has a number of underlying causes. In 2021, there was continued Group Safety, Health and Environment investment in manual and material handling improvement. Reportable cases and lost time injuries are reviewed during Executive Committee meetings and by the Board. The Executive Committee not only reviews incidents that result in injury but also incidents that are considered to have had the potential to cause a high impact.

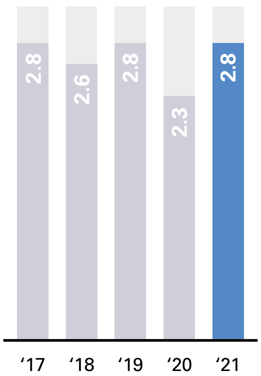
The rapid increase in the amount of activity in 2021 post the lull caused by the pandemic in 2020 led to the 2021 Total Reportable Case (TRC) rate to increase to 2.8 (2020: 2.3), and the Lost Time Injury (LTI) rate to increase to 1.7 (2020: 1.3).

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 increase in TRC rate for 2021 is visible in the chart above.

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.

Sustainability report continued

Human rights

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

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 U.K. 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 Supplier's Code of Conduct for all relevant items.

Customers

Service is at the core of our business; Bodycote works with customers to fulfill their demands in the most productive manner possible. We modify our methodologies to become a better thermal processing solutions provider by surveying customer satisfaction levels. 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.

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 to all employees.

All Bodycote personnel are expected to apply a high ethical standard in keeping with being an international UK-listed company. This is outlined to every employee in our Core Values and business policies.

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 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 incentives.

Supporting employees who speak up

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. Our whistleblower policy provides employees with an avenue to address any number of concerns in a confidential manner.

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

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, Information and Data Protection, Tax Evasion, the Authority matrix, and Competition Law have been designed and translated into the major languages used throughout the Group. All relevant employees have completed the interactive courses.

Environment

As the world's leading provider of thermal processing services, Bodycote plays an essential role in minimising climate change. The services Bodycote supplies to its customers improve the lifespan of products and enable a reduction in the environmental footprint of their components. In addition by efficiently aggregating our many thousands of customers' thermal processing 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 can be considered to be an enabler of the reduction in global industrial carbon emissions.

More information on Bodycote's Task Force on Climate-related Financial Disclosures (TCFD) can be found on page 41 of the Annual Report.

Bodycote has committed to building near-term carbon reduction targets in line with the Science Based Target initiative (SBTi). Bodycote's targets will be published later in the year. The SBTi is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the Worldwide Fund for Nature (WWF). The SBTi defines and promotes best practices in science-based target setting and independently assesses companies' targets.

Carbon footprint

Bodycote offers some of the most energy-efficient processes available on the market, optimising the process to ensure full capacity utilisation, thereby providing maximum benefit to our customers, the Company and the environment. Since 2018, Bodycote has reduced our CO_2e emissions by 23%.

The total global energy consumption reduced by 9.3% in 2021 compared with the previous year.

Total Global Energy Consumption

	Global energy consumption kWh	
	2021	2020
Scope 1	**642,690,742**	762,220,152
Scope 2	**497,183,367**	494,124,666
Total Energy Consumption kWh	**1,139,874,109**	1,256,344,818

One of our core competencies within Bodycote is to manage energy efficiently, reducing our carbon footprint and creating value for our shareholders.

We actively minimise energy use in many ways, optimising production capacity and providing energy-efficient processes. It is essential 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 energy measurement approach and meeting the Energy Efficiency Directive 2012/27/E.U. requirements. The U.K. remains compliant with the directive through the Energy Savings Opportunity Scheme (ESOS).

Bodycote's total CO_2e 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 CO_2e produced, which along with the geographical sales for the year provides the normalised tCO_2e per £m of sales.

In 2021, Bodycote's total carbon emissions ($ktCO_2e$) reduced by 11% compared with the previous year. The total CO_2e emissions per £m sales in 2021 were 420.5 Te (2020: normalised[1] 486.0 Te).

All entities and facilities are included within the disclosure. Emissions less than 2% of the Group's total CO_2e relating to fugitive emissions and owned vehicles are not significant and are excluded. There are no significant omissions from this disclosure.

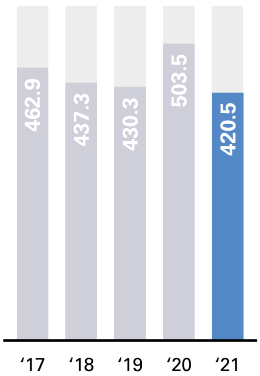
Total Global CO_2 Emissions

	CO_2e emissions ($ktCO_2e$)		
	2021	2020	2020 (normalised[1])
Scope 1	**118.0**	140.4	140.0
Scope 2	**140.9**	150.3	150.1
Statutory total[2]	**258.9**	**290.7**	**290.1**

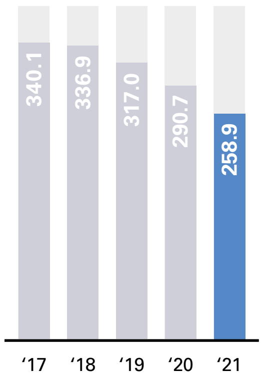
CO_2 Emissions Intensity Ratios

	Intensity ratio CO_2e emissions (tCO_2e/£m)[3]		
	2021	2020	2020 (normalised[1])
Scope 1	**191.7**	234.7	242.9
Scope 2	**228.8**	251.3	260.6
Statutory total[2]	**420.5**	**486.0**	**503.5**

Carbon footprint
(tonne CO_2e/£m sales normalised)



Total global CO_2 emissions
($ktCO_2e$)



1 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 tCO_2e/£m as a consumption intensity ratio to sales is defined as tonnes of CO_2 equivalent per million GBP of sales and is denoted as tCO_2e/£m.

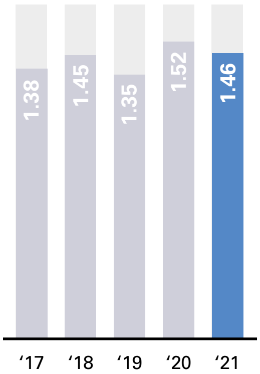
Sustainability report continued

Water

Bodycote's processes by design are not intensive in water consumption. However, minimal water is used for either cooling operational equipment or washing customer parts during some services and is typically recycled. Any water discharge resulting from these operations is controlled using measures such as interception tanks to capture water discharged. This allows the water to be checked for any contaminant levels and ensures it is acceptable prior to final discharge. Internal and external auditing verifies that 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 m^3 per £ million sales ($103m^3$/£m), decreased by 4% in 2021.

Water consumption (thousand m^3/£m sales normalised)



1 Normalised water consumption is a thousand m^3 per £ million sales at a constant currency.

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. Bodycote has no significant waste streams. 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.

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 2021, 97% (152 of our operating facilities) had achieved or maintained ISO 14001: 2015 accreditation (2020: 92%).

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

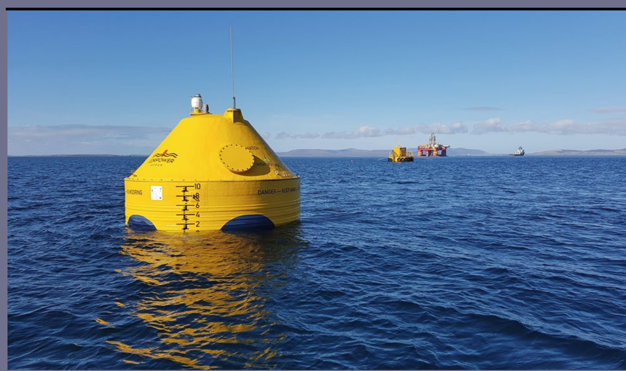
Electricity, natural gas, LPG and transportation fuel consumption information is collected from each facility on a monthly basis. Scope 3 includes business road travel in vehicles not owned by the Company. Scope 3 is calculated from mileage and vehicle type. The DEFRA conversion factors are then applied to calculate the total tonnage of CO_2e produced.

Bodycote PLC and UK subsidiaries' total CO_2e emissions ($ktCO_2e$) for 2021 were 11.2. 100% of Bodycote PLC and its UK subsidiaries' energy consumption was consumed in the U.K.

PLC and UK Subsidiaries 2021

	CO_2e emissions ($ktCO_2e$)	Energy Consumption kWh
Scope 1	3.7	19,605,548
Scope 2	7.6	35,635,924
Scope 3	0.003	12,045
Total	**11.2**	**55,253,516**

Supporting a more sustainable future... Enabling component optimisation for renewable energy.



Durability and robustness are of paramount importance in the wave energy sector, and effective protection of devices in the hostile ocean environment has always presented a major challenge to the industry.

Bodycote expertise in the renewables market and global approvals mean we are the trusted partner for component manufacturers in the renewable energy market. Bodycote has partnered with customer CorPower, to support the production of their Wave Energy Converters (WECs).

Inspired by the pumping principles of the human heart, Corpower WECs offer five times more energy per tonne of device compared to previously known technologies. Incorporating a series of unique features to boost storm survivability and power capture, the WECs also benefit from thermochemical treatment to protect against the harshest marine conditions.

Bodycote Corr-I-Dur thermochemical solution was used to simultaneously improve corrosion resistance and wear properties of CorPower's next-generation C4 WECs. Corr-I-Dur is favoured for components that are subjected to a corrosive environment in combination with wear.

Task Force on Climate-related Financial Disclosures

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) model.

Governance

Accountability for managing climate-related risks and opportunities is led by our Chief Executive with the support of both the Executive Committee and the Risk and Sustainability Committee. The Executive Committee led focus sessions on combatting climate change during our annual strategic reviews.

The Board agenda included both climate change risk reviews and deep dives into environmental strategies throughout the year where they were advised of our plans over climate change and in defining directional focus for the Group's strategy to not only reduce carbon emissions but also to work with our customers to develop strategies, formulate additional initiatives and collectively reduce our carbon emissions together.

Strategy

Bodycote takes a highly 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 in those of our customers. We have integrated the identification and management of climate-related risks into our existing approach to risk management. Within the TCFD framework, our risk and opportunity assessment consider both the financial and strategic inputs that flow into our annual budget process, strategic planning process and capital expenditure reviews.

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 which have an inherently low carbon footprint.

The Group is proud to have committed to setting near-term Group-wide emission reductions in line with climate science with the Science Based Targets Initiative (SBTi).

Climate-scenario analysis workshops were conducted whereby the Group performed scenario analysis of the impact of potential acute climate changes such as forest fires, extreme heat and flooding on the Group's operations. Workshops were held with each of our operating divisions which helped to support and broaden the knowledge and understanding of climate-related risks and opportunities identified within the Group.

Risk and opportunity assessment

We recognise and report the impact of both transitional and physical risks of climate change on our business over the short-to-medium and long-term. Within the assessment process, the risks and opportunities are identified and considered when building annual budgets and our longer-term strategic planning review. The plans include addressing the identified risks by developing mitigation activities as well as the related financial impacts in both the future capital expenditure and operating cash flow to address the risks and opportunities described below.

Transition risks and opportunities: Short to medium term (1 to 10 years)

Transition risks and opportunities are examined based on policy, technology, market and reputation to the Group. The identified risks are assessed at different levels of the business for both financial and strategic impacts. Mitigation factors for each risk are identified and applied to our global risk management programme. Amongst the risks identified are the impact of regulations to reduce carbon emissions which might include the introduction of carbon surcharges, the impact of future capital investment for the deployment of lower emissions technologies and potential requirements to secure cleaner energy sources. Bodycote is typically able to provide thermal processing services to manufacturers with less of a carbon footprint than they would be able to do in-house. As a result a major opportunity for Bodycote is working with manufacturing companies in tackling climate related risks by them outsourcing activities to us.

Physical risks and opportunities: Long-term (10 to 30 years)

Acute physical events are already happening in the short-term and will likely continue to occur and become more widespread. Over the long-term, these could impact the geographic areas where the Group operates. Changes in weather precipitation patterns and extreme weather conditions such as floods, droughts, and fires may lead to events such as acute shortages of water, energy supply issues or significant swings in commodity prices, which may impact our operations.

Metrics and targets

We measure the material impacts and outputs from our business based on standards and regulations relevant to our operations. These emissions-related metrics are reported throughout the Sustainability section of the report. The Group is currently developing Scope 3 disclosures and plans to complete these in 2022.

Sustainability report continued

Task Force on Climate-related Financial Disclosures reference table

The table below is a summary of our TCFD reporting and where the relevant information can be found in our 2021 Annual Report.

Governance		
– Describe the Board's oversight of climate-related risks and opportunities.	✓	**TCFD**
– Describe the management's role in assessing and managing climate-related risks.	✓	**TCFD**
Strategy		
– Describe the climate-related risks and opportunities the organisation has identified over the short- , medium- and long-term.	✓	**TCFD**
– Describe the impact of climate-related risks on the organisation businesses, strategy and financial planning.	✓	**TCFD/Financial statement notes: pages 98, 99, 117**
– Describe the potential impact of different scenarios, including a 2-degree scenario on the organisation businesses, strategy and financial planning.	**In process**	
Risks and Opportunities		
– Describe the organisation's processes for identifying and assessing climate-based risks and opportunities.	✓	**Principal Risks & Uncertainties report**
– Describe the organisation's processes for managing climate-based risks and opportunities.	✓	**TCFD/Principal Risks & Uncertainties report**
– Describe how processes for identifying, assessing and managing climate-based risks are integrated into the organisation's overall risk management.	✓	**Principal Risks & Uncertainties report**
Metrics and Targets		
– Disclose the metrics used by the organisation to assess climate-based risks and opportunities in line with its strategy and risk management processes.	✓	**Sustainability report**
– Disclose Scope 1, Scope 2 and, if appropriate Scope 3 greenhouse gas emissions and the related risks.	**In process**	
– Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	**In process**	

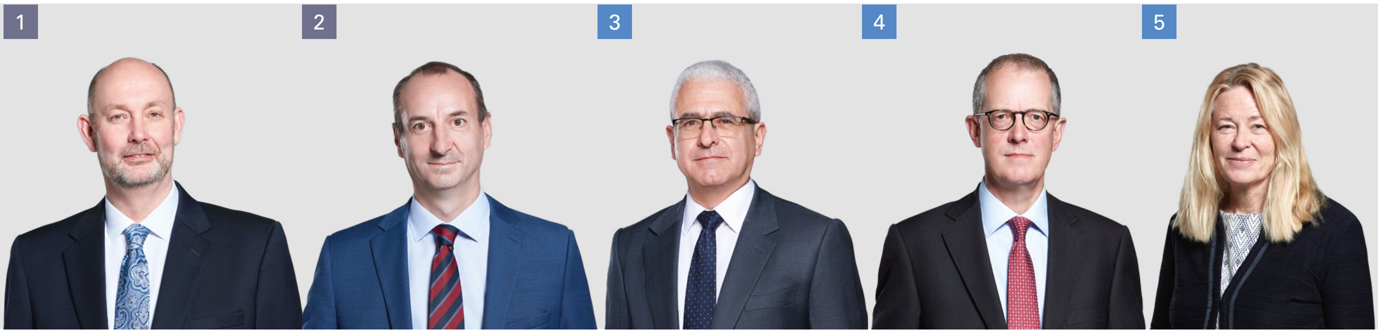
Non-financial reporting statement

The table below sets out where information relevant to the Non-Financial Reporting Directive can be found in our 2021 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. A description of our business model can be found on page 15.

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				
12 Responsible consumption and production 13 Climate action	– Occupational Health & Safety Policy – Environmental Policy – Carbon Footprint and Water consumption statements – Reduction of greenhouse gas emissions	For further information **pages: 39-40** Visit **bodycote.com**	– Progress on reductions in carbon footprint and water consumption	Energy and Greenhouse gas management is tracked per facility monthly.
Social				
5 Gender equality 9 Industry, innovation and infrastructure 10 Reduced inequalities	– Graduate and Apprenticeship Programme – Performance Goal Management System – Occupational Health & Safety Policy – Succession Planning Process – Equality, Diversity and Inclusion Policy – Equal Opportunities Policy – Data Protection Policy – Open Door Policy	For further information **pages: 36-38** Visit **bodycote.com**	% of female representation in total workforce and on Executive Committee and Board of Directors Lost work case incident rate Recordable incident rate U.K. Gender Pay Gap Report	The Executive Committee monitors SHE performance on a monthly basis. Executive Committee monitors employee turnover rate performance on a monthly basis. Employee Engagement Groups Regular Open Door incident update to the Board and Executive Committee.
Business Governance				
8 Decent work and economic growth	– 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 – Supplier Code of Conduct – Tax Strategy	For further information **pages: 36 to 37, 41** Visit **bodycote.com**	% of relevant employees trained on our policies # of breaches	The implementation and effectiveness of the training is overseen by the Group General Counsel and Group Company Secretary.

Board of Directors



Executive Directors

1 Stephen Harris
GROUP CHIEF EXECUTIVE

APPOINTED: November 2008 and Chief Executive from January 2009 E

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 and of Mondi plc from 2011 to 2021. At Mondi he had been the Chair of the Sustainability Committee, the Chair of the Social and Ethics Committee and the Senior Independent Director.

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

2 Dominique Yates
CHIEF FINANCIAL OFFICER

APPOINTED: November 2016 E

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 Regus plc.

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

Non-Executive Directors

3 Daniel Dayan
NON-EXECUTIVE CHAIR

APPOINTED: January 2022 N

External roles
Non-executive Chair of CellMark AB from 2021 (not listed).

Non-executive Chair of Aquaspersions Group from 2021 (not listed).

Past roles
Started his early career at Novar plc until 2005 and prior to that worked at ICI and management consultant, Arthur D. Litte. He was CEO of Fiberweb plc from 2006 to 2013 and CEO of Linpac Group and Klöckner Pentaplast Group from 2015 to 2019. From 2014 to 2015 he was Chair of the Nonwovens Innovation & Research Institute, Non-Executive Director and Chair of the Remuneration Committee of Chemring Group plc from 2016 to 2018, Chair of Low & Bonar plc from 2018 to 2020 and Chair of Portals International from 2020 to 2022.

Qualifications
Bachelor's Degree in Engineering from the University of Cambridge.

4 Ian Duncan
SENIOR INDEPENDENT DIRECTOR

APPOINTED: November 2014 A R N

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 January 2021.

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

5 Eva Lindqvist
NON-EXECUTIVE DIRECTOR

APPOINTED: June 2012 R A N

External roles
Non-Executive Director of Tele 2 AB from 2014, Keller Group plc since 2017 as well as Excillum AB (not listed) and Nominet US Inc (not listed) since 2021.

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 Master's degree from Linköping Institute of Technology, Diploma in Marketing from IHM Business School and MBA Financial Analysis from University of Melbourne.

6 

7 

8 

9 

KEY TO COMMITTEES:
(E) Executive
(N) Nomination
(R) Remuneration
(A) Audit
● Committee Chair

6 Patrick Larmon
NON-EXECUTIVE DIRECTOR

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

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

Past roles
Was 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 in 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 Master of International Business from St. Louis University.

7 Lili Chahbazi
NON-EXECUTIVE DIRECTOR

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

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

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

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

8 Kevin Boyd
NON-EXECUTIVE DIRECTOR

APPOINTED: September 2020 (A) (R) (N)

External roles
Non-Executive Director of EMIS Group plc since 2014 and Chair of the Audit Committee since 2019. Non-Executive Director and Chair of the Audit Committee of Genuit Group plc since 2020.

Past roles
Held the positions of Chief Financial Officer at Oxford Instruments plc and Radstone Technology plc and, most recently, Chief Financial Officer at Spirax-Sarco Engineering 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.

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

Board skills and experience

	D Dayan	S Harris	D Yates	I Duncan	E Lindqvist	P Larmon	L Chahbazi	K Boyd
Strategy	●	●	●	●	●	●	●	●
M&A	●	●	●	●	●	●		●
International	●	●	●	●	●	●	●	●
Recent and relevant financial experience			●	●				●
Corporate finance/treasury			●	●				●
Accounting			●	●		●		●
Technology					●			
Customer	●	●			●		●	
Sales and marketing	●	●			●	●		
Service industry		●	●	●	●	●	●	
Environmental, including climate change		●			●			
Governance		●	●	●	●	●	●	●
Engineering	●	●			●			●
Leadership	●	●	●	●	●	●	●	●
Emerging markets	●	●			●		●	●
Manufacturing	●	●		●	●			●
Capital-intensive industries		●					●	

Corporate governance statement

Chair's message

Dear Shareholders

On behalf of the Board, I am pleased to present Bodycote's Corporate Governance Statement for 2021.

One of the most significant issues for the Board in 2021 was the continuing COVID-19 pandemic, which was initially declared in March 2020 and continued throughout 2021. It has brought significant human, social, economic as well as business uncertainty, and 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 2021 with a physical meeting in October and a return to virtual meetings in December. The response to the pandemic continued to be the backdrop for the operational, financial and commercial discussions at Board level.

Shareholder feedback and engagement have continued despite the continued COVID-19 outbreak with shareholder perspectives having been received and considered.

The date for the 2021 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 a meeting 'behind closed doors'.

Regular, open and constructive 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 project assessments and general Board conversations. These discussions and assessments focus not only on delivering value for shareholders, but also address the impacts of our decisions and strategies on all stakeholders and are a key aspect of our culture.

In line with the Director's Duties, the Board's engagement with employees, shareholders, customers, and communities in 2021 is explained in our stakeholder section on page 18.

The Directors receive regular reports on Safety, Health and Environmental performance to support their oversight and decisions. The Board conducted a review of the existing sustainability processes and has established an initial ESG policy. The Board agreed to join the Science Based Target initiative and management is working to establish targets. A further focus is on improving the effectiveness of communicating current actions and the role of Bodycote as an energy, and therefore carbon optimiser in its customer supply chains. Further information on Board activities can be found on pages 48 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 virtual meetings took 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. Topics discussed at the Employee Engagement Groups included COVID-19 and safety, IT improvements, communications and operational matters. Feedback was generally 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, ethnic background, and of cognitive and personal strength. Diversity at Board level and throughout the Group is a valuable strength.

Daniel Dayan
Chair

Compliance Statement

In respect of the financial year 2021, 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 2021, 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 targets on diversity and inclusion. Concerning Provision 36, the new Remuneration policy that will be presented for shareholder approval at the May 2022 AGM includes a post-employment policy. In the meantime, whilst the Board does not currently have a formal policy for post-employment shareholding requirements, a two-year holding period for share scheme awards as of the date of the approval of the last 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 believes it has a strong position on diversity and inclusion with female representation at 38% as at 31 December 2021 (with the retirement of A Quinn and the appointment of D Dayan as Chair, female representation reduced to 25% on 1 January 2022. The Board is conscious of this and has appointed Cynthia Gordon as Non-Executive Director effective 1 June 2022, when female representation will increase to 33%, four different nationalities including a member who meets the ONS classification of mixed/multiple ethnics group. At the Senior Management level, there is broad international representation and growing female representation. The Board and the management are committed to the principles and practice of diversity and inclusion.

A further exception is provision 38, the alignment of pension contribution rates for Executive Directors. Whilst we were only partially compliant during 2021; we have had a plan in place for pension contribution rates for Executive Directors to be aligned by 1 January 2022 and we are now compliant. Salary supplements in lieu of pension contributions have been reduced to 23.5% of base salary with effect from 1 January 2022. The Executive Directors' pension contributions are now aligned with company pension contributions of the wider workforce in the countries where the Executive Directors live and work. A review of workforce policies was undertaken during the year and progress on culture has been made and information provided to the Board.

In line with provision 41, engagement has taken place with the workforce via the Employee Engagement Groups concerning executive remuneration.

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 84, 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	1 2 3 4 5 6
– Receiving presentations from operational management on performance against the strategy	– Considering and approving strategic opportunities e.g. acquisitions	
– Considering and approving potential acquisition opportunities	– Approving the Group's strategy, budget, tax and dividend	
Division of responsibilities	**Read more on pages 36-43, 46-53**	
– Review of Group policies	– Modern Slavery review	2 1
– Review of schedule of matters reserved for the Board – Review of corporate governance code and guidelines	– Convening the AGM, approval of shareholder materials	
– Review of terms of reference of all committees – Review of main policies – Determining/maintaining the Group's values and ensuring that these are reflected in business practice	– Review of Safety, Health and Environmental updates at each meeting – Overview of stakeholder relationship/ workforce engagement – Implementation of ESG strategy	
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	2
– 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 its Committees – Ongoing Board training	
– Approving further terms as Non-Executive Directors for I.B. Duncan, E. Lindqvist and P. Larmon	– 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 – Recommending the final and interim dividends	– Review future scenarios and other factors in relation to audit, risk and internal control – Review of viability statement	1 2
– Annual review of principal and emerging risks, risk management and control systems	– Consider whether the Annual Report and Accounts are fair, balanced and understandable	
Remuneration	**Read more on pages 64-84**	
– Remuneration policy review and approval (including Executive Directors' and Senior Management remuneration)	– Chair, and independent Non-Executive Directors' fees review	2 3 4 5

1 Safety and Climate Change 2 Driving operational improvement 3 Investing in structural growth opportunities 4 Investing in Emerging Markets 5 Capitalising on, and investing in, our Specialist Technologies 6 Acquisitions Core Values

Corporate governance statement continued

Governance framework

The Board's areas of focus in 2022 are expected to include:

- Increased emphasis on climate change, sustainability and, more broadly, ESG matters
- Group culture
- Board dynamics, diversity and development
- Execution of strategic priorities
- Continued monitoring of financial and operational performance
- Continued strong focus on safety improvements
- Principal and emerging risks review

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 Sustainability 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

Shareholders

Chair

Key responsibilities
- Effective running of the Board
- Guidance to Executive Directors
- Monitors progress of strategy and objectives
- Safeguards the interests of shareholders

Board

Key responsibilities
- Oversight of the Group's strategy and the long-term success of the Group's business

Group CEO
- Responsible for: Risk & Sustainability Committee and Executive Committee

Audit Committee
Monitors the integrity and effectiveness of the Group's financial reporting and performance of audits and assesses financial risks

Nomination Committee
Ensures an effective Board that consists of individuals with the right balance of skills, knowledge and experience

Remuneration Committee
Determines remuneration policy and senior executives' remuneration packages

Finance Committee
Implementation of treasury and tax policies and, within limits defined by the Board, authorises capital expenditure and other financial activities

Employee Engagement Groups
Assist the Board as a workforce engagement mechanism and in understanding the views of employees

Risk and Sustainability Committee
Monitors and provides insight on risk and sustainability issues, in particular, climate change

Executive Committee
Focuses on the development and implementation of the Group's strategy, financial structure, organisational development and policies as well as reviewing financial performance

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

The Employee Engagement Groups
We have two Groups run in parallel, a European and a North 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 2021, 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 and context. 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;
- Employee share incentives and pension arrangements; and
- Whistle-blowing.

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 seven occasions during 2021, including a specific meeting to review the Group's long-term and ESG 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 chaired the Nomination Committee (A.C Quinn retired on 31 December 2021 and D. Dayan was appointed as Chair of the Board and as Chair of the Nomination Committee as of 1 January 2022). 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, the Board received plant presentations via video conferencing calls. Once physical plant visits are possible again, such events will involve meeting with local management and the workforce to understand more clearly technical and operational performance in countries where Bodycote has a significant presence.

Chair

- 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

Group Chief Executive

- 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, and communicates the vision and values of the Group
- manages the Senior Management team

Chief Financial Officer

- 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

Senior Independent Director

- 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

Non-Executive Directors

- 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

Group Company Secretary

- 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
- coordinates 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 in 2021 is shown in the table below:

	Board Formal meetings	Audit Committee	Nomination Committee	Remuneration Committee
Meetings held during the year	7	4	7	7
Executive Directors	**Meetings attended**	**Meetings attended**	**Meetings attended**	**Meetings attended**
Stephen Harris	7	n/a	n/a	n/a
Dominique Yates	7	n/a	n/a	n/a
Non-Executive Directors	**Meetings attended**	**Meetings attended**	**Meetings attended**	**Meetings attended**
Anne C. Quinn	7	n/a	7	n/a
Eva Lindqvist	7	4	7	7
Ian Duncan	7	4	7	7
Patrick Larmon	7	4	7	7
Lili Chahbazi	7	4	7	7
Kevin Boyd	7	4	7	7

All Directors attended the maximum number of formal Board, Audit and Nomination Committee meetings that they were scheduled to attend. 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, as relevant. Note that the Employee Engagement Groups are led by P. Larmon and supported by the Company Secretary. There were four Employee Engagement Group meetings in 2021.

Diversity and length of service

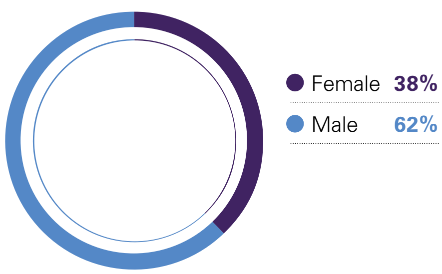
Bodycote is a global business with operations in 22 countries and diversity is an integral part of how we do business and our culture. The Nomination Committee considers diversity when making appointments to the Board, taking into account relevant skills, experience, knowledge, personality, ethnicity, 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 delivering 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 2021 female representation on our Board was 38% (2020: 38%). At senior manager level, it is 28% (2020: 30%). Females represent 19% (2020: 18%) of our total workforce. Whilst we were 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. With the appointment of the new Chair on 1 January 2022, our female representation has decreased to 25% but will increase to 33% on 1 June 2022 with the appointment of Cynthia Gordon which was announced on 10 March 2022. We will increase female and/or other minority representation on the Board if appropriate candidates are available when Board vacancies arise.

The Sustainability report contains further details regarding the male and female representation within the Group, including Board representation. Our Equality, Diversity and Inclusion policy is available on our website.

E. Lindqvist was appointed as a Non-Executive Director on 1 June 2012 and has reached the end of her ninth consecutive year as a Non-Executive Director and Chair of the Remuneration Committee. After careful consideration, the Board has asked E. Lindqvist to continue to serve as a Non-Executive Director and Chair of the Remuneration Committee. The Board considers that this is in the best interests of the Group and shareholders. In particular, it will ensure that there continues to be 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.

Board diversity



Corporate governance statement continued

Effectiveness

Board evaluation

The Board has undertaken its fourth external Board Evaluation during 2021. Following a review of proposals from external providers, the Board appointed Lintstock to facilitate a review of its effectiveness. The review was undertaken by P. Mackie and M. Underwood. Neither of them or Lintstock have any connection with Bodycote. The main steps of the process were:

- Questionnaires – Board, Chair and Individual performance review questionnaires
- Interviews – with all Board members
- Report and presentation – the draft report was discussed with the Chair prior to its finalisation and the findings presented at the June Board meeting

The review looked at board composition and succession, stakeholder oversight, management and focus of meetings, board support, board committees, strategic oversight and risk oversight.

The results of the evaluation were considered by the Board at its meeting in June 2021. The Directors discussed the recommendations and considered how they will take them forward. Some of the topics touched were re-establishing relationships after COVID-19 through physical meetings, succession planning, reviewing longer-term strategy and approach to ESG. The Board is considered to be well balanced and runs smoothly benefitting from a reasonable range of complementary skills and diversity. The overall conclusion is that the Board and committees are well chaired and high governance standards have been adopted. It is apparent that the Executive is being strongly challenged by the non-executives when appropriate.

As in previous years, the Chair has assessed the performance through individual performance review questionnaires and we can confirm that all Directors continue to perform effectively and demonstrate commitment to their roles.

The Executive Directors Messrs S.C. Harris and D.Yates will be appraised in March 2022.

Led by the Senior Independent Director, the Directors carried out an evaluation of the Chair's performance in May 2021. 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 (Anne Quinn CBE retired on 31 December 2021), will offer themselves for re-election at the AGM. Accordingly, S.C. Harris, E. Lindqvist, P. Larmon, I.B. Duncan, D. Yates, L. Chahbazi and K. Boyd will stand for re-election at the AGM in May 2022. D. Dayan will stand for election in May 2022.

The Board recommends to shareholders that they re-elect all the Directors. The performance of each Director, other than D. Dayan by reason of his January 2022 appointment, 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 85. 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, and 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 during 2021, but this programme will be reinstated as soon as possible. As an alternative plant presentations by video conference call from the London, Ohio USA; St Remy, France; Camas, Washington USA; Wuxi, China; Izmir, Turkey and Winchester, Kentucky USA plants have taken place. 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 2021 Board	
June	Insurances – market overview / SHE update
July	IT Security Update
September	ESG strategy including climate change
October	Economist briefing, STBi explanatory session
December	SHE Update and HR Policy Review
Audit Committee	
October	BDO Internal Audit Perspectives
March, May and October	PwC updates on regulatory and accounting changes
Remuneration Committee	
July	Remuneration review – market update (Deloitte)

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
- Continued environmental activism, as well as increased focus from both regulators and the investment community on climate change

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 2021 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. Internal audit (IA) reviews are conducted on the basis of a risk-based plan approved annually by the Audit Committee. 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. 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.

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 2021, 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's Risk and Sustainability Committee and Risk Management Team (by means of workshops, interviews, investigations, and by reviewing divisional risk registers). These risks have been reviewed throughout the year and no additional emerging risks were identified. The 2021 emerging risk discussion focused on the wider effects to the Group posed by climate change on Bodycote's business. As a result of the discussion, the ESG risk was refocused from Environment to Climate Change. 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

14 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 2021.

The Chair's statement, the Chief Executive's review on pages 10 to 13, the Chief Financial Officer's report and all the information contained on pages 25-27, together comprise the Directors' report for the year ended 31 December 2021. Concerning going concern please see the CFO statement on page 27 and pages 98-99 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 2021, 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 13.8p (2020: 13.4p) bringing the total ordinary dividend to 20.0p per share (2020: 19.4p). If approved by shareholders, the final dividend of 13.8p per share will be paid on 3 June 2022 to all shareholders on the register at the close of business on 22 April 2022.

Share capital

The Company's issued ordinary share capital as at 31 December 2021 was £33.1m. No shares were issued during the year. At the Annual General Meeting on 27 May 2021, 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 25 May 2022, at which time a further authority will be sought from shareholders.

Capital structure

Details of the issued share capital are shown in note 22.

The Company has one class of ordinary shares, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 26 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 Daniel Dayan have served throughout the year. In line with the UK Corporate Governance Code, all Directors retired at the Annual General Meeting in 2021 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 2022 Annual General Meeting are S.C. Harris, D. Yates, I.B. Duncan, E. Lindqvist, P. Larmon L. Chahbazi and K. Boyd. Daniel Dayan having joined the Board on 1 January 2022 will stand for election. D. Yates announced his retirement once a successor has been appointed on 7 February 2022 and therefore, may potentially, not stand for reappointment. 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 84. No Director has had any dealings in any shares or options in the Company since 31 December 2021. 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.

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) have remained in force for the Directors for the year ended 31 December 2021 and, as at the date of this report, remain in force for the benefit of the current Directors in relation to certain losses and liabilities which they may incur (or have incurred) to third parties in the course of their duties. Apart from these exceptions, none of the Directors had a material interest in any contract of significance in relation to the Company and its subsidiaries at any time during the financial year.

Potential conflicts of interest

During 2008, the duties owed by Directors to a company were codified and extended by the Companies Act 2006 so that Directors not only had to declare actual conflicts of interest in transactions as they arose, but also had a duty to avoid such conflicts whether real or potential. Potential conflicts of interest could arise where a single Director owes a fiduciary duty to more than one organisation (a 'Situational Conflict') which typically will be the case where a Director holds directorships in more than one company. In order to ensure that each Director was complying with the duties, each Director provided the Company with a formal declaration to disclose what Situational Conflicts affected him or her. The Board reviewed the declarations and approved the existence of each declared Situational Conflict up until September 2022 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 coordination. 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.

Employee and stakeholder engagement

Information relating to engagement with employees and other stakeholders, including customers and suppliers, can be found in the Strategic report on page 18 and in the Corporate Governance report on pages 46 - 53.

Greenhouse gas emissions

Details of greenhouse gas emissions and Streamlined Energy and Carbon Reporting (SECR) are included within the Environment, Social and Governance section of this report.

Donations

There were no political contributions in 2020 or 2021.

Shareholders

An analysis of the Company's shareholders and the shares in issue at 23 February 2022 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 156.

External auditor

In accordance with the provisions of section 489 of the Companies Act 2006, a resolution for the reappointment 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 2022 Annual General Meeting will be held on 25 May 2022 in accordance with the notice being sent to shareholders under separate cover.

By order of the Board:

U.S. Ball
Group Company Secretary
14 March 2022

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

Report of the Nomination Committee

Committee membership	No. of meetings 2021: 7	Main committee responsibilities
Director	**Attendance**	
A.C. Quinn *until 31 December 2021*	●●●●●●●	– 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.
D. Dayan *as of 1 January 2022*		– Give full consideration to succession planning for Directors and other senior executives in the course of its work.
I.B. Duncan	●●●●●●●	– Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.
E. Lindqvist	●●●●●●●	
P. Larmon	●●●●●●●	
L. Chahbazi	●●●●●●●	
K. Boyd	●●●●●●●	

Dear Shareholders,

I am pleased to introduce the Nomination Committee report for 2021. 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.

Having been appointed to the Board and Chair of the Nomination Committee on 1 January 2022, 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.

Daniel Dayan
Chair of the Nomination Committee

Role of the Nomination Committee

The Nomination Committee is a sub-committee of the Board, the principal purpose of which 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 new Chair and started the recruitment process for a Non-Executive Director to act as Chair of the Remuneration Committee

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 risk of 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

Succession Planning	– Vacancy for a Director is identified when one of the existing Directors confirms his/her intention to resign or retire, or when it is decided to add another NED to the board
Board composition	– The need for specific knowledge, skills and role behaviours is identified during discussions at Nomination Committee meetings
Recruitment	– External international search consultancies are appointed to assist with the search
Selection	– A sub committee examines the long list of candidates against the role specifications and a shortlist of candidates is identified
Interview	– Candidates are initially interviewed by the Chair and the Group Chief Executive for a Non-Executive Director role. The final candidates then meet with all other Directors
Balance of skills	– In order to maximise the effectiveness of the Board, candidates are carefully considered ensuring that the Board has the right skills and experiences
Appointment	– The new Director is announced as joining the Board
Induction	– The Committee and the Group Company Secretary play an active part in an induction programme that is tailored to the needs, skills and experiences of the new Director

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 Chair 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 D. Dayan's first Board meeting in March 2022, arrangements were made for plant visits, 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 some briefings conducted by videoconferencing as well as face-to-face engagements The site visit programme will be undertaken during 2022, COVID-19 permitting.

Board induction programme for Daniel Dayan – to be undertaken during 2022

Topic	Activities
Business strategy	Meetings with Group CEO and Senior Managers
Finance	Meetings with Group CFO and meetings with Head of Internal Audit, Director of Finance, Group Financial Controller and Head of Tax & Treasury
Governance	Meeting with Group Company Secretary
Legal	Meeting with General Counsel
IT	Meeting with Head of IT Operations
Operations	Meetings with the Group CEO, Executive Committee members, VPs of Finance, Shared Services and Tax & Treasury were undertaken.
Facilities	Eight visits have taken place; further visits to facilities will take place in due course.

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, data protection, IT security and anti-slavery regulations.

Board succession planning

D. Dayan joined the Board as Non-Executive Chair on 1 January 2022. In line with the UK Corporate Governance Code 2018 criteria, D. Dayan was independent upon appointment. The recruitment process was led by the Senior Independent Director, 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 and A.C Quinn was not involved in the selection of her successor. The Company has appointed a new Non-Executive Director Cynthia Gordon on 10 March 2022, the appointment is effective 1 June 2022. The recruitment process was led by the Chair who was advised by international search consultancy Russell Reynolds. There were no further changes to the Board structure during the year.

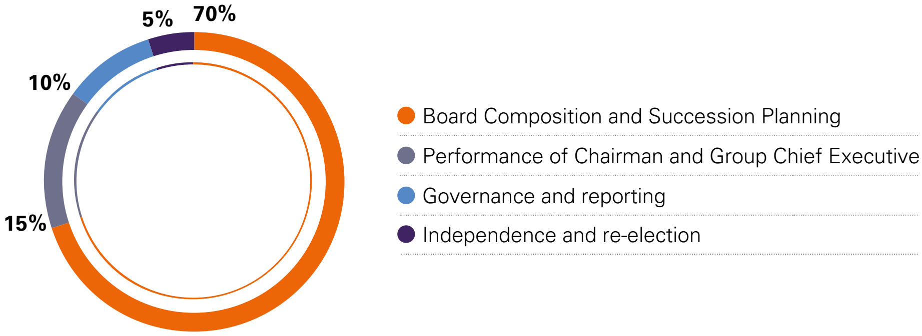
As in previous years the Committee spent time during 2021/22 considering the important topic of succession planning across the business. The Committee received papers on Executive Director and Senior Management succession (this includes members of the Executive Committee and all Senior Management roles in the business). The plans identify immediate successors for these roles and identifies candidates as potential successors to roles in the longer-term. The Committee was satisfied that these 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.

Report of the Nomination Committee continued

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



Main activities of the Nomination Committee

In 2021 the Committee met formally six 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 51 as part of the Corporate Governance statement. We are pleased to report that during 2021 the female representation on the Board remained at 38%. As of 1 January 2022 it reduced to 25% with the retirement of A.C. Quinn and the appointment of D Dayan. With the appointment of Cynthia Gordon, effective 1 June 2022, female representation will increase to 33%.

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 internal Board evaluation in 2020, the Board agreed to undertake an external evaluation during 2021. Further details of the review can be found in the Corporate Governance section of the Annual Report. Recommendations from the 2021 external Board evaluation such as reviewing the strategy in depth including ESG have been addressed and focusing on people and succession arising are topics that are in the process of being addressed.

In December 2021, 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 Chartered Governance Institute UK & Ireland. 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 as for a further year. Cynthia Gordon has been appointed on 10 March 2022, effective 1 June 2022. 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 2022, to answer questions relating to the work of the Committee. 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:

D. Dayan
Chair of the Nomination Committee

14 March 2022

Report of the Audit Committee

Committee membership	No. of meetings in 2021: 4
Director	**Attendance**
I.B. Duncan	4/4
E. Lindqvist	4/4
P. Larmon	4/4
L. Chahbazi	4/4
K. Boyd	4/4

Main committee responsibilities

- 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 the external audits, ensuring compliance with the policy for the provision of non-audit services, conduct 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.

The full terms of reference for the Committee can be found on the Group's website.

Introduction

I am pleased to present the 2021 report of the Audit Committee. This report provides an overview of the Committee's key activities and focus areas during the year and the framework within which it operates.

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 2021, in February and in March 2022, all members attended all the meetings. The Committee Chairman also invited the Board Chair, Group Chief Executive, Group Chief Financial Officer, Group Director of Finance and Group Head of Audit to attend all regular meetings. Other Senior Managers from the Group were also invited, as appropriate, to attend regular 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, regular 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 Director of Finance and the Group Head of Audit before regular Committee meetings to review their reports and discuss issues in detail. PwC, the Group Head of Audit 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;
- compliance with regulatory and governance requirements;
- the clarity of disclosures and compliance with the relevant accounting standards for the consolidated financial statements;
- the key points of disclosure and presentation to ensure the adequacy, clarity and completeness in the Annual Report and financial statements;
- consideration of the appropriateness of alternative performance measures;
- 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 2021 financial statements is set out in the table below.

Going concern, viability statement and financial resilience

The Committee has reviewed the 2021 going concern and viability statements and challenged the risk assessments, forecasts for profits and cash generation, liquidity, available borrowing facilities and covenant compliance that were modelled as part of the scenarios and stress testing undertaken. Sensitivity analysis was undertaken to understand the impact of changes to key variables and included severe but plausible downside scenarios. The Committee was satisfied that these represented accurate assessments of the Group's financial position. For further detail on the Going Concern and Viability Statements please refer to pages 27 and 34 respectively.

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 planning and preparing the Annual Report and ensuring it contains complete and accurate information, a collaborative approach between all parties required to contribute to the report 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
Valuation of assets 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 9 of the financial statements.	The Committee considered reports from management describing potential impairment indicators for tangible and intangible assets and the outcome of related tests as performed at year end. The annual impairment test was performed for all cash-generating units with a goodwill balance, as required by accounting standards. 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 for each cash generating unit and the sensitivity analysis applied. The Committee also considered the potential future impacts of climate change on the assumptions applied. The Committee considered the adequacy of the disclosures provided. Details of sensitivity analysis applied to key assumptions used in the impairment review as well as conclusions are set out in note 9 to the financial statements. The Committee was satisfied with the carrying value of assets and goodwill and the related disclosures.
Restructuring, reorganisation and environmental provisions Assumptions and judgement are exercised in the development of restructuring, reorganisation and environmental provisions.	The Committee received reports from management and reviewed provision utilisation, 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 the provisions, taking note of the range of possible outcomes, and agreed with their recommendations. The Committee agreed that certain changes in provisions recorded as part of the Group's exceptional restructuring programme in 2020 should continue to be presented as exceptional items.
Taxation The Group operates in a number of tax jurisdictions and is subject to increasing reviews by different tax authorities across the Group 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. 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 and other tax assets is dependent on future profitability and performance of the underlying business. Refer to notes 6 and 19 of the financial statements	The Committee receives regular reports from management about new legislative developments that may impact the Group's tax positions as well as the results of both internal and external reviews. The Committee has focused on reviewing, understanding and challenging the Group's critical tax risks and management's assessment and valuation of these risks. Regular reports have been reviewed from management outlining the Group's most significant tax exposures, including ongoing tax audits and related tax provisions recognised by management. The Committee has supported transparency over the Group's tax risks and strategy in external reporting. Key risks, notably in the 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 including discount rates, mortality and inflation (see note 28 of the financial statements). These variables can have a material impact in calculating the quantum of the defined benefit pension liability.	Management obtained independent external specialist 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 28 of the financial statements.

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. 2021 was Mr. Simon Morley's third 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. 2021 audit fees were agreed at £2.0m.

Key audit matters and the audit approach to these matters are discussed in the Independent auditors' report (pages 86 to 93), 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 key outputs of this assessment were:

- no issues were raised concerning the quality of both the audit partner and team in the feedback received;
- the audit had been well planned and delivered with work completed and management comfortable that any key findings had been raised appropriately, there was active engagement on misstatements and appropriate judgements on materiality;
- PwC's reporting to the Committee was clear and included explanations supporting their conclusions;
- it was considered that there was an appropriate level of challenge during the audit over management's judgements and assertions of matters including critical accounting judgements and key sources of estimation uncertainty; and
- PwC demonstrated a good understanding of the Group and identified and focused on areas of greatest financial reporting risk.

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 UK Financial Reporting Council's (FRC) 2020/21 report on Audit Quality Inspections which included a review of audits carried out by PwC. 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 all of the relevant matters, the Committee concluded that the external audit had been effective and objective. During 2021, 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.

Safeguarding independence and objectivity

The Committee recognises that the independence of the external auditor is an essential part of the audit framework. The independence of the external auditor was confirmed by PwC at the July 2021 Audit Committee and was confirmed again in March 2022. The Committee considered PwC's presentation and confirmed that it considered the auditor to be independent.

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, regardless of scope, cannot be awarded to the external auditor without prior approval from the Committee Chairman. In addition to the Group's policy, the auditor runs its own independence and compliance checks, prior to accepting any engagement, to ensure that all non-audit work is compliant with the FRC's Ethical Standard and that there is no conflict of interest. The only non-audit fees paid to the auditor in 2021 were for the half-year interim review and a mandatory assurance requirement from the Dutch government concerning COVID-19 assistance. Both are shown in note 2 representing 7% (2020: 9%) of the audit fee.

Internal audit

The internal audit plan for 2021 was presented to the Committee in October 2020. 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 ongoing COVID-19 pandemic, the internal audit approach for 2021 was focused on delivering assurance over the Group's principal risks and the key financial and IT controls. IT controls and cybersecurity risk remains a continued area of focus and are reviewed annually.

At each regular meeting, the Group Head of Audit 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.

The Group Head of Audit 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 number of control self-assessments. 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. The accuracy of returns was monitored by Internal Audit by verification visits to a sample of sites.

The effectiveness of internal audit is reviewed and discussed annually with the Group Head of Audit and the BDO LLP engagement partner. Audit quality is assured through a detailed review of each report being carried out by the Group Head of Audit, 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 Audit 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 regular 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 May 2021 and approved by the Board in June 2021. 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
14 March 2022

Board report on remuneration

Committee membership	No. of meetings 2021: 7
Director	**Attendance**
E. Lindqvist	7/7
I.B. Duncan	7/7
P. Larmon	7/7
L. Chahbazi	7/7
K. Boyd	7/7

Main committee responsibilities

- Responsibility for setting and reviewing the 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.

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 2021.

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 64-65)
- An 'at a glance' of remuneration decisions (page 66)
- The Annual Report on Remuneration, which describes how our Directors' Remuneration Policy was applied during 2021 (pages 64-84)
- The proposed Directors' Remuneration Policy for which we will be seeking shareholder approval at the 2022 Annual General Meeting (page 67)

Review of the Directors' Remuneration Policy

Our current Policy was approved by shareholders at our 2019 Annual General Meeting (with a vote in favour of 97%) and is approaching the end of its three-year term. A new Policy will be put to shareholders for approval at the 2022 Annual General Meeting.

The Committee has undertaken a comprehensive review of the executive remuneration framework and concluded that it continues to support the delivery of business strategy and the creation of shareholder value. Therefore, no significant changes are proposed to the framework. Refinements have been proposed to the Policy to provide greater alignment with best practice corporate governance principles and ensure that there is sufficient flexibility over the next three years to support the execution of strategy. As part of the review, the Committee consulted with the top 30 major shareholders (representing approximately 80% of the Company's issued share capital) and three proxy voting agencies. The Committee values the feedback from shareholders and has taken this into account. The proposed key refinements are as follows:

- **Introduction of a post-employment shareholding guideline.** Executive Directors will be required to hold shares equivalent to their full in-employment shareholding guideline (200% of salary, or actual shareholding at the point of departure if lower) for two years post-employment, in line with guidance from the Investment Association. The guideline will apply to all shares acquired pursuant to deferred share awards or Bodycote Incentive Plan (BIP) awards granted after 1 January 2022.
- **Malus and clawback.** The circumstances in which malus and clawback may apply to annual bonus, deferred share and BIP awards have been expanded to include corporate failure, therefore providing alignment with best practice.
- **Maximum BIP opportunity.** The Committee proposes to introduce an overall maximum limit of 200% of salary that may be used to grant on going BIP awards. This is intended to ensure that there is flexibility in the Policy over the next three years to provide competitive remuneration packages in order to retain and/or attract Executive Directors of the required calibre, taking into account the size and complexity of the business and potential changes to business needs. The Committee does not have any current intention to increase the normal maximum opportunity which is set at 175% of salary (and has been maintained at this level since the BIP was first introduced in 2006) and it is proposed that the 2022 BIP awards will be granted at this level.

  Should the Committee consider that an increase in the maximum opportunity is appropriate in respect of future awards it will engage with key shareholders and their representatives as appropriate.
- **BIP vesting for threshold performance.** The Committee proposes to include flexibility to increase threshold vesting up to 25% of maximum opportunity (currently 0% would normally vest at threshold). This is in order to provide a modest vesting outcome for achieving threshold performance and is aligned with the typical threshold vesting level across the FTSE 350. The Committee will ensure that any increase in the level of vesting at threshold is commensurate with an increase in the stretch in targets.

Business performance and incentive outcomes for 2021

During the year, the remainder of the 2020 restructuring programme was implemented, and permanent costs savings are being delivered in line with the original projections. Good progress was made against the Group strategy, with strong revenue growth in Emerging Markets, and ADE and AGI focused Specialist Technologies' revenues once again outperforming their respective Classical Heat Treatment market sector revenues' development. The strong cost control and positive revenue performance helped headline operating margins climb from 12.6% in 2020 to 15.4% in 2021.

We believe that the incentive payouts we have made to our Executive Directors are aligned with the overall performance of the Company. As such, the Committee determined that no discretionary adjustments (either upward or downward) would be required from the formulaic outcomes of the annual bonus and BIP.

Annual bonus

The 2021 annual bonus award was based on headline operating profit (77%), headline operating cash flow (10%) and a personal scorecard (13%). Headline operating profit and cash flow are our key internal financial metrics and therefore form the core annual bonus metrics. Headline operating profit at constant currency increased to £99.2m and cash flow at constant currency increased to £127.3m. The measures are our core annual bonus metrics.

The personal scorecard primarily reflects how Executive Directors have delivered on our strategic goals, and in particular our investments in growth. For further details please see the personal scorecards on page 70.

The annual bonus therefore paid out at 96% of maximum for the Group Chief Executive and 96% of maximum for the Chief Financial Officer, of which 35% will be deferred into shares for three years.

Bodycote Incentive Plan (BIP)

The 2019 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 2021.

Whilst ROCE and EPS performance improved compared to last year, the EPS underpin as well as the targets were not achieved and the 2019 BIP award lapsed in full.

Application of Policy for 2022

An overview of our intended application of Policy for 2022 is set out below.

Base salaries: The Group Chief Executive and Chief Financial Officer received salary increases of 4.0% and 1.2% 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 and work. 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 are equal to 23.5% of base salary with effect from 1 January 2022. This is aligned with the company pension contributions of the wider workforce in the country that the Executive Directors live and work.

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 objectives continues to enable the annual bonus to be aligned to the Group's strategy and ensures that our executives are focused on delivery of improved profitability and control on working capital.

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.

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.

I look forward to receiving your support at our 2022 Annual General Meeting, where I will be pleased to answer any questions you may have on this report, our proposed Policy refinements or in relation to any of the Committee's activities.

E. Lindqvist
Chair of the Remuneration Committee
14 March 2022

Board report on remuneration continued

Remuneration at a glance

Total single figure table for Executive Directors

		Fixed pay				Variable pay			
	Financial year	Salary/ fees (£000)	Pension (£000)	Taxable benefits[1] (£000)	Subtotal (£000)	Annual bonus[2] (£000)	BIP (£000)	Subtotal (£000)	**Total (£000)**
Executive Directors									
S.C. Harris	2021	609	146	40	795	1,174	–[3]	1,174	**1,969**
	2020	597	146	40	783	–	–[4]	–	**783**
D. Yates	2021	420	101	28	549	606	–[3]	606	**1,155**
	2020	412	101	28	541	–	–[4]	–	**541**

Notes accompanying the total single figure table for Executive Directors

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 35% of the annual bonus will be deferred in shares.

3 The 2021 figures relate to BIP awards granted on 26 March 2019 with a performance period ended on 31 December 2021. Based on performance against the targets the awards lapsed in full.

4 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.

Incentive outcomes for 2021

Annual bonus

The Group Chief Executive and Chief Financial Officer earned a bonus equal to 96% and 96% of maximum respectively.

						Outcome			
						S.C. Harris		D. Yates	
	% of award	Threshold	Target[2]	Maximum	Actual performance achieved[1]	% of max	% of salary	% of max	% of salary
Headline operating profit	77%	£75m	–	£94m	£99.2m	100.0%	154.0%	100.0%	115.5%
Headline operating cash flow	10%	£100m	–	£115m	£127.3m	100.0%	20.0%	100.0%	15.0%
Personal score card	13%				n/a	72.0%	18.7%	70.0%	13.7%
					Total	**96.4%**	**192.7%**	**96.1%**	**144.2%**

1 Figures quoted are at constant currency rates.

2 No target was set for 2021.

BIP

The EPS underpin and the threshold targets were not achieved and the awards therefore lapsed in full as set out in the table below.

	ROCE[1]		Headline EPS	
	Performance target (pre IFRS 16)	**Vesting of element (% of maximum)**	**Performance target**	**Vesting of element (% of maximum)**
Maximum performance	23%	100%	64p	100%
Threshold performance	15%	0%	56p	0%
Performance achieved	13.8%	0%	35.8p	0%

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital Employed includes the acquired goodwill existing as at the start of the performance period (1 January 2019) only.

Implementation of the proposed Policy in 2022

Set out below is a summary of the key elements of the proposed Remuneration Policy for Executive Directors, together with how the Policy is intended to be implemented in 2022.

	Key features	Implementation for 2022
Salary and fees	– Base salaries are reviewed in January every year – Salary reviews are based on role, experience, performance, internal increases and the external market	– The Group Chief Executive receives a salary of £633,567, an increase of 4.0% – The Chief Financial Officer receives a salary of £425,297, an increase of 1.2% – The salary increases are in line with the average increases awarded to the workforce in the countries where the Executive Directors live and work. 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 – Non-Executive Director fees will next be reviewed at the March 2022 meeting and the outcome will be disclosed in the 2022 Directors' Remuneration Report
Benefits	– A range of cash benefits and benefits in kind	– In line with benefits provided in 2021
Pension	– Contribution to the company's defined contribution scheme, or cash equivalent	– 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 and work
Annual Bonus	– Maximum opportunity of 200% and 150% of base salary for the Group Chief Executive and Chief Financial Officer respectively – At least 70% of the bonus will be based on financial performance with the remainder based on non-financial strategic and/or personal metrics – 35% of any bonus earned is deferred into shares for three years, conditional on continued employment	– Maximum opportunity of 200% and 150% of base salary for the Group Chief Executive and Chief Financial Officer respectively – The annual bonus is split 77% in respect of headline operating profit, 10% in respect of headline operating cash flow and 13% on personal strategic objectives – Performance targets are considered commercially sensitive and will be fully disclosed in the 2022 Directors' Remuneration Report
Bodycote Incentive Plan (BIP)	– Annual grants up to 200% of base salary, subject to a three-year performance period and two-year holding period	– Maximum opportunity of 175% of salary for both Executive Directors – Awards are based on performance against ROCE (50%) and headline EPS (50%) targets over a three-year period ended 31 December 2024 – Performance targets are set out below
Shareholding requirement	– Executive Directors are required to build up a holding of 200% of base salary over five years – Post-employment shareholding requirements also apply	– Both Executive Directors have met the shareholding requirement

Board report on remuneration continued

2022 BIP awards

The targets for the 2022 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 continued level of uncertainty.

	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	20.0%	100%	63.9p	100%
Threshold performance	13.5%	25%	46.0p	25%

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital Employed includes the acquired goodwill existing as at the start of the performance period (1 January 2022) only.

If headline EPS at the end of the performance period is below 39p, 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.

Annual Report on remuneration

This section provides details of remuneration outcomes for Directors who served during the financial year ended 31 December 2021. This section of the report is audited and the Annual Report on Remuneration is subject to an advisory vote by shareholders at the 2022 Annual General Meeting.

Auditable section

Total single figure table

		Fixed pay				Variable pay			
	Financial year	Salary/ fees (£000)	Pension (£000)	Taxable benefits[1,6] (£000)	Subtotal (£000)	Annual bonus[5] (£000)	BIP (£000)	Subtotal (£000)	**Total (£000)**
Executive Directors									
S.C. Harris	2021	609	146	40	795	1,174	–[2]	1,174	**1,969**
	2020	597	146	40	783	–	–[3]	–	**783**
D. Yates	2021	420	101	28	549	606	–[2]	606	**1,155**
	2020	412	101	28	541	–	–[3]	–	**541**
Non-Executive Directors									
A. C. Quinn	2021	243	–	0	243	–	–	–	**243**
	2020	239	–	0	239	–	–	–	**239**
P. Larmon	2021	71	–	4	75	–	–	–	**75**
	2020	69	–	0	69	–	–	–	**69**
E. Lindqvist	2021	71	–	2	73	–	–	–	**73**
	2020	69	–	0	69	–	–	–	**69**
I.B. Duncan	2021	81	–	0	81	–	–	–	**81**
	2020	79	–	0	79	–	–	–	**79**
L. Chahbazi	2021	61	–	0	61	–	–	–	**61**
	2020	59	–	0	59	–	–	–	**59**
K. Boyd[4]	2021	61	–	0	61	–	–	–	**61**
	2020	20	–	0	20	–	–	–	**20**

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 2021 figures relate to BIP awards granted on 26 March 2019 with a three-year performance period ended on 31 December 2021. Based on performance against the targets the awards lapsed in full.

3 The 2020 figures relate to BIP awards granted on 12 April 2018 with a three-year performance period ended on 31 December 2020. Based on performance against the targets the awards lapsed in full.

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

5 35% of the annual bonus will be deferred in shares.

6 Four of the 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 in which the Executive Directors work and live. The table below sets out the base salary figures for 2022 along with comparative figures for 2021.

Executive Director	Salary from 1 January 2021	Salary from 1 January 2022	Salary increase
S.C. Harris	£609,199	£633,567	4.0%
D. Yates	£420,254	£425,297	1.2%

Pension

The Executive Directors received a salary supplement in lieu of pension at a rate of 24% of base salary during 2021.

Salary supplements in lieu of pension contributions has been reduced to 23.5% of base salary from 1 January 2022. This is so that they are aligned with the company pension contributions of the wider workforces in the countries where 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	£24,225
D. Yates	£12,000	£1,200	£14,325

Incentive outcomes for 2021

Annual bonus

The maximum annual bonus opportunity for the Group Chief Executive and Chief Financial Officer was 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. These performance conditions and their respective weightings reflected the Committee's belief that any incentive compensation should be linked both to the overall performance of the Group and to those areas of the business that the relevant individual can directly influence.

Stretching targets were set in the context of challenging market conditions. Following strong performance in 2021, the Group Chief Executive earned a bonus equal to 96% of maximum and the Chief Financial Officer 96% of maximum. 35% of the amount earned will be deferred into shares for three years subject to continued employment.

The performance targets and actual performance are set out below.

						Outcome			
						S.C. Harris		D. Yates	
	% of award	Threshold	Target[2]	Maximum	Actual performance achieved[1]	% of max	% of salary	% of max	% of salary
Headline operating profit	77%	£75m	–	£94m	£99.2m	100.0%	154.0%	100.0%	115.5%
Headline operating cash flow	10%	£100m	–	£115m	£127.3m	100.0%	20.0%	100.0%	15.0%
Personal score card	13%				n/a	72.0%	18.7%	70.0%	13.7%
					Total	**96.4%**	**192.7%**	**96.1%**	**144.2%**

1 Figures quoted are at constant currency rates.

2 No target was set for 2021.

Board report on remuneration continued

Personal Scorecard

S.C. Harris		Link to strategy
Overview	For 2021 Stephen's objectives were: to ensure the completion of the restructuring programme, progress Group Strategy, support the Enterprise Resource Planning (ERP) implementation, strengthen the leadership team, continuous improvement in SHE and implementation of ESG measurements.	
Key achievements in the year	– The restructuring programme was successfully completed during 2021.	1 2 4
	– The Board was taken through the Strategy as it evolved during the last 10 years and progress was demonstrated.	3 5 6
	– Bench strength in operational direct supports and finance support structure was increased with several new appointments.	2
	– The SHE agenda was progressed. Commitment to the SBT initiative during 2021 and target setting in progress.	1
Rating	The Committee assessed achievement for all personal scorecard objectives with an overall rating of 72%.	
D. Yates		
Overview	For 2021 Dominique's objectives were: continue the delivery of the ERP implementation, filling and onboarding a number of key vacant finance roles, improve forward planning and specific process management as well as to ensure the finance transformation plan is on track.	
Key achievements in the year	– Good progress was made with the ERP implementation in 2021.	2
	– Most key roles were filled within the required timeframe.	2
	– Forward planning and specific processes were updated reasonably well.	2
	– Good progress was made with the finance transformation plan for 2021.	2
Rating	The Committee assessed achievement for all personal scorecard objectives with an overall rating of 70%.	

Bodycote Incentive Plan (BIP)

BIP awards granted on 26 March 2019 had a three-year performance period ended 31 December 2021, 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 47.6p, then no awards would vest.

The underpin and the threshold targets were not achieved and the awards therefore lapsed in full.

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

	ROCE[1]		Headline EPS	
	Performance target (pre IFRS 16)	Vesting of element (% of max)	Performance target	Vesting of element (% of max)
Maximum performance	23%	100%	64p	100%
Threshold performance	15%	0%	56p	0%
Performance achieved	**13.8%**	**0%**	**35.8p**	**0%**

1 For the purposes of the BIP, pre-tax ROCE is calculated using actual exchange rates. Capital Employed includes the acquired goodwill existing as at the start of the performance period (1 January 2019) only.

	Grant date	Number of shares granted	End of performance period	% award vesting	Number of shares vesting	Dividend equivalents	Total estimated value of awards on vesting[1]	Vesting date	End of holding period
S.C. Harris	26 March 2019	115,232	31 Dec 2021	0%	none	n/a	n/a	n/a	n/a
D. Yates	26 March 2019	83,144	31 Dec 2021	0%	none	n/a	n/a	n/a	n/a

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 15 April 2021, and will vest after three years in March 2024. The performance period will end on 31 December 2023. Awards are subject to continued employment and the achievement of ROCE and headline EPS growth performance targets, as summarised in the table below. The Committee considered the targets to be appropriately stretching taking into account internal and external forecasts at the time, the challenging market conditions and the continued level of uncertainty faced by the business over the next three years as a result of the pandemic.

1 Safety and Climate Change | 2 Driving operational improvement | 3 Investing in structural growth opportunities | 4 Investing in Emerging Markets | 5 Capitalising on, and investing in, our Specialist Technologies | 6 Acquisitions

	ROCE[1]		Headline EPS	
	Performance target	Vesting of element (% of max)	Performance target	Vesting of element (% of max)
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. 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	15 April 2021	131,107	£7.972	£1,045,185
D. Yates	15 April 2021	90,444	£7.972	£721,019

1 The three-day volume weighted average share price following the announcement of results for 2020 (12, 15 and 16 March 2021).

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[2]	Fee for 2020	Fee for 2021	% increase in NED role fees
A.C. Quinn	– Non-Executive Chair – Chair of Nomination Committee	£238,703	**£243,477**	2%
P. Larmon	– Non-Executive Director – Chair of Employee Engagement Groups – Member of Audit, Remuneration and Nomination Committees	£69,151	**£70,534**	2%
E. Lindqvist	– Non-Executive Director – Chair of Remuneration Committee – Member of Audit and Nomination Committees	£69,151	**£70,534**	2%
I.B. Duncan	– Non-Executive Director – Chair of Audit Committee – Member of Remuneration and Nomination Committees – Senior Independent Director	£78,946	**£80,525**	2%
L. Chahbazi	– Non-Executive Director – Member of Audit, Remuneration and Nomination Committees	£59,356	**£60,543**	2%
K. Boyd[1]	– Non-Executive Director – Member of Audit, Remuneration and Nomination Committees	£59,356	**£60,543**	2%

1 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.
2 D Dayan was appointed as Chair to the Board on 1 January 2022 and his fee for 2022 will be shown in the 2022 Remuneration Committee report.

Non-Executive Director fees were increased for 2021 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 2021 the aggregate annual fee for all Non-Executive Directors, including the Chair, was £586,156, which is below the maximum aggregate fee allowed by the Company's Articles of Association of £1,000,000 p.a.

The Non-Executive Director fees comprise of the following elements:

	Fees for 2021
Base fee	£60,543
Remuneration Committee Chair/Audit Committee Chair	£9,991
Senior Independent Director	£9,991
Chair of Employee Engagement Groups	£9,991

Board report on remuneration continued

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.

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 2021, 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 2021[3]
Executive Directors				
S.C. Harris (200% of salary min holding requirement)	424,430	66,608	429,950	Yes
D. Yates (200% of salary min holding requirement)	313,994	35,431	306,071	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 2019 and 2020.

2 Figures relate to unvested awards granted under the BIP in 2019, 2020 and 2021. The BIP awards granted on 26 March 2019 lapsed in full in March 2022.

3 Closing share price on 31 December 2021 was £8.66.

As at 9 March 2022, 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 2021 are as follows.

		Interests as at 1 January 2021	Granted in year	Vested in year[1]	Lapsed in year	Interests as at 31 December 2021
BIP	S.C. Harris	395,754	131,107	–	96,911	429,950
	D. Yates	285,551	90,444	–	69,924	306,071
Deferred bonus shares	S.C. Harris	106,168	–	39,560	–	66,608
	D. Yates	49,444	–	14,013	–	35,431

1 The BIP awards granted on 26 March 2019 lapsed in full in March 2022.

End of auditable section

Fees retained for external Non-Executive Directorships

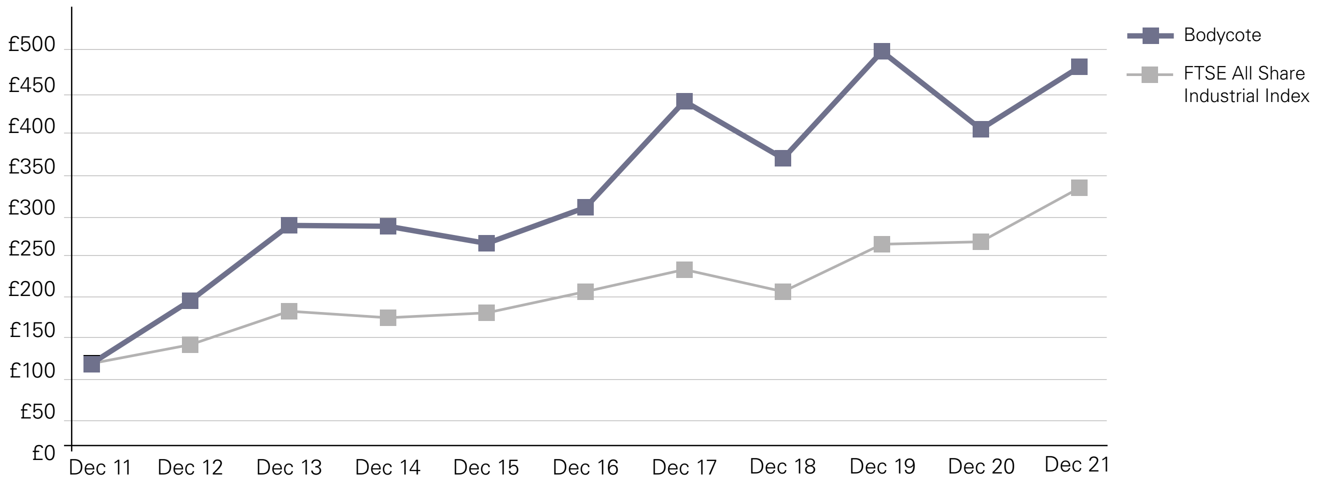
To broaden the experience of Executive Directors, the position of Non-Executive Director may be held in other companies, provided that permission is sought in advance. Any external appointment must not conflict with the Directors' duties and commitments to Bodycote plc. SC Harris had held the position of Non-Executive Director of Mondi plc since 1 March 2011 and stepped down as of May 2021. In accordance with Group policy he retained fees for the year of £33,164.

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 ten years.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Single figure of remuneration (£000)	3,840	3,089	1,803	771	875	2,280	2,728	1,862	783	1,969
Annual bonus (% of max)	73%	46%	73%	20%	19%	98%	68%	50%	0%	96%
Long-term incentive (% of max)	100%	99%	44%	0%	0%	48%	89%	84%	0%	0%

Percentage change in remuneration

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

	2019 to 2020			2020 to 2021		
	Salary/fees	Benefits[3]	Annual bonus[4]	Salary/fees	Benefits[3]	Annual bonus[4]
Executive Director						
S.C. Harris	7.0%	2.8%	(100%)	2%	0.1%	100%
D. Yates	2.3%	0.8%	(100%)	2%	-0.5%[5]	100%
Non-Executive Directors						
A.C. Quinn	3.0%	-70.6%	–	2%	144.6%	–
P. Larmon	3.0%	-83.2%	–	2%	1934.9%	–
E. Lindqvist	3.0%	-93.3%	–	2%	3984.5%	–
I.B. Duncan	3.0%	-61.5%	–	2%	23.4%	–
L. Chahbazi	3.0%	-70.6%	–	2%	19.0%	–
K. Boyd[1]	n/a	n/a	–	2%	-8.3%	–
Average employee[2]	4.1%	2.4%	(100%)	2.9%	10.0%	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 Percentage change in Benefits is calculated on unrounded figures. Non-Executive Directors received benefits in 2020 of less than £500. Hence not showing 100% reductions from 2019. 2021 benefits remained below £500 for four of the Non-Executive Directors.

4 No bonuses were paid to Executive Directors or the Company's employees in respect of 2020.

5 Benefits received in Swiss francs, negative change in the benefits due to the strengthening pound against the Swiss franc.

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	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option A	69:1	52:1	36:1
2020	Option A	28:1	21:1	15:1
2019	Option A	70:1	55:1	40:1

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.

2021 pay ratios have increased from 2020 due to an increase in the Group Chief Executive's total remuneration. Please note that no bonus and BIP were paid in 2020. In 2021 the Group Chief Executive's bonus remuneration equated to 60% of total remuneration, which is in comparison the same proportion of what the Group Chief Executive's bonus and BIP 2019 remuneration was on 2019 total remuneration. The median pay ratio trend shows slight decrease from 2019 which signifies increased remuneration of UK average employee over the Group Chief Executive, reflecting the fact that the bonus and BIP proportion on total remuneration did not change between 2019 and 2021.

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 (£)	25th percentile[2,3] (£)	Median[2,3] (£)	75th percentile[2,3] (£)
2021				
Total pay and benefits	1,969,680[1]	28,704	37,716	55,442
Salary component	609,199	26,889	35,635	48,283
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 2020 and 2021.

	2021 (£m)	2020 (£m)	% change
Staff and employee costs	252.5	235.1	7.4%
Distribution to shareholders	49.0	25.1	95.2%

Committee membership

During 2021 the Committee was chaired by E. Lindqvist. The Committee also comprised I.B. Duncan, P. Larmon, L. Chahbazi and K. Boyd.

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 2021 the Committee met seven times to consider, amongst other matters:

Theme	Agenda items
Best practice	– Consideration of feedback from shareholders and proxy agencies following the 2021 AGM – Update on market practice and corporate governance
Executive Directors' and senior executive's remuneration	– Base salary increases – Granting annual bonus and BIP awards, including the setting of targets – Assessment of annual bonus and BIP outcomes
Remuneration Policy	– Review of the current Remuneration Policy and consideration and approval of proposed refinements
Reporting	– 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 £60,600.

Deloitte LLP also provided employee share plan advisory services, 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 2021 AGM and to approve the Remuneration Policy at the 2019 AGM.

	Annual Report on Remuneration (% votes)	**Directors' Remuneration Policy (% votes)**
Votes cast	88%	81%
For	99%	97%
Against	1%	3%
Number of abstentions	1,048,825	613,242

E. Lindqvist
Chair of the Remuneration Committee
14 March 2022

Board report on remuneration continued

Directors' Remuneration Policy

Changes to the Remuneration Policy and summary of the decision making process

During 2021, the Committee conducted a review of our Remuneration Policy and concluded that it continues to support the delivery of business strategy and the creation of shareholder value. Therefore, no significant changes are proposed to the framework. The proposed refinements (as noted on page 64) provide greater alignment with the UK Corporate Governance Code, take account of feedback from shareholders and ensure that there is sufficient flexibility over the next three years to support the execution of strategy.

In determining the Remuneration Policy the Committee followed a robust process which included discussions on the content of the Policy at the July, September and October Committee meetings. The Committee considered input from management and its independent advisers and consulted with major shareholders (representing circa 80% of the Company's issued share capital). No Executive Director is a member of the remuneration committee.

How the Committee addressed the factors in Provision 40 of the UK Corporate Governance Code

Our Remuneration 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 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. Executive Directors are subject to within-employment and post-employment shareholding guidelines to further support sustainable decision making. The Committee has recourse to recover incentive payments in certain circumstances.
Predictability	The 'illustration of application of remuneration policy' chart on page 80 indicates the potential values that may be earned through the remuneration arrangements.
Proportionality	The Committee believes that the Remuneration 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 Company. The Committee has discretion to adjust incentive outcomes so that they fairly and accurately reflect the performance of the Company over the relevant performance period.
Alignment to culture	The Committee believes that the incentive arrangements are consistent with the Company's values: – **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.

Executive Remuneration Policy

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

Remuneration Policy Table

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Base salary *To award competitive salaries to attract and retain the talent required to execute the strategy while ensuring the Group pays no more than is necessary*	Base salaries for Executive Directors are typically reviewed annually (or more frequently if specific circumstances necessitate this) by the Committee. Salary levels are set and reviewed taking into account a number of factors including: – Role, experience and performance of the executive. – The Company's guidelines for salaries for all employees in the Group for the forthcoming year. – The competitiveness of total remuneration assessed against companies of similar size and complexity, as appropriate.	Whilst the Committee has not set a maximum level of salary, ordinarily, salary increases will be determined taking into account the average increases awarded to: (1) employees in the country in which the Executive Director lives and/or works; and (2) Group employees across Western Europe, including the UK. Higher increases may be awarded in exceptional circumstances, which may, for example, include: – Increase in scope or responsibility. – A new Executive Director who is being moved to market positioning over time.	None.
Benefits *Provides market-competitive benefits at an appropriate cost*	The Company provides a range of cash benefits and benefits in-kind to Executive Directors in line with market practice. These may include the provision of a company car (or allowance), private medical insurance, short- and long-term sick pay and death in service cover. The Company may also meet certain mobility costs, such as relocation support, expatriate allowances, temporary living and travel and subsistence expenses. Benefits provision will also extend to the reimbursement of taxable work-related expenses, such as travel. The provision of other benefits payable to an Executive Director is reviewed by the Committee on an annual basis to ensure appropriateness in terms of the type and level of benefits provided. In the case of non-UK executives, the Committee may consider providing additional allowances in line with relevant market practice, including expatriate benefits.	The Committee has not set a maximum level of benefit, given that the cost of certain benefits will depend on the individual's particular circumstances. However benefits will be set at an appropriate level taking into account market practice and the needs for specific roles and individual circumstances.	None.
Pension *Provides an appropriate level of provision for post-retirement income*	The Group operates a defined contribution scheme. Executive Directors are provided with a contribution to this scheme or a cash allowance of equivalent value. Base salary is the only pensionable element of remuneration.	Company contribution (or cash equivalent) is aligned with the contributions available to the wider workforce in the country where the Executive Director lives and/or works.	None.

Board report on remuneration continued

Remuneration Policy Table continued

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Annual bonus *To incentivise delivery of strategy on an annual basis and reward superior performance. The deferred portion of the bonus supports longer-term shareholder alignment*	The level of bonus is determined by the Committee after the year end based on performance against targets. 65% of the bonus earned is paid in cash shortly after the financial year end with the remaining 35% deferred into shares which vest after three years subject to continued employment. Dividend equivalents are payable in respect of the shares which vest. Malus and clawback provisions apply (see table on page 80).	The maximum opportunity is 200% of base salary for the CEO and 150% of base salary for the CFO and other Executive Directors. Up to 30% of maximum may be earned for threshold performance. Awards are earned progressively between threshold and maximum performance.	At least 70% of the bonus will be based on Group financial metrics with the remainder based on non-financial strategic and/or personal metrics. The metrics, their weightings and specific targets are reviewed on an annual basis to ensure alignment to strategy, with financial targets set by reference to budget. Details of the metrics, weightings and targets will be fully disclosed on a retrospective basis in the relevant year's Annual Report on Remuneration. Discretion may be exercised in cases where the Committee believe that the bonus outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of bonus earned resulting from the application of the performance metrics.
Bodycote Incentive Plan (BIP) 2016 *To incentivise delivery of long-term strategic goals and shareholder value and aid retention of Senior Management*	Awards will normally be granted annually under the Bodycote Incentive Plan which vest after three years subject to stretching performance metrics and continued employment. Awards will be subject to a two-year post-vesting holding period. Dividend equivalents are payable in respect of the shares which vest. Such amounts will normally be paid in shares. Malus and clawback apply (see table on page 80).	A maximum opportunity of up to 200% of base salary may be awarded in respect of a financial year. For 2022, the maximum opportunity will be equal to 175% of base salary. Up to 25% of maximum may vest for threshold performance. Awards vest progressively between threshold and maximum performance.	Performance metrics are determined annually reflecting the Group's strategic priorities and key performance indicators. It is expected that 2022 awards will be based on ROCE (50%) and EPS (50%).
Shareholding requirement *To provide alignment of interest between Executive Directors and shareholders*	Executive Directors are expected to build up and retain a holding in shares equal to 200% of salary, within five years from appointment. Executive Directors who step down from the Board following 1 January 2022 are required to retain a holding in 'guideline shares' equal to 200% of salary (or their actual shareholding at the point of stepping down if lower) for two years following them stepping down. 'Guideline shares' do not include shares which the Executive Director has purchased or which have been acquired pursuant to deferred share awards or BIP awards granted before 1 January 2022. Unless the Committee determines otherwise, an Executive Director or former Executive Director shall be deemed to have disposed of shares which are not 'guidelines shares' before 'guideline shares'.		

Choice of performance metrics

Annual bonus performance metrics are selected to appropriately support the Group's strategic objectives and provide a balance between generating profit and cash to enable the Group to pay a dividend, reward its employees and make future investments; and achieve other strategic goals to drive long-term sustainable return.

It is expected that the 2022 BIP awards will be based on ROCE and EPS. Due to the nature of the Company's activities the Committee consider ROCE to provide shareholders with an appropriate measure of how well the Company is performing and is being managed, while headline EPS provides a measure of the level of value created for shareholders. ROCE and headline EPS are our top two KPIs as shown on page 16 of the Annual Report.

The Committee retains discretion to adjust or set different performance metrics, weightings and/or targets if there is a material event (such as a change in strategy, a material acquisition and/or divestment of a Group business or a change in prevailing market conditions) which causes the Committee to determine that the original performance metrics, weightings and/or targets are no longer appropriate and the amendment is required so that they achieve their original purpose. Should there be an adjustment to targets, the Committee will ensure that they are not materially less challenging to satisfy than originally intended.

Share awards may be adjusted in the event of a variation of share capital or a demerger, delisting, special dividend or other event that may affect the Company's share price.

If the Committee were to make such adjustments, an explanation would be provided at the time of the event and/or in the following year's Annual Report on Remuneration.

Application of malus and clawback

Malus and clawback apply to annual bonus, deferred bonus and BIP awards as follows:

	Malus	Clawback
Annual bonus	To such time as payment is made.	Up to three years following payment.
Deferred bonus	To such time as the award vests.	No clawback provisions apply (as malus provisions apply for three years from the date of award).
BIP	To such time as the award vests.	Up to two years following vesting.

Malus and/or clawback may be applied in the following scenarios:

- Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group Company;
- The assessment of any performance condition was based on error, or inaccurate or misleading information;
- The discovery that any information used to determine the cash payment under the bonus, the number of shares subject to deferral or the number of shares subject to an award was based on error, or inaccurate or misleading information;
- Action or conduct of a participant which amounts to fraud or gross misconduct;
- Action or conduct of a participant which results in reputational damage to the Group; or
- The Committee determining that there has been a material corporate failure.

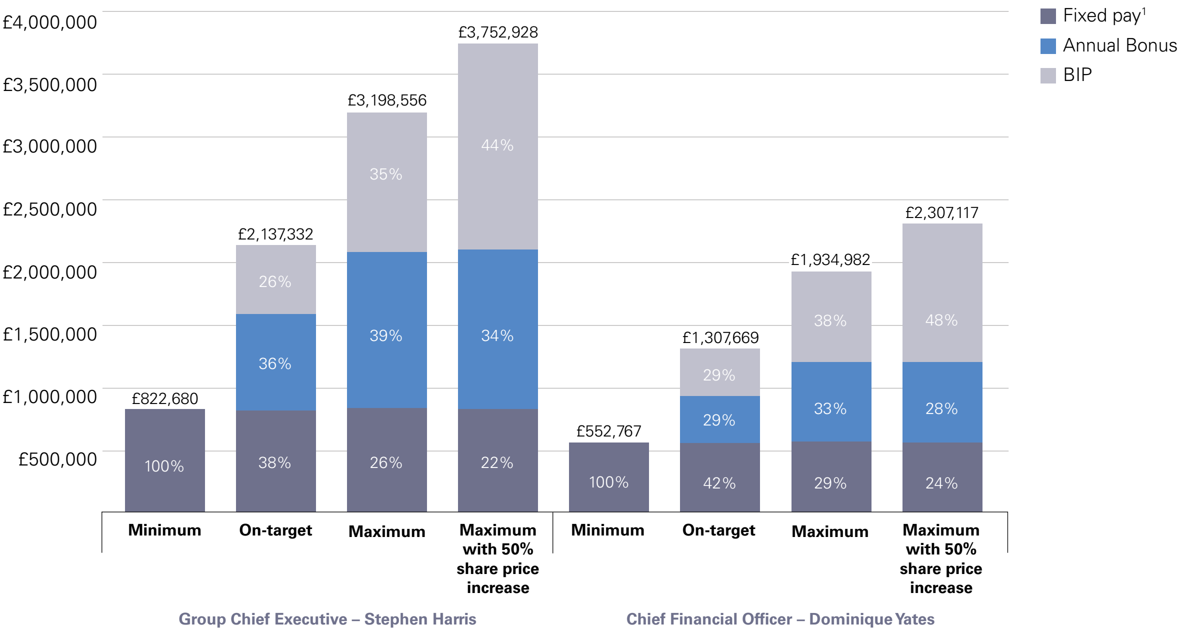
Legacy arrangements

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Remuneration Policy set out on pages 77 to 79 where the terms of the payment were agreed: (i) before the Policy came into effect (provided that the terms were consistent with any shareholder approved Remuneration Policy in force at the time they were agreed); or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment being 'agreed' at the time the award is granted.

Board report on remuneration continued

Illustration of application of remuneration policy for 2022

The remuneration packages for the Executive Directors are 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 2022, benefits received in 2021 and pension opportunity applying from 1 January 2022.

Non-Executive Director (NED) Fee Policy

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

Element and how it supports our strategy	Operation of the element	Maximum opportunity under the element	Performance measures
Fees for Non-Executive Directors *To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy*	The fees for the NEDs are determined by the Non-Executive Chair and the Group Chief Executive. The fee for the Non-Executive Chair is set by the Remuneration Committee. The Non-Executive Chair and NED fees are reviewed on an annual basis. When reviewing fees, the primary source of comparative market data is companies of similar size and complexity. The fees for the Non-Executive Chair and NEDs are set at a level that will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. The fees reflect the time commitment and responsibilities of the roles. The Non-Executive Chair and NEDs are not entitled to any pension or other employment benefits and do not participate in any incentive plan. The Company will pay reasonable expenses incurred by the Non-Executive Chair and NEDs and may settle any tax incurred in relation to these.	Fees for the Non-Executive Chair and NEDs for the following year are set out in the statement of implementation of Policy on page 71. The Company's Policy is that the Non-Executive Chair and NEDs receive a fixed fee for their services as members of the Board and its Committees. The fee structure may also include additional fees for chairing a Board Committee and/or further responsibilities (for example, Senior Independent Directorship).	None.

Fees retained for External Non-Executive Directorships

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

Statement of considerations of employment conditions elsewhere in the Group

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

We operate Employee Engagement Groups (see page 49 of the Corporate Governance Statement), where a range of topics are actively discussed with employees, including executive remuneration and employment conditions of all employees. Feedback from the Employee Engagement Groups, alongside information provided by the Human Resources function, on pay and conditions across the Group and employee satisfaction surveys is considered by the Committee as part of its discussions and decision making on executive remuneration.

Statement of consideration of Shareholders' views

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

In developing the proposed Remuneration Policy for 2022 and beyond the Committee engaged with the Company's major shareholders (representing circa 80% of the Company's issued share capital) and their representative bodies. Through this process the Committee took on board the feedback received and refined the proposed Remuneration Policy as appropriate to ensure it meets the expectations of our shareholders.

Board report on remuneration continued

Approach to Recruitment Remuneration

When recruiting new Executive Directors, the Company's policy is to pay what is necessary to attract individuals with the skills and experience appropriate to the role to be filled, taking into account remuneration across the Group, including other senior executives, and that offered by companies of similar size and complexity. New Executive Directors will generally be appointed on remuneration packages with the same structure and pay elements as described in the Policy table on pages 82 to 84.

Component	Policy
Notice period	The initial notice period may be longer than the Company's one-year policy (up to a maximum of two years). However, this will reduce by one month for every month served, until the Company's one-year policy position is reached.
Base salary	Base salary levels will be set at an appropriate level to recruit the best candidate in consideration of the individual's existing salary, location, skills and experience and expected contribution to the role, the current salaries of other Executive Directors in the Company and current market levels for the role. If it is considered appropriate to appoint a new Executive Director on a below market salary (for example, to allow them to gain experience in the role) their salary may be increased to a market level by way of above wider workforce salary increases over two to three years. These increases will be subject to continued development in the role.
Pension and benefits	Pension contribution levels will be aligned with the contributions available to the wider workforce in the country where the new Executive Director lives and works, in line with the Remuneration Policy. Benefits will be considered in line with the Remuneration Policy. If the new Executive Director is required to relocate, reasonable relocation, travel and subsistence payments may be provided (either via a one-off or ongoing payments and benefits).
Annual bonus and long-term incentives	Annual bonus and BIP awards will ordinarily be granted in line with the Remuneration Policy. The new Executive Director may be invited to participate in the bonus on a pro-rated basis in the first year of appointment. The new Executive Director may be invited to participate in 'in flight' BIP awards on a pro-rated basis when appointed. The Committee may alter the performance metrics, performance period, vesting period, holding period and deferral period of annual bonus or BIP awards, subject to the rules of the BIP, if the Committee determines that the circumstances of the recruitment merit such alteration. An explanation would be provided at the time of recruitment and/or in the following year's Annual Report on Remuneration.
Long-term incentives	Awards will be made under the BIP in line with the Remuneration Policy. The new Executive Director may be invited to participate in 'in flight' BIP awards on a pro-rated basis when appointed.
Maximum level of variable pay	The Company is required to set out the maximum amount of variable pay which could be paid to a new Executive Director in respect of his/her recruitment. The Committee has set this figure as 400% of base salary and this covers the maximum annual bonus and the maximum face value of any long-term incentive awards. For the avoidance of doubt, this 400% variable pay limit excludes the value of any 'buyout' awards.
"Buyout" awards	The Committee may make awards on hiring an individual to 'buyout' awards which will be forfeited on leaving their previous employer. Our approach to this is to carry out a detailed review of the awards which the individual will forfeit and calculate the estimated value of them. In doing so, we will consider the vesting period, the option exercise period if applicable, whether the awards are cash or share-based, performance-related or not, the Company's recent performance and payout levels and any other factors we consider appropriate. If a 'buyout' award is to be granted, the structure and level will be carefully designed and will generally reflect and replicate the previous awards as accurately as possible. Where considered appropriate, the award will be subject to forfeiture or malus and clawback provisions in the event of early departure. An explanation would be provided at the time of recruitment and/or in the following year's Annual Report on Remuneration of why a 'buyout' award has been granted.
Internal promotions	For internal promotions any commitments made prior to appointment may continue to be honoured as the individual is transitioned to the new remuneration arrangements.
Other elements of remuneration	Other elements may be included in the following circumstances: – An interim appointment being made to fill an Executive Director role on a short-term basis. – If exceptional circumstances require that the Non-Executive Chair or a NED takes an executive function on a short-term basis. – If an Executive Director is recruited at a time in the year when it would be inappropriate to provide an annual bonus or BIP award for that year, subject to the limit on variable pay set out above, the quantum in respect of the period employed during the year may be transferred to the subsequent year.

Any share award referred to in this section will be granted as far as possible under the Company's share plans. To the extent that this is not possible, share awards may be granted outside of these plans as permitted under the Listing Rules.

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

Fee levels for a new Chairman or new Non-Executive Directors will be determined in accordance with the Remuneration Policy set out on page 81.

Service Contracts

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

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

	S.C. Harris, Group Chief Executive	D. Yates, Chief Finance Director
Date of service contract	6 October 2008	1 November 2016
Notice period	12 months' notice to be provided by the Company 6 months' notice to be provided by the Group Chief Executive	12 months' notice to be provided by either the Company or Chief Finance Director
Remuneration	– Annual base salary – Potential for cash in lieu of pension – Reimbursement of expenses (if satisfactory evidence provided) – Private medical insurance – Company car allowance – Entitlement to participate in an annual performance-related bonus award – Entitlement to participate in a long-term incentive plan	– Annual base salary – Potential for cash in lieu of pension – Reimbursement of expenses (if satisfactory evidence provided) – Private medical insurance – Company car allowance – Entitlement to participant in an annual performance-related bonus award – Entitlement to participate in a long-term incentive plan
Termination	Company has right to terminate on payment of a termination payment with agreement of executive	Company has right to terminate on payment of a termination payment
Non-competition	During employment and for 12 months thereafter	During employment and for 12 months thereafter

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

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 AGM. 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.

Director	Date of initial appointment	Expiry of current term
P. Larmon	13 September 2016	AGM 2023
E. Lindqvist	1 June 2012	AGM 2023
I.B. Duncan	17 November 2014	AGM 2023
A. Quinn	1 January 2018	Retired 31 December 2021
L. Chahbazi	1 January 2018	AGM 2023
K. Boyd	1 September 2020	31 August 2023
D. Dayan	1 January 2022	AGM 2025

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

Termination Remuneration Policy

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

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

Board report on remuneration continued

Component	Policy
Compensation for loss of office in service contracts	Under the terms of the Chief Executive's contract, the Company may at its choice, in lieu of giving notice, terminate his service contract by making a payment equivalent to; one year's annual base salary, 25% of base salary in respect of all other remuneration and benefits (other than annual bonus and incentives) and annual bonus equal to the average bonus paid up to three years prior to the date of notice. For the purposes of transparency, if the Chief Executive had left Bodycote in 2021, and the Group had chosen to make a compensation payment in lieu of giving notice, this would have comprised: £601,199 (one year of base salary) +£152,300 (25% of base salary) +£282,750 (3 year average bonus over 2018-2020) = £1,036,249. Under the terms of the Chief Financial Officers' contract, the contract is terminable by one year's notice by the employer at any time, and by payment of one year's basic salary and other fixed benefits in lieu of notice by the employer.
Treatment of cash element of the bonus under Plan rules	If the Committee determines that the individual is a 'good leaver' in accordance with the plan rules, the level of bonus will be measured at the bonus measurement date. Bonus will normally be pro-rated for the period worked during the financial year and subject to the achievement of the original performance metrics. The Committee retains the discretion: – not to pro-rate the bonus to time; and/or – pay the bonus at the time of cessation of employment (with performance measured at the time of payment). Under all other circumstances no bonus will be earned on cessation of employment (other than set out above in the legacy arrangements for the Chief Executive). Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.
Treatment of unvested deferred bonus awards under Plan rules	If the Committee determines that the individual is a 'good leaver' in accordance with the plan rules, deferred shares may be released to the participant at the normal vesting date. The Committee retains the discretion: – not to pro-rate the deferred shares to time; and/or – to vest deferred shares at the date of cessation of employment. Under all other circumstances unvested awards will lapse on cessation of employment.
Treatment of unvested BIP 2016	On cessation of employment during the vesting period, awards under the BIP will lapse in full, unless the Committee determines that the individual is a 'good leaver' in accordance with the plan rules. In instances where the Committee determines that award should not lapse in full, awards will normally vest at the normal vesting date, pro-rated for time served between the date of grant and date of cessation of employment and subject to the achievement of the original performance metrics. To the extent that awards vest, a two-year holding period will then apply. The Committee retains the discretion to: – not to pro-rate the awards to time; – to vest and release awards at the date of cessation of employment (with performance measured at the time of vesting); and/or – to reduce or not to apply the two-year holding period. On cessation of employment during the two-year holding period, awards under the BIP will normally remain subject to the holding period. The Committee retains the discretion to reduce or not to apply the remainder of the holding period.
Exercise of discretion	In the event that an Executive Director leaves the Company, the Committee's policy for exit payments is to consider the reasons for cessation and consequently whether any exit payments other than those contractually required are warranted. Further, in the event of a compromise or settlement agreement, the Committee may agree payments it considers reasonable in settlement of legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or in other jurisdictions. The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements.
Change of control	On change of control the awards under the Company's incentive plans will generally vest subject to performance and time apportionment as determined by the Committee and in accordance with the rules of the relevant Plan.
Other payments	In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.

The discretions noted in the table above will only be used in circumstances where there is an appropriate business case. If the Committee were to use such discretion, an explanation would be provided at the time of cessation of employment and/or in the following year's Annual Report on Remuneration.

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 UK-adopted international accounting standards and the 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 UK-adopted international accounting standards 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 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 also 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 UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit 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 and financial position 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 2021 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 UK-adopted international accounting standards;
- 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 the Company balance sheet as at 31 December 2021; the Group consolidated income statement and the Group consolidated statement of comprehensive income, the Group consolidated cash flow statement, and the Group consolidated and the Company statements of changes in equity for the year then ended; the Group and the Company accounting policies; and the notes to the financial statements.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 2 to the Group financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

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 2021, the Group continued its recovery from the COVID-19 pandemic and progressed with the restructuring programme announced in 2020, resulting in an improved level of profitability for the financial year. In planning our work, we were also mindful of the increased focus on the impacts of climate change risk on the companies and their financial reporting. As part of our audit we made enquiries of management to understand the process that they have adopted to assess the extent of the potential impact of climate change on the Group's financial statements. Management considers that the impact of climate change does not give rise to a material financial statement impact. We used our knowledge of the Group to evaluate management's assessment. We particularly considered how climate change risks would impact the assumptions made in the forecasts prepared by management and used in their impairment analyses and going concern. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

Overview

Audit scope

- The Group's 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 (Group)
- Uncertain tax positions (Group)
- Valuation of defined benefit pension schemes (Group and Company)

Materiality

- Overall Group materiality: £5,700,000 (2020: £5,200,000) based on professional judgement considering a number of potential benchmarks (specifically revenue and certain profit based benchmarks, both for the current year and over a number of years), given that using 5% of a three year average of profit before tax and exceptional items (as used in the prior year) would have resulted in a lower level of materiality in 2021 than in 2020 despite the fact that the Group's profit before tax has increased year-on-year.
- Overall Company materiality: £5,100,000 (2020: £5,500,000) based on approximately 1% of total assets.
- Performance materiality: £4,275,000 (2020: £3,900,000) (Group) and £3,825,000 (2020: £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.

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.

The valuation of defined benefit pension schemes is a new key audit matter this year. The impact of COVID-19, restructuring costs and the acquisition of Ellison Surface Technologies, which were key audit matters last year, are no longer included because of the lower impact that these matters have had on the Group's financial statements in 2021. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill (Group)	
The Group has goodwill of £213.9 million as at 31 December 2021 (2020: £215.5 million). Refer to note 9 of the Group financial statements and the Audit Committee's views set out on page 60. 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 volumes and pricing trends in those industries in which its customers operate, which impacts future cash flows, and the determination of the most appropriate discount rate. There is ongoing uncertainty around the timing of recovery for many key sectors in which the Group operates, as the global economy moves on from the COVID-19 pandemic. 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 audit risks due to their lower level of headroom relative to the carrying value of the CGU and the material goodwill balances held in those CGUs.	We obtained the Group's impairment assessment and tested the integrity of the calculation. We corroborated the 2022 forecast to the Board-approved Strategic Plan, understanding the rationale behind any variances, 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 and underlying margin performance. 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 considered 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. Our valuations experts compared management's long-term growth rate with economic forecasts. We also 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 whether the rate used by management was within a supportable range. 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 calculate our view of 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. Our sensitivity analysis sought to cover the potential risks associated with climate change, inflationary pressures and geopolitical risks. Whilst we did not identify specific sensitivities for each item, we modelled what we considered to be suitably severe overall assumptions impacting margins and growth that took these factors into account. We considered the appropriateness of the related disclsoures in note 9 to the Group 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
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. Refer to notes 6, 19 and 29 of the Group's financial statements, and the Audit Committee's views set out on page 61. 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 of £24.0 million (2020: £22.1 million), and for this reason, we considered uncertain tax positions to be a 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. Where no advice was available, we understood management's rationale based on internal analysis and other supporting information. 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, 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. In relation to EU State Aid, we reviewed correspondence from the UK tax authorities to determine if a contingent liability was still required to be disclosed. We considered the appropriateness of the related disclosures in notes 6, 19 and 29 to the Group financial statements. We noted no material issues from our work, based on our audit procedures performed.

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension schemes (Group and Company)	
The Group operates a number of defined benefit pension schemes across a number of territories. Accounting for these schemes can be complex, and necessitates a higher level of audit effort. See the Group's accounting policies, note 28 of the Group's financial statements and the Audit Committee's views set out on page 61. The Group's net retirement benefit obligation is £13.9 million (2020: £16.2 million). This net position also includes the UK scheme, which had an accounting surplus of £14.0 million as at 31 December 2021, which is unrecognised. The assets of the Group's schemes total £128.1 million. Auditing the valuation of assets can be complex given the schemes invest in Pooled Investment Vehicles (PIVs), which may not have coterminous year ends with the Group's financial statements, or hold complex underlying assets. The obligations of the Group's schemes total £125.9 million. The Group relies on management's experts to determine the valuation of the obligations, which involves estimation and judgement in selecting appropriate actuarial assumptions. Given the UK surplus remains unrecognised, the likelihood of a material misstatement in relation to retirement benefit obligations is low and consequently the risk for the audit is identified as normal. However, since this audit area involves relatively high audit effort for both the Group and the Company, we have included it as a Key Audit Matter.	With respect to the UK scheme the following procedures were performed. We assessed the pension assumptions used to derive the scheme obligations, including discount rates, inflation and mortality, using our actuarial experts where necessary. We also considered and challenged the appropriateness of the actuarial assumptions against our internally developed benchmark ranges, finding them to be within an acceptable range. We performed testing to ensure that the obligations were consistent with the most recent funding valuations and that the movement in the liabilities during the year was reasonable. Independent investment manager confirmations were obtained for all material PIVs and bank letters obtained for all scheme bank accounts. The total value was agreed to the Group's asset listing. An assessment was performed on each PIV to determine whether it is inherently simple or more complex in nature. More complex funds were subject to additional procedures and additional evidence was obtained to corroborate the valuation. This included a review of transactions around the year end (if any), where the fund valuation date and the financial year end were not coterminous, to establish the completeness and accuracy of the valuation, and obtaining and reviewing the investment manager's latest internal controls report to assess any issues with the control environment or exceptions noted with controls relating to the valuation of assets (and obtaining bridging letters for the gap between the report and the year end). Prior year PIV audited financial statements were also obtained and reviewed in comparison with unaudited statements and the year end valuation provided. We assessed management's rationale for not recognising the surplus on the UK scheme, in line with accounting standards. We confirmed the appropriateness of this judgement with our internal actuarial and accounting experts. Certain of the above procedures were also performed by component teams in their related audit work on overseas schemes, where relevant. We considered the appropriateness of the related disclosures in note 28 of the Group financial statements. Based on this work, no material issues were noted.

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 (2020: one) as financially significant in 2021 (as defined within ISAs (UK)). We obtained full scope audit reporting from a further twelve components (2020: eleven), where we concluded that the component engagement leader is a Key Audit Partner, and an additional nine (2020: ten) components where full scope audits were also performed. Together, these components were in twelve countries, representing the Group's principal businesses, and provided audit coverage of 80% of the Group's revenue (2020: 80%) and 78% of consolidated absolute profit before tax (2020: 73%).

Specified procedures over specific financial statement line items were performed at one further component (2020: 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 each individual component's contribution to the Group's key financial statement line items (in particular revenue and profit before tax), and considerations relating to aggregation risk within the Group. Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude 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 the ongoing travel restrictions caused by 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	£5,700,000 (2020: £5,200,000).	£5,100,000 (2020: £5,500,000).
How we determined it	Based on professional judgement considering a number of potential benchmarks (specifically revenue and certain profit based measures), given that using 5% of a three-year average of profit before tax and exceptional items (as used in the prior year) would have given us a lower level of materiality in 2021 than in 2020 despite the fact that the Group's profit before tax has increased year-on-year.	Approximately 1% of total assets.
Rationale for benchmark applied	As noted above, we considered a range of acceptable benchmarks for determining materiality. We selected a level of materiality that was within the range of outcomes suggested by these alternative benchmarks and reflected an appropriate increase on the prior year materiality level given the improved performance of the Group in the current year. The materiality selected is equivalent to approximately 7% of current year profit before tax (2020: approximately 5% of a three-year average of profit before tax and exceptional items).	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 between £450,000 and £3,000,000.

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% (2020: 75%) of overall materiality, amounting to £4,275,000 (2020: £3,900,000) for the Group financial statements and £3,825,000 (2020: £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 £285,000 (Group audit) (2020: £260,000) and £255,000 (Company audit) (2020: £275,000) 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 downside scenario over the next twelve months;
- Agreeing the budget for 2022 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 assessed the severe but plausible downside scenario adopted by management, ensuring that it was appropriate in the context of the Group's performance during the COVID-19 pandemic.

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 12 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 directors' 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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 2021 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.

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.

Independent auditors’ report continued

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 12 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 Statement of Directors' responsibilities in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, 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 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 whistle-blowing 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 and the 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.

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.

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 three years, covering the years ended 31 December 2019 to 31 December 2021.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Simon Morley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 March 2022

Consolidated income statement

For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Revenue	1	**615.8**	598.0
Cost of sales and overheads excluding exceptional items		**(533.2)**	(535.0)
Net impairment gains on financial assets		**1.2**	0.4
Operating profit prior to exceptional items	1,2	**83.8**	63.4
Exceptional items	4	**–**	(58.4)
Operating profit	2	**83.8**	5.0
Finance income	5	**0.3**	0.2
Finance charge	5	**(6.6)**	(6.7)
Profit/(loss) before taxation		**77.5**	(1.5)
Taxation (charge)/credit	6	**(17.5)**	2.3
Profit for the year		**60.0**	0.8
Attributable to:			
Equity holders of the Parent		**59.5**	0.4
Non-controlling interests		**0.5**	0.4
		60.0	0.8
Earnings per share	8		
		Pence	Pence
Basic		**31.2**	0.2
Diluted		**31.2**	0.2

All activities have arisen from continuing operations. Total cost of sales and overheads, including exceptional items, was £533.2m (2020: £593.4m).

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Profit for the year		**60.0**	0.8
Items that will not be reclassified to profit or loss:			
Actuarial gains on defined benefit pension schemes	28	**1.7**	0.5
Tax on items that will not be reclassified	19	**0.1**	(0.1)
Total items that will not be reclassified to profit or loss		**1.8**	0.4
Items that may be reclassified subsequently to profit or loss:			
Exchange losses on translation of overseas operations		**(14.8)**	(1.4)
Movements on hedges of net investments	18	**0.5**	1.1
Movements on cash flow hedges		**0.5**	–
Total items that may be reclassified subsequently to profit or loss		**(13.8)**	(0.3)
Other comprehensive (expense)/income for the year		**(12.0)**	0.1
Total comprehensive income for the year		**48.0**	**0.9**
Attributable to:			
Equity holders of the parent		**48.2**	0.8
Non-controlling interests		(0.2)	0.1
		48.0	**0.9**

Consolidated balance sheet
At 31 December 2021

	Note	2021 £m	2020 £m
Non-current assets			
Goodwill	9	**213.9**	215.5
Other intangible assets	10	**108.1**	108.0
Property, plant and equipment	11	**489.3**	522.6
Right-of-use assets	12	**57.6**	69.0
Investment in associate	24	**–**	4.1
Deferred tax assets	19	**2.2**	2.4
Trade and other receivables	14	**1.6**	2.1
		872.7	923.7
Current assets			
Inventories	13	**19.3**	15.8
Current tax assets		**20.6**	20.7
Trade and other receivables	14	**117.0**	116.2
Cash and bank balances	15	**39.3**	30.7
Derivative financial instruments	18	**0.5**	–
Assets held for sale	16	**0.4**	2.9
		197.1	186.3
Total assets		**1,069.8**	1,110.0
Current liabilities			
Trade and other payables	20	**110.0**	170.9
Current tax liabilities		**34.0**	30.7
Borrowings	17	**91.7**	53.2
Lease liabilities	12	**12.9**	13.6
Provisions	21	**14.4**	26.0
		263.0	294.4
Net current liabilities		**(65.9)**	(108.1)
Non-current liabilities			
Lease liabilities	12	**51.6**	62.0
Retirement benefit obligations	28	**13.9**	16.2
Deferred tax liabilities	19	**47.0**	42.7
Provisions	21	**7.4**	11.0
Other payables	20	**1.5**	2.3
		121.4	134.2
Total liabilities		**384.4**	428.6
Net assets		**685.4**	681.4
Equity			
Share capital	22	**33.1**	33.1
Share premium account		**177.1**	177.1
Own shares		**(6.2)**	(6.9)
Other reserves		**136.5**	132.6
Translation reserves		**24.8**	37.9
Retained earnings		**319.4**	306.7
Equity attributable to equity holders of the parent		**684.7**	680.5
Non-controlling interests		**0.7**	0.9
Total equity		**685.4**	681.4

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 14 March 2022.

They were signed on its behalf by:

S.C. Harris D. Yates

Consolidated cash flow statement

For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Net cash from operating activities	25	**144.3**	139.1
Investing activities			
Purchases of property, plant and equipment		**(45.1)**	(57.8)
Proceeds on disposal of property, plant and equipment and intangible assets		**11.7**	1.9
Purchases of other intangibles assets		**(6.9)**	(2.1)
Proceeds from disposal of investment in an associate		**1.5**	–
Acquisition of businesses, net of cash acquired	23	**(66.0)**	(66.7)
Interest received		**0.3**	0.3
Net cash used in investing activities		**(104.5)**	(124.4)
Financing activities			
Interest paid		**(5.5)**	(5.0)
Dividends paid	7	**(49.0)**	(25.1)
Principal elements of lease payments		**(14.4)**	(15.5)
Drawdown of bank loans		**155.5**	101.9
Repayments of bank loans		**(116.9)**	(62.1)
Own shares purchased		**–**	(0.5)
Net cash used in financing activities		**(30.3)**	(6.3)
Net increase in cash and cash equivalents		**9.5**	8.4
Cash and cash equivalents at beginning of year		**29.2**	20.9
Effect of foreign exchange rate changes		**(0.8)**	(0.1)
Cash and cash equivalents at end of year	25	**37.9**	29.2

Consolidated statement of changes in equity

For the year ended 31 December 2021

	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 2020	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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**59.5**	**59.5**	**0.5**	**60.0**
Exchange differences on translation of overseas operations	**–**	**–**	**–**	**–**	**(14.1)**	**–**	**(14.1)**	**(0.7)**	**(14.8)**
Movements on hedges of net investments	**–**	**–**	**–**	**0.5**	**–**	**–**	**0.5**	**–**	**0.5**
Movements on cash flow hedges	**–**	**–**	**–**	**0.5**	**–**	**–**	**0.5**	**–**	**0.5**
Actuarial gains on defined benefit pension schemes net of deferred tax	**–**	**–**	**–**	**–**	**–**	**1.8**	**1.8**	**–**	**1.8**
Total comprehensive income for the year	**–**	**–**	**–**	**1.0**	**(14.1)**	**61.3**	**48.2**	**(0.2)**	**48.0**
Acquired in the year/settlement of share options	**–**	**–**	**0.7**	**(0.8)**	**–**	**0.1**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**4.7**	**–**	**–**	**4.7**	**–**	**4.7**
Deferred tax on share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**	**–**	**0.3**
Dividends	**–**	**–**	**–**	**–**	**–**	**(49.0)**	**(49.0)**	**–**	**(49.0)**
31 December 2021	**33.1**	**177.1**	**(6.2)**	**137.5**	**23.8**	**319.4**	**684.7**	**0.7**	**685.4**

Included in other reserves is a capital redemption reserve of £129.8m (2020: £129.8m) and a share-based payments reserve of £4.7m (2020: £2.0m). 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 2021: 775,962 (2020: 865,565) ordinary shares of 17 $^{3}/_{11}$p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes (see note 26).

Certain subsidiaries in the UK have taken an exemption to be audited. Refer to page 145 for further information.

Group accounting policies

Year ended 31 December 2021

Basis of preparation

The financial statements of the Group have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under these standards. 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 UK Endorsement Board (UKEB) before being applied in the UK. International Financial Reporting Standards are subject to ongoing amendment by the IASB and subsequent endorsement by the 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.

In preparing the consolidated financial statements management has considered the impact of climate change particularly in the context of the disclosures included in the Strategic Report. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment nor on the viability of the Group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Bodycote plc ('the Company') and entities controlled by the Company (its subsidiaries and together, 'the Group') 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 impact of COVID-19 on the Group's activities, performance and revenue, in addition to other factors and risks, has been considered by the Directors in preparing its going concern assessment. The Group has modelled a base case, which reflects the Directors' current expectations of future trading and potential severe but plausible impacts on revenues, profits and cash flows which envisages 'stress' or 'downside' scenarios.

Management has modelled a base case scenario, built upon the budgeting and forecasting processes for 2022 and extended up to March 2023. This model shows an improvement in performance in both revenue and profits compared to 2021, albeit with operating profit remaining slightly below 2019 levels. The Group's record of cash conversion was used to estimate the cash generation and level of net debt over that period. Management then established a severe but plausible downside scenario which assumes a significant decline in revenues broadly consistent with the decline experienced during the COVID-19 pandemic, with a significant revenue shortfall of around 20% below the base case modelled through to the end of March 2023.

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 4.0x. In both the base case and 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 predominantly the Group's Revolving Credit Facility.

The Group has access to a £250.9m Revolving Credit Facility maturing in May 2026. The Group's committed facilities at 31 December 2021 totalled £255.3m while uncommitted facilities totalled £54.6m. At 31 December 2021, the Group's Revolving Credit Facility had drawings of £90.3m (2020: £51.7m) and the Group's net debt was £51.9m (2020: £22.5m). The liquidity headroom was £202.8m at 31 December 2021 (2020: £221.7m) excluding uncommitted facilities.

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 consolidated financial statements certain estimates, assumptions and judgements have been made in the process of applying the Group's accounting policies 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 or disclosure of contingent liabilities for taxes is a significant judgement that 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 6, 19 and 29 for more information.
- The Group has taken the decision not to recognise an asset in relation to the surplus on the UK defined benefit pension scheme. See note 28 for further details.
- Certain items have been disclosed as exceptional costs where the Directors consider that they meet this definition as outlined in the Group's accounting policy below and note 4.

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 are a key source of estimation uncertainty for the Group. Details of the accounting policies applied in respect of retirement benefit schemes are set out in note 28.

Other areas of judgement and accounting estimates

- The Group has considered whether the valuation of goodwill and the related value-in-use calculation assumptions used for the annual impairment testing were significant estimates and has concluded that there is no reasonably possible material change expected in the carrying amount of these balances due to a change in these assumptions in the next financial year. This estimate is therefore not considered a key source of estimation uncertainty. Refer to note 9 for more information.
- The impact of the COVID-19 pandemic brought considerable change to the risk landscape. The Group has implemented mitigation activities. The Directors' view is that there is no significant risk of the continuing COVID-19 pandemic causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and therefore this does not represent a key source of estimation uncertainty.
- Climate change is a global challenge and a principal risk for the Group. Growing awareness of climate change contributes to the Group's business growth as we provide products, services and solutions that increase efficiency and reduce energy use. The Group does not view climate change as a key source of estimation uncertainty. For further details, refer to the Strategic Report and note 9.

Group Accounting Policies

Revenue recognition

The Group predominantly has one revenue stream relating to thermal processing services with either identifiable customer contracts or specific terms and conditions. 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 as any spreading of revenue over a short time frame during which some services are performed 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 circumstances, third-party work arranged for a customer of the Group should validly be considered as agency activity. In such cases, the revenue and direct costs of sale are recorded on a net basis in revenue in the consolidated income statement.

Other operating income

Other operating income represents profit on disposal of investment in associates, scrap sales, asset sales and other items of operating income not generated 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. Gains and losses arising on retranslation are included in net profit or loss for the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Group accounting policies continued
Year ended 31 December 2021

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 page 126); 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 exchange differences 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 the consolidated 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 costs within cost of sales and overheads. Any general economic support is presented within other operating income in the consolidated income statement.

Operating profit

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 and any gains or losses on disposal of investments in associates, but before finance income and finance costs.

Dividends

Interim dividend distributions (ordinary and special) to Bodycote plc's ordinary shareholders are recognised when paid and final dividends are accrued when approved by the ordinary shareholders at the Group's Annual General Meeting.

Borrowing costs

Borrowing costs are recognised in the consolidated 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, costs associated with significant restructuring and reorganisation costs, impairment charges, significant 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 consolidated 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 an associate or subsidiary, 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.

Costs associated with maintaining software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets. Directly attributable costs that are capitalised as part of the software asset include third-party costs, employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and are amortised from the point at which the asset is available for its intended use.

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 the consolidated income statement 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 IFRS standards.

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 largely 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.

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 is calculated in accordance with a qualified actuarial evaluation and spread over the period during which the benefit is expected to be derived from the employees' services. The Group's net obligation or surplus in respect of defined benefit pension schemes is calculated separately for each scheme by a qualified actuary using the projected unit method by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods less the fair value of the scheme's assets. Past service costs resulting from scheme amendments or curtailments and gains or losses on settlements are

Group accounting policies continued

Year ended 31 December 2021

charged to the consolidated income statement. If the calculation results in a surplus, the recognised asset is limited, under the provisions of IFRIC14, to the present value of benefits available in the form of future refunds from the plan or reductions to future contributions.

The average discount rate for the schemes' liabilities is based on investment-grade rated corporate bonds or similar government bonds of suitable duration and currency. Scheme 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 consolidated 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 consolidated 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 as outlined in IFRS 16.

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 consolidated 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.

On sale of an associate, any gain or loss is calculated based on the carrying value at the date of disposal and is presented within other operating income in the consolidated income statement.

Assets held for sale

Assets are classified and presented as held for sale at the 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. Assets categorised as held for sale are not depreciated.

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. With the exception of the Group's borrowings, 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 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. The Group uses derivative financial instruments, in particular foreign currency swaps, forward exchange contracts, and cross-currency interest rate swaps 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.

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 2021

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 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 income and expenses.

Cash flow hedge

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. Bodycote utilises cross-currency interest rate swaps where possible to manage the cash flow exposures of borrowings denominated in foreign currencies.

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 translation reserve. Any gain or loss relating to any ineffective portion is recognised immediately in the consolidated income statement and is included in other operating income and expenses. If the hedged item results in the recognition of a non-financial asset, the accumulated gains or losses are included within the initial cost of the asset at the time that the asset is recognised.

Hedge accounting is discontinued when the instrument expires or is sold, exercised or if it no longer meets the criteria for hedge accounting. If a forecasted transaction subject to hedge accounting is no longer expected to occur, the accumulated gain or loss in the hedging and translation reserve is recognised immediately in the consolidated income statement.

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 share-based payments reserve.

Adoption of new and revised standards and interpretations applied in the current year

During the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the IFRS interpretation committee (IFRS IC) that were effective for annual periods that begin on or after 1 January 2021. Their adoption has not had a material impact on the disclosures or on the amounts reported in these consolidated financial statements:

- Attributing pension benefits to periods of service (Interpretations Committee decision relating to IAS 19);
- Configuration or customisation costs in a cloud computing arrangement (Interpretations Committee decision paper relating to IAS 38); and
- Interest rate benchmark reform (Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16) – At the end of 2021, the LIBOR reference rate was phased out and transitioned to the sterling overnight index average (SONIA). This new reference only impacts the Group's GBP borrowings under its RCF agreement and its cross-currency swap for GBP borrowings which as of 31 December 2021 has become the new reference rate. The impact of this change on these financial statements is not material.

New Standards and interpretations not yet applied

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective. They are not expected to have a material impact on the Group:

- IFRS 17 (insurance contracts);
- Amendments to IAS 16: Proceeds before intended use;
- Amendments to IAS 37: Cost of fulfilling a contract;
- Annual improvements to IFRS Standards 2018-2020 cycle;
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- Amendments to IAS 1: Classification of liabilities as current or non-current.

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 141.

Notes to the consolidated financial statements

Year ended 31 December 2021

1. 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 2021 £m	AGI 2021 £m	Central costs and eliminations 2021 £m	Consolidated 2021 £m
Revenue				
Total revenue	**245.6**	**370.2**	**–**	**615.8**
Result				
Headline operating profit prior to share-based payments and unallocated central costs	**45.2**	**72.5**	**–**	**117.7**
Share-based payments (including social charges)[1]	**(1.0)**	**(3.0)**	**(1.0)**	**(5.0)**
Unallocated central costs	**–**	**–**	**(17.9)**	**(17.9)**
Headline operating profit/(loss)	**44.2**	**69.5**	**(18.9)**	**94.8**
Amortisation of acquired intangible assets	**(6.7)**	**(3.6)**	**–**	**(10.3)**
Acquisition costs	**(0.5)**	**–**	**(0.2)**	**(0.7)**
Operating profit/(loss) prior to exceptional items	**37.0**	**65.9**	**(19.1)**	**83.8**
Exceptional items	**(4.2)**	**(0.6)**	**4.8**	**–**
Segment result	**32.8**	**65.3**	**(14.3)**	**83.8**
Finance income				**0.3**
Finance costs				**(6.6)**
Profit before taxation				**77.5**
Taxation				**(17.5)**
Profit for the year				**60.0**

1 £4.7m (2020:£0.4m) IFRS 2 share-based payment charge in the year plus £0.3m (2020: £1.3m credit) social security charges.

Inter-segment sales are not material in either year.

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

1. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2021 £m	North America 2021 £m	Emerging Markets 2021 £m	Total ADE 2021 £m
Revenue				
Total revenue	105.3	136.0	4.3	245.6
Result				
Headline operating profit prior to share-based payments	21.7	23.3	0.2	45.2
Share-based payments (including social charges)	(0.4)	(0.6)	–	(1.0)
Headline operating profit	21.3	22.7	0.2	44.2
Amortisation of acquired intangible assets	–	(6.7)	–	(6.7)
Acquisition costs	(0.5)	–	–	(0.5)
Operating profit prior to exceptional items	20.8	16.0	0.2	37.0
Exceptional items	(1.7)	(2.5)	–	(4.2)
Segment result	19.1	13.5	0.2	32.8

Automotive & General Industrial	Western Europe 2021 £m	North America 2021 £m	Emerging Markets 2021 £m	Total AGI 2021 £m
Revenue				
Total revenue	217.0	85.3	67.9	370.2
Result				
Headline operating profit prior to share-based payments	47.8	7.9	16.8	72.5
Share-based payments (including social charges)[1]	(1.8)	(0.5)	(0.7)	(3.0)
Headline operating profit	46.0	7.4	16.1	69.5
Amortisation of acquired intangible assets	(0.5)	(2.7)	(0.4)	(3.6)
Acquisition costs	–	–	–	–
Operating profit prior to exceptional items	45.5	4.7	15.7	65.9
Exceptional items	(0.3)	(0.1)	(0.2)	(0.6)
Segment result	45.2	4.6	15.5	65.3

1 £4.7m (2020:£0.4m) IFRS 2 share-based payment charge in the year plus £0.3m (2020: £1.3m credit) social security charges.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

1. Business and geographical segments continued

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)[1]	–	–	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

1 £4.7m (2020:£0.4m) IFRS 2 share-based payment charge in the year plus £0.3m (2020: £1.3m credit) social security charges.

Aerospace, Defence & Energy	Western Europe 2020 £m	North America 2020 £m	Emerging Markets 2020 £m	Total ADE 2020 £m
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	Western Europe 2020 £m	North America 2020 £m	Emerging Markets 2020 £m	Total AGI 2020 £m
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)
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

1. Business and geographical segments continued

Other information

Group	ADE 2021 £m	AGI 2021 £m	Central costs and eliminations 2021 £m	Consolidated 2021 £m
Gross capital additions	14.5	38.5	7.5	60.5
Depreciation and amortisation	33.8	47.7	2.8	84.3
Balance sheet				
Segment assets	480.1	527.4	62.3	1,069.8
Segment liabilities	(91.3)	(133.3)	(159.8)	(384.4)
Segment net assets	388.8	394.1	(97.5)	685.4

Aerospace, Defence & Energy	Western Europe 2021 £m	North America 2021 £m	Emerging Markets 2021 £m	Total ADE 2021 £m
Gross capital additions	6.0	8.4	0.1	14.5
Depreciation and amortisation	12.7	20.5	0.6	33.8
Balance sheet				
Segment assets	170.3	304.7	5.1	480.1
Segment liabilities	(46.2)	(44.1)	(1.0)	(91.3)
Segment net assets	124.1	260.6	4.1	388.8

Automotive & General Industrial	Western Europe 2021 £m	North America 2021 £m	Emerging Markets 2021 £m	Total AGI 2021 £m
Gross capital additions	20.3	10.5	7.7	38.5
Depreciation and amortisation	23.5	13.5	10.7	47.7
Balance sheet				
Segment assets	232.0	167.4	128.0	527.4
Segment liabilities	(79.0)	(24.3)	(30.0)	(133.3)
Segment net assets	153.0	143.1	98.0	394.1

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

Notes to the consolidated financial statements continued

Year ended 31 December 2021

1. Business and geographical segments continued

Aerospace, Defence & Energy	Western Europe 2020 £m	North America 2020 £m	Emerging Markets 2020 £m	Total ADE 2020 £m
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

Automotive & General Industrial	Western Europe 2020 £m	North America 2002 £m	Emerging Markets 2002 £m	Total AGI 2020 £m
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

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	
	2021 £m	2020 £m	**2021 £m**	2020 £m
USA	**210.9**	219.1	**413.4**	429.7
France	**80.8**	76.4	**63.4**	70.6
Germany	**71.1**	69.7	**68.1**	78.0
UK	**45.2**	44.3	**79.9**	83.2
Sweden	**40.1**	37.9	**36.6**	42.6
Netherlands	**27.8**	24.9	**23.1**	23.1
Others	**139.9**	125.7	**184.4**	192.0
	615.8	598.0	**868.9**	919.2

2. Operating profit

	2021 £m	2020 £m
Revenue	**615.8**	598.0
Cost of sales	**(379.8)**	(401.3)
Gross profit	**236.0**	196.7
Other operating income	**3.8**	4.4
Distribution costs	**(17.4)**	(15.6)
Administration expenses	**(126.4)**	(109.0)
Other operating expenses	**(1.2)**	(1.2)
Headline operating profit	**94.8**	75.3
Amortisation of acquired intangible assets	**(10.3)**	(9.8)
Acquisition costs (see note 23)	**(0.7)**	(2.1)
Operating profit prior to exceptional items	**83.8**	63.4
Exceptional items (see note 4)	**–**	(58.4)
Operating profit	**83.8**	5.0

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

	2021 £m	2020 £m
Net foreign exchange gain	**(0.2)**	(0.3)
Inventory expensed	**48.4**	48.8
Depreciation of property, plant and equipment	**58.0**	65.2
Depreciation of right-of-use assets	**13.6**	14.8
Amortisation of other intangible assets	**12.1**	11.9
(Gain)/loss on disposal of property, plant and equipment	**(4.8)**	0.6
Gain on disposal of right-of-use assets	**–**	(0.1)
Employee costs (see note 3)	**252.5**	235.1
Pension scheme administration expenses	**0.5**	0.4
Government assistance support received	**(1.5)**	(4.3)
Acquisition costs	**0.7**	2.1
Impairment gain on trade receivables	**(1.2)**	(0.4)
Impairments – recognised in exceptional items (see note 4)	**6.5**	22.7
Impairment of property, plant and equipment and other assets – recognised in operating profit	**–**	0.3
Share of profits of associate undertaking up to disposal	**(0.1)**	(0.4)
Loss on sale of associate	**0.4**	–

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

	2021 £m	2020 £m
Fees payable to the auditor for the audit of the annual accounts	**0.8**	0.7
Fees payable to the auditor and its associates for other services:		
The audit of the Group's subsidiaries	**1.4**	1.1
Total audit fees	**2.2**	1.8
Audit related assurance services[1]	**0.1**	0.2
Other non-audit fees[2]	**0.1**	–
Total fees payable to the auditor	**2.4**	2.0

1 This includes £0.1m for the review of the half year report (2020: £0.2m for the review of the half year report).

2 This includes £0.1m (2020: £nil) for a mandatory assurance requirement by the Dutch government concerning COVID-19 assistance (NOW), required as part of the programme conditions.

The audit fees disclosed for 2021 include £0.1m of fees in connection with the 2020 audit.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

3. Employees

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

	2021 Number	2020 Number[1]
ADE:		
Western Europe	**698**	733
North America	**799**	947
Emerging Markets	**62**	12
AGI:		
Western Europe	**1,490**	1,687
North America	**641**	692
Emerging Markets	**775**	737
Shared services	**243**	215
Head office	**42**	45
	4,750	5,068

	2021 £m	2020 £m
Their aggregate remuneration comprised:		
Wages and salaries[1]	**214.6**	198.6
Social security costs	**30.9**	30.8
Pension costs	**7.1**	5.7
	252.5	235.1

1 For the year ended 31 December 2021 the Group received government and state employee support towards wages and salaries of £1.1m (2020: £3.6m) which are presented net against staff costs.

Included in wages and salaries are share-based payments (excluding social charges) resulting in a charge of £4.7m (2020: £0.4m). Included in pension costs are £6.4m relating to defined contribution schemes (2020: £7.3m) and a £1.2m charge relating to defined benefit schemes (2020: £1.6m credit). Pension administrative costs not included above were £0.5m (2020: £0.4m) – see note 2 and note 28.

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 84 and form part of these financial statements. See also note 28 for more information on retirement benefit schemes.

4. Exceptional items

	2021 £m	2020 £m
Severance and redundancy (release)/costs	**(2.7)**	20.8
Impairment of assets	**5.5**	16.5
Site closure costs	**1.9**	12.0
Gains on sales of property, plant and equipment recognised in exceptional items	**(4.8)**	–
Environmental provisions – see note 21	**0.1**	2.9
Total exceptional restructuring items	**–**	52.2
Impairment of other intangible assets – see note 10	**–**	6.2
Total exceptional items	**–**	58.4

In 2020, the Group announced an organisational restructuring initiative which was driven by a combination of both macroeconomic uncertainties and longer term automobile and aerospace market structural shifts. A number of plants were closed as a result of these restructuring activities. The related costs were recorded as exceptional items in line with the Group's accounting policy for exceptional items.

At 31 December 2021, management performed a detailed review of the restructuring activities in order to determine the best estimate of future expenditure required to settle the present obligations. As a result of this assessment, a total of £2.7m of restructuring provisions relating to severance and redundancy costs were released to exceptional items in the consolidated income statement.

During the year the Group incurred a further £8.5m of exceptional restructuring charges related to the 2020 restructuring initiatives. These costs include additional impairments of assets totalling £5.5m and site closure costs totalling £1.9m (including £0.6m of depreciation on sites mothballed as part of the restructuring initiatives).

The Group also disposed of several assets related to restructured sites for total cash proceeds of £11.7m resulting in a gain on sale of £4.8m.

At 31 December 2021, £10.2m was held as provisions. Refer to note 21 for more information.

5. Finance charge and income

	2021 £m	2020 £m
Interest on bank overdrafts and loans	**1.3**	0.7
Interest on deferred consideration	**0.2**	0.8
Interest on lease liabilities	**1.8**	2.2
Total interest expense	**3.3**	3.7
Net interest on the defined benefit pension liability	**0.1**	0.1
Other finance charges	**3.2**	2.9
Total finance charge	**6.6**	6.7
Interest received on bank deposits	**0.1**	0.1
Other interest receivable	**0.2**	0.1
Total finance income	**0.3**	0.2
Net finance charge	**6.3**	6.5

6. Taxation

	2021 £m	2020 £m
Current taxation – charge for the year	**18.9**	9.4
Current taxation – adjustments in respect of previous years	**(5.9)**	(9.7)
Deferred tax (see note 19)	**4.5**	(2.0)
	17.5	(2.3)

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 in 2021 is 24.7% (2020: 24.1%). The effect of changes in statutory tax rates reflects the impact on deferred tax balances of the increase in the future UK tax rate from 19.0% to 25.0% which will take effect from 1 April 2023 as per the Finance Act 2021. Consequently, the deferred tax balances on the consolidated balance sheet relating to the UK have been measured using these revised rates. The charge for the year can be reconciled to the profit/(loss) before taxation per the consolidated income statement as follows:

	2021 £m	2020 £m
Profit/(loss) before taxation	**77.5**	(1.5)
Tax at the weighted average country tax rate of 24.7% (2020: 24.1%)	**19.1**	(0.4)
Tax effect of expenses not deductible in determining taxable profit[1]	**2.3**	0.3
Impact of recognition or derecognition of deferred tax balances	**(0.9)**	2.0
Tax effect of other adjustments in respect of previous years:		
Current tax[2]	**(5.9)**	(9.7)
Deferred tax[2]	**0.1**	8.7
Effect of financing activities between jurisdictions[3]	**1.3**	(2.8)
Impact of trade and minimum corporate taxes	**0.6**	0.8
Effect of changes in statutory tax rates on deferred tax assets and liabilities	**0.2**	(1.1)
Other tax risk provision movements[4]	**0.7**	(0.1)
Tax expense/(credit) for the year	**17.5**	(2.3)

Tax on items taken directly to equity is a credit of £0.3m (2020: charge of £0.1m).

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

2 2021 and 2020 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. £5.1m of interest deductions were restricted in the US in 2021 (2020: £9.9m).

4 Includes provisions for local tax risks and non-financing cross border transactions.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

6. Taxation continued

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 £24.0m were recognised at 31 December 2021 (2020: £22.1m), of which £1.8m (2020: £5.4m) are expected to crystalise within 12 months. The provisions 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. The provisions relate to six main areas of tax risk, varying in quantum from £0.4m to £7.2m.

Note 29 to the accounts refers to a previously disclosed contingent liability in respect of the European Commission state aid investigation into the Group financing exemption in the UK-controlled foreign company rules, which is no longer required as at 31 December 2021.

7. Dividends

	2021 £m	2020 £m
Amounts recognised as distributions to equity holders in the year:		
Deferred dividend for the year ended 31 December 2019 of 13.3p per share	**–**	25.1
Interim dividend for the year ended 31 December 2020 of 6.0p per share	**11.4**	–
Final dividend for the year ended 31 December 2020 of 13.4p per share	**25.7**	–
Interim dividend for the year ended 31 December 2021 of 6.2p per share	**11.9**	–
	49.0	25.1
Proposed final dividend for the year ended 31 December 2021 of 13.8p per share	**26.4**	–

The Board approved the payment of an interim dividend for 2020 of 6.0p on 24 November 2020 to those shareholders on the register of Bodycote plc on 8 January 2021. The 2020 interim dividend was paid on 12 February 2021. Furthermore, the Board approved a final ordinary dividend for 2020 of 13.4p to shareholders on the register of Bodycote plc on 23 April 2021. The final ordinary dividend was paid on 4 June 2021.

The Board approved the payment of an interim dividend for 2021 of 6.2p on 27 July 2021 to those shareholders on the register of Bodycote plc on 8 October 2021. The 2021 interim dividend was paid on 5 November 2021. The Board has proposed a 2021 final ordinary dividend of 13.8p per share to be paid on 3 June 2022 to shareholders on the register at close of business at 22 April 2022 subject to approval by shareholders at the Annual General Meeting. As the proposed dividend is subject to shareholder approval in 2022, 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.

8. Earnings per share

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

	2021 £m	2020 £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	**59.5**	0.4

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**190,651,774**	190,374,428
Effect of dilutive potential ordinary shares:		
Shares subject to performance conditions[1]	**79,678**	–
Shares subject to vesting conditions	**192,117**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**190,923,569**	190,374,428

	Pence	Pence
Earnings per share:		
Basic	**31.2**	0.2
Diluted[1]	**31.2**	0.2

	£m	£m
Headline earnings		
Net profit attributable to equity holders of the parent	**59.5**	0.4
Add back:		
Amortisation of acquired intangible assets (net of tax)	**7.8**	7.4
Acquisition costs (net of tax)	**1.0**	1.5
Exceptional items (net of tax)	**–**	43.6
Headline earnings	**68.3**	52.9

	Pence	Pence
Headline earnings per share:		
Basic	**35.8**	27.8
Diluted[1]	**35.8**	27.8

1 As at 31 December 2021, in accordance with IAS 33, the related performance conditions for most open plans have not been met resulting in nil dilution of earnings per share (2020: nil).

9. Goodwill

	2021 £m	2020 £m
Cost		
At 1 January	**276.3**	230.7
Exchange differences	**(1.8)**	(4.4)
Recognised on acquisition of businesses	**–**	50.0
At 31 December	**274.5**	276.3
Accumulated impairment		
At 1 January	**60.8**	60.9
Exchange differences	**(0.2)**	(0.1)
At 31 December	**60.6**	60.8
Carrying amount	**213.9**	215.5

Notes to the consolidated financial statements continued

Year ended 31 December 2021

9. 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. Goodwill is allocated as follows:

	2021 £m	2020 £m
ADE:		
Western Europe	**26.8**	27.0
North America	**93.2**	93.1
AGI:		
Western Europe	**27.6**	28.8
North America	**54.7**	54.3
Emerging Markets	**11.6**	12.3
	213.9	215.5

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 net present value sum of the discounted cash flows. The key assumptions for those calculations include the discount rates, the rate of recovery and growth in revenues and their relative impact on future profitability and cash flows.

Growth rates are determined by a combination of management's budget for 2022 and forecasts based on certain revenue and operating profit assumptions for the subsequent three years, together with a further estimate of cash flows into perpetuity using forecast inflationary growth rates based on external forward-looking forecasts in the respective geographies. The cash flows are discounted using both pre-tax and post-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 7.5% (2020: 9.5%) and 11.6% (2020: 11.7%). Post tax these rates were between 6.4% (2020: 7.9%) and 9.2% (2020: 9.1%). Net present value of cash flows under both a pre-tax and post-tax model are equivalent.

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. In particular, the assessment for North America ADE is sensitive to the recovery of the Aerospace sector following the impact of the COVID-19 pandemic and North America AGI to the automotive market which has been constrained due to current global supply chain constraints. Management considers that the impairment assessment reflects a conservative but supportable view on both NA ADE and NA AGI revenue recovery.

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. Expansionary capital expenditure, and the associated revenues and cash flows, are only included to the extent that they have been approved, and expenditure had already been incurred as at the balance sheet date. Long term growth rates used to determine cash flows for 2026 and into perpetuity are in the range of 2.1% (2020: 2.2%) to 2.4% (2020: 5.3%) 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 2021 £m	Long term growth rate 2021 %	Pre-tax discount rate 2021 %
Cash generating unit			
North America ADE	**93.2**	**2.3**	**8.0**
North America AGI	**54.7**	**2.3**	**8.1**

Expected future cash flows are inherently uncertain and could change materially over time. They are affected by several 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 events currently impacting global economies including, but not confined to, the impact of the COVID-19 pandemic and global-wide chip shortages impacting customers; and rising energy prices. These uncertainties have been reflected in the sensitivity analyses performed of reasonably possible changes in the underlying assumptions on future cash flows for the cash generating units. The following sensitivities were applied:

- A 10% reduction in revenue below the base case in each of the four years, together with a 50 bps reduction in the long-term growth rates;
- A reduction in operational gearing of 5 percentage points; and
- A 1.5 percentage point increase in the discount rate to each CGU.

9. Goodwill continued

None of these scenarios resulted in an impairment either individually, or in aggregate. In determining the sensitivities to apply, consideration was given to the impact that climate change may have on the Group's businesses which is considered to present both opportunities and risks to the organisation. Whilst specific scenarios were not modelled, the impact of the above sensitivities was deemed sufficiently significant to cover a range of potential risk, some of which are difficult to estimate with current known information. The Group's assessment of the impact of climate change is set out on pages 41 and 42 of the Annual Report & Accounts.

While the reasonably possible changes summarised above do not indicate an impairment, it is difficult in the current environment to predict how the world's economies will recover and the timing of such recovery. In the event that revenues do not ultimately return to historical levels when anticipated, or the Group is unable to maintain or realise expected operating gearing ratios and 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 that would result in a material impairment charge being recognised in the next 12 months. The Directors have concluded that no impairment charge is required as at 31 December 2021.

10. Other intangible assets

	Software £m	Customer relationships £m	Non-compete agreements £m	Total £m
Cost				
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	–	87.3	0.6	87.9
Disposals	(1.8)	–	–	(1.8)
At 1 January 2021	**41.5**	**133.2**	**3.8**	**178.5**
Exchange differences	**(0.3)**	**–**	**–**	**(0.3)**
Additions	**6.9**	**–**	**–**	**6.9**
Acquired on acquisition of businesses (see note 23)	**–**	**5.0**	**–**	**5.0**
Disposals	**(1.5)**	**–**	**–**	**(1.5)**
At 31 December 2021	46.6	138.2	3.8	188.6
Amortisation				
At 1 January 2020	18.8	33.6	3.1	55.5
Exchange differences	0.2	(1.5)	–	(1.3)
Charge for the year	2.0	9.9	–	11.9
Impairment loss	6.2	–	–	6.2
Disposals	(1.8)	–	–	(1.8)
At 1 January 2021	**25.4**	**42.0**	**3.1**	**70.5**
Exchange differences	**(0.3)**	**(0.3)**	**–**	**(0.6)**
Charge for the year	**1.8**	**10.3**	**–**	**12.1**
Disposals	**(1.5)**	**–**	**–**	**(1.5)**
At 31 December 2021	**25.4**	**52.0**	**3.1**	**80.5**
Carrying amount				
At 31 December 2021	**21.2**	**86.2**	**0.7**	**108.1**
At 31 December 2020	16.1	91.2	0.7	108.0

Included in intangible software assets are carrying values related to the Group's existing ERP software module totalling £5.6m (2020: £7.1m) which are currently being amortised over the remaining useful life.

The Group is currently developing and implementing a new ERP software solution, assets of which will be held centrally. During the year, the Group has capitalised £6.6m (2020: £2.1m), of which £1.7m (2020: £0.4m) relates to internally generated capitalisation for the development of this ERP solution. Included in intangible assets are £14.4m (2020: £7.7m) of expenditure that is not yet available for use and is therefore not being amortised.

The Group has considered the decision paper issued by the IFRS Interpretations Committee relating to IAS 38: Intangible Assets, clarifying how to account for configuring or customising costs incurred in a Software as a Service (SaaS) arrangement. £0.3m of configuration and customisation costs have been expensed to the consolidated income statement during the year, with no impact on previous periods from applying this change.

An impairment charge of £6.2m was recorded in 2020 to reflect the elements of the existing ERP that cannot be retained in the new ERP solution. The impairment charge in 2020 was included in exceptional items in the consolidated income statement and related to the impairment of the legacy Production ERP software module (£3.6m), the legacy Finance ERP software module (£1.4m) and an HR management software module (£1.2m).

Contractual commitments related to the ERP software development were £2.1m at 31 December 2021 (2020: £1.3m). These costs will be capitalised as incurred.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

11. Property, plant and equipment

	Land and buildings						
	Freehold £m	Long leasehold improvements £m	Short leasehold improvements £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost or valuation							
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 1 January 2021	**254.4**	**10.1**	**18.2**	**1,020.0**	**28.6**	**59.2**	**1,390.5**
Additions	**0.2**	**0.4**	**0.6**	**3.8**	**0.3**	**41.0**	**46.3**
Acquisition of businesses	**1.2**	**–**	**–**	**1.1**	**–**	**–**	**2.3**
Exchange differences	**(9.6)**	**0.1**	**(0.4)**	**(31.2)**	**(1.1)**	**(1.2)**	**(43.4)**
Transfer to assets held for sale[1]	**(1.7)**	**–**	**–**	**–**	**–**	**–**	**(1.7)**
Recategorisation	**9.9**	**(0.2)**	**1.6**	**31.7**	**0.2**	**(43.2)**	**–**
Disposals	**(6.0)**	**(0.4)**	**(0.2)**	**(36.0)**	**(1.2)**	**(0.8)**	**(44.6)**
At 31 December 2021	**248.4**	**10.0**	**19.8**	**989.4**	**26.8**	**55.0**	**1,349.4**
Accumulated depreciation and impairment							
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[1]	(7.4)	–	–	(0.1)	–	–	(7.5)
Recategorisation	(0.2)	–	0.1	(0.4)	(0.0)	–	(0.5)
Eliminated on disposals	(1.8)	(1.4)	(0.7)	(31.6)	(0.9)	–	(36.4)
At 1 January 2021	**123.1**	**5.4**	**8.9**	**707.5**	**22.9**	**0.1**	**867.9**
Charge for the year	**6.6**	**1.0**	**1.3**	**48.5**	**1.2**	**–**	**58.6**
Impairment losses incurred	**0.2**	**–**	**0.3**	**3.7**	**–**	**–**	**4.2**
Exchange differences	**(5.2)**	**0.1**	**(0.3)**	**(22.5)**	**(0.8)**	**–**	**(28.7)**
Transfer to assets held for sale[1]	**(1.2)**	**–**	**–**	**–**	**–**	**–**	**(1.2)**
Recategorisation	**0.3**	**(0.1)**	**–**	**(0.1)**	**(0.1)**	**–**	**–**
Eliminated on disposals	**(3.9)**	**(0.4)**	**(0.1)**	**(35.1)**	**(1.2)**	**–**	**(40.7)**
At 31 December 2021	**119.9**	**6.0**	**10.1**	**702.0**	**22.0**	**0.1**	**860.1**
Carrying amount							
At 31 December 2021	**128.5**	**4.0**	**9.7**	**287.4**	**4.8**	**54.9**	**489.3**
At 31 December 2020	131.3	4.7	9.3	312.5	5.7	59.1	522.6

1 See note 16 for further detail on assets held for sale.

At 31 December 2021 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5.8m (2020: £4.6m).

11. Property, plant and equipment continued

Property, plant and equipment impairments incurred of £4.2m (2020: £16.0m) were booked to exceptional costs as they relate to identified plant and equipment impairments for assets that were deemed in the year to no longer be required, as a consequence of the restructuring programme announced in 2020 and written to £nil carrying value. Asset impairments broken down by business segment are shown in the table below.

	2021 £m	2020 £m
ADE:		
Western Europe	**0.7**	1.5
North America	**2.3**	2.4
AGI:		
Western Europe	**0.8**	7.5
North America	**0.4**	4.6
	4.2	16.0

During the year assets with a net book value of £1.3m were moved to assets held for sale, see note 16 for details. The Group also disposed of certain assets, mainly relating to the 2020 restructuring programme, with proceeds recorded of £11.7m and a gain on sale of £4.8m. The gain on sale has been included in exceptional items in the consolidated income statement.

12. Right-of-use asset

As a lessee

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

	Land, buildings, fixtures and fittings[1] £m	Plant and machinery £m	Vehicles £m	Total £m
Cost or valuation				
At 1 January 2020	126.5	21.5	17.2	165.2
Additions	4.1	1.3	3.3	8.7
Acquisition of businesses	3.2	1.8	0.1	5.1
Disposals	(4.5)	(3.7)	(2.5)	(10.7)
Exchange differences	0.7	0.2	0.3	1.2
At 1 January 2021	**130.0**	**21.1**	**18.4**	**169.5**
Additions	**4.1**	**1.4**	**1.8**	**7.3**
Disposals	**(5.2)**	**(1.3)**	**(1.7)**	**(8.2)**
Exchange differences	**(3.6)**	**(0.6)**	**(0.7)**	**(4.9)**
At 31 December 2021	**125.3**	**20.6**	**17.8**	**163.7**
Accumulated depreciation and impairment				
At 1 January 2020	66.9	13.5	11.5	91.9
Charge for the year	8.4	3.1	3.3	14.8
Impairment losses incurred	0.2	0.1	–	0.3
Eliminated on disposals	(3.1)	(1.7)	(2.2)	(7.0)
Exchange differences	0.2	–	0.3	0.5
At 1 January 2021	**72.6**	**15.0**	**12.9**	**100.5**
Charge for the year	**8.3**	**2.6**	**2.7**	**13.6**
Impairment losses incurred	**2.3**	**–**	**–**	**2.3**
Eliminated on disposals	**(5.0)**	**(1.0)**	**(1.5)**	**(7.5)**
Exchange differences	**(2.0)**	**(0.4)**	**(0.4)**	**(2.8)**
At 31 December 2021	**76.2**	**16.2**	**13.7**	**106.1**
Carrying amount				
At 31 December 2021	**49.1**	**4.4**	**4.1**	**57.6**
At 31 December 2020	57.4	6.1	5.5	69.0

1 The carrying amount of fixtures and fittings as at 31 December was £0.2m (2020: £0.2m).

In the year to 31 December 2021 total lease payments charged directly to the consolidated income statement amounted to £0.5m (2020: £1.1m) for short-term leases and £0.6m (2020: £0.6m) for leases of low value in line with Group policy.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

12. Right-of-use assets continued

Lease liabilities

Maturity analysis – contractual undiscounted cash flows	2021 £m	2020 £m
Less than one year	**15.8**	15.6
One to five years	**32.8**	37.5
More than five years	**54.2**	59.5
Total undiscounted cash flows	**102.8**	112.6

	£m	£m
At 1 January	**75.6**	79.4
Additions	**6.3**	14.1
Disposals	**(0.6)**	(3.7)
Principal and interest repayments	**(14.4)**	(15.4)
Exchange differences	**(2.4)**	1.2
At 31 December	**64.5**	75.6
Current	**12.9**	13.6
Non-current	**51.6**	62.0

Amounts recognised in the consolidated income statement	2021 £m	2020 £m
Depreciation charge	**13.6**	14.8
Interest on lease liabilities	**1.8**	2.2
Variable lease payments not included in the measurement of lease liabilities	**0.1**	–
Expenses relating to short-term leases	**0.5**	1.1
Expenses relating to leases of low value assets	**0.6**	0.6
Right-of-use asset impairment charge	**2.3**	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.

The Group does not have any leases that are linked to LIBOR interest rates affected by the interest rate benchmark reform.

As a lessor

The Group sub-leases a small number of properties. There were no material arrangements where the Group is the lessor.

13. Inventories

	2021 £m	2020 £m
Raw materials	**17.5**	15.1
Work-in-progress	**2.3**	1.6
Finished goods and goods for resale	**0.7**	0.2
Less: obsolescence provision	**(1.2)**	(1.1)
	19.3	15.8

Inventory expensed in the years ended 31 December 2021 and 2020 is disclosed in note 2.

14. Trade and other receivables

	2021 £m	2020 £m
Amounts falling due within one year:		
Amounts receivable for the supply of services	**102.9**	97.7
Allowance for expected credit loss	**(2.8)**	(4.5)
Net trade receivables	**100.1**	93.2
Other receivables	**8.8**	13.0
Prepayments	**8.1**	10.0
	117.0	116.2
Amounts falling due after more than one year:		
Trade and other receivables	**1.6**	2.1

The average credit period given to customers for the supply of services as at 31 December 2021 is 61 days (2020: 63 days). An allowance has been made for estimated irrecoverable amounts from the supply of services of £2.8m (2020: £4.5m). This allowance has been determined by reference to expected credit losses as set out in the Group's accounting policies.

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

Included in the Group's trade receivables balance are specific debtor balances with a carrying amount of £21.3m (2020: £20.8m) 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.

Ageing analysis of net trade receivables:

	2021 £m	2020 £m
Trade receivables within terms	**78.8**	72.4
Ageing of past due but not impaired receivables:		
31-60 days	**12.4**	11.1
61-90 days	**6.1**	6.6
91-120 days	**2.0**	2.3
Greater than 120 days	**0.8**	0.8
	100.1	93.2

Movement in the allowance for expected credit loss:

	2021 £m	2020 £m
At 1 January	**4.5**	4.8
Impairment losses recognised	**0.9**	1.1
Allowance acquired with businesses	**–**	0.5
Amounts written off as uncollectable	**(0.3)**	(0.6)
Impairment losses reversed	**(2.1)**	(1.5)
Exchange differences	**(0.2)**	0.2
At 31 December	**2.8**	4.5

In determining the recoverability of a trade receivable the Group considers any change in the quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for expected credit loss.

Included in the allowance for expected credit loss are individually impaired trade receivables with a gross balance of £4.9m (2020: £6.1m). Impairments recognised represent the difference between the carrying amount of the trade receivables and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

14. Trade and other receivables continued

Ageing of impaired trade receivables:

	2021 £m	2020 £m
Less than 3 months	**0.2**	0.1
3-12 months	**1.2**	1.7
Over 12 months	**3.5**	4.3
	4.9	6.1

15. Cash and bank balances

Cash and bank balances comprise cash held by the Group and a breakdown of significant cash and bank balances by currency is as follows:

	2021 £m	2020 £m
US dollar	**10.5**	7.1
Euro	**8.7**	10.0
Sterling	**6.2**	2.1
Chinese yuan	**7.4**	4.7
Swedish krona	**2.0**	2.0
Other	**4.5**	4.8
Total cash and bank balances[1]	**39.3**	30.7

1 Refer to note 17 for an analysis of overdraft by currency.

16. Assets held for sale

Included in assets held for sale are £0.4m (2020: £2.9m) of assets that are actively being marketed for sale. During the year assets held for sale with a net book value of £2.9m at 31 December 2020 were sold. Assets classified as held for sale are recorded at the lower of their carrying amount and fair value less costs to sell. Current assets held for sale are analysed between operating segments as follows:

	2021 £m	2020 £m
AGI:		
Western Europe	**0.3**	2.5
North America	**0.1**	0.4
ADE:		
Western Europe	**–**	–
North America	**–**	–
	0.4	2.9

17. Borrowings

	2021 £m	2020 £m
Revolving Credit Facility	**90.3**	51.7
Bank overdrafts	**1.4**	1.5
Total borrowings	**91.7**	53.2
Weighted average interest rate paid	**1.7%**	1.6%
Analysis of Revolving Credit Facility drawdowns by currency:		
US dollar	**30.3**	16.6
Euro	**–**	18.1
Sterling	**60.0**	17.0
	90.3	51.7
Analysis of bank overdrafts by currency:		
US dollar	**0.6**	1.1
Other	**0.8**	0.4
	1.4	1.5

17. Borrowings continued

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

During the year the Group extended its £250.9m Revolving Credit Facility by one year. The facility which commenced on 27 May 2020 will now expire on 27 May 2026.

At 31 December 2021, the Group's Revolving Credit Facility had total drawings of £90.3m (2020: £51.7m). During the year the Group utilised £155.5m (2020: £101.9m) under the committed facility, and £116.9m was repaid during the year (2020: £50.2m). Of the amount utilised and repaid £34.5m relates to closing the Euro-denominated loan and switching to a GBP-denominated loan which was combined with a cross-currency swap to benefit from Euro negative interest rates.

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.

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 or has the intention to pay. The table includes both interest and principal cash flows.

	Less than 1 year 2021 £m	**1-2 years 2021 £m**	**2-5 years 2021 £m**	**5+ years 2021 £m**	**Total 2021 £m**
Non-interest bearing	**55.3**	**0.3**	**–**	**0.2**	**55.8**
Bank loans and overdrafts	**91.7**	**–**	**–**	**–**	**91.7**
Lease liabilities	**15.8**	**11.4**	**21.4**	**54.2**	**102.8**
	162.8	**11.7**	**21.4**	**54.4**	**250.3**

	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

Of the £91.7m (2020: £53.2m) bank loans and overdrafts outflows disclosed above, £90.3m (2020: £51.7m) of bank loans are drawn under the committed facility maturing on 27 May 2026. 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 was £0.5m (2020: £nil).

Notes to the consolidated financial statements continued

Year ended 31 December 2021

18. Financial instruments

(a) Financial instruments by category

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

Financial assets	Fair value hierarchy	At amortised cost 2021 £m	At fair value through profit or loss 2021 £m	At fair value through OCI 2021 £m	Total 2021 £m
Trade and other receivables		**107.2**	**–**	**–**	**107.2**
Cash and bank balances		**39.3**	**–**	**–**	**39.3**
Derivative financial instruments	**Level 2**	**–**	**–**	**0.5**	**0.5**
		146.5	**–**	**0.5**	**147.0**

Financial assets	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
Trade and other receivables		106.7	–	–	106.7
Cash and bank balances		30.7	–	–	30.7
		137.4	–	–	137.4

Financial liabilities	Fair value hierarchy	At amortised cost 2021 £m	At fair value through profit or loss 2021 £m	At fair value through OCI 2021 £m	Total 2021 £m
Borrowings – loans and overdrafts		**91.7**	**–**	**–**	**91.7**
Lease liabilities	**Level 3**	**64.5**	**–**	**–**	**64.5**
Trade and other payables		**55.3**	**–**	**–**	**55.3**
Other non-current liabilities	**Level 2/3**	**0.5**	**–**	**–**	**0.5**
		212.0	**–**	**–**	**212.0**

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

For information on derivative financial instruments with a fair value of £0.5m (2020: £nil) refer to section (d) of note 18.

18. Financial instruments continued

(b) Fair value measurement

There have been no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

The carrying values of financial instruments at amortised cost as presented in the consolidated financial statements approximate their fair values.

(c) Financial risk management

The Group's multinational operations expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk. Financial risk management policies are set by the Board. The Group's treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk. Treasury activities have the objective of minimising risk and treasury operations are conducted within a framework of policies and guidelines reviewed and authorised by the Board.

In accordance with its treasury policy, the Group does not use or hold derivative financial instruments for trading or speculative purposes. The Group may however use derivative instruments, for risk management purposes only, 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 reforecasts 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 2021, the Group had £160.6m available on the committed Revolving Credit Facility of £250.9m (2020: £199.2m) which together with net cash and cash equivalents of £37.9m (2020: £29.2m), resulted in available funds of £198.5m (2020: £228.4m). 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 2021 the Group's principal committed bank facility of £250.9m had a maturity date of 27 May 2026 (4.4 years to maturity) and had drawings of £90.3m (2020: £51.7m).

Cash management pooling, netting and concentration techniques are used to minimise borrowings. As at 31 December 2020, the Group had gross cash of £39.3m 2020: £30.7m).

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. 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 14.

Counterparty risk encompasses settlement risk on derivative financial instruments and money market contracts and credit risk on cash, term 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.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

18. 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 2021 would increase or reduce profit before tax by approximately £0.9m (2020: £0.2m). There is no significant impact on equity in the current or previous year.

Currency risk

Bodycote has operations in 22 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 36%, USD 35% and SEK 7%). Cumulatively over the year, sterling rates moved such that the sales for the year were £24.7m lower than if sales had been translated at the rates prevailing in 2020.

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 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 2021 sales by currency, a 10% weakening/strengthening in the 2021 cumulative average rates for all currencies versus sterling would have given rise to a +£63.4m/–£51.9m 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 2021 operating profit mix, a 10% weakening/strengthening in 2021 cumulative average rates for all currencies would have given rise to a +£11.0m/–£8.9m movement in headline operating profit.

(d) Derivative financial instruments

The Group's derivative 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 2021 amounted to £nil (2020: £0.4m). The unrecognised gains and losses were not material in either 2021 or 2020.

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 2021 £m	**Fair value 2021 £m**	Contractual or notional amount 2020 £m	Fair value 2020 £m
Currency forward foreign exchange contracts	**–**	**–**	2.3	–
Cross-Currency Interest Rate Swap	**25.8**	**0.5**	–	–

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. At the balance sheet date, the Group has entered into an interest rate derivative contract which has been classified as level 2 instrument with a fair value of £0.5m (2020: £nil), which is due to terminate on 30 June 2023. The interest rate derivative contract is combined with the GBP Revolving Credit Facility and designated as the hedging instrument for the EUR Net Investment Hedge. The hedged item is identified as the carrying amount of the Group's net investment in two foreign operations. Hedge infectiveness may occur due to differences in the critical terms between the loans as set out in the Net Investment Hedge section below and the interest rate swaps. There was no material ineffectiveness in relation to interest rate swaps recorded in 2021 and 2020.

18. Financial instruments continued

(e) Net Investment hedge

The Group continues to be drawn on the Revolving Credit Facility (RCF) as this was used to partly fund the Ellison acquisition in 2020 and the related deferred payments in 2021. The related loans are denominated in USD and EUR, combined with a EUR cross-currency interest swap. The amounts designated as net investment hedges to the Group's subsidiaries with a matching functional currency on a 1:1 ratio. The effects and performance of the net investment hedges at 31 December 2021 are set out as follows:

	£m	€m	$m
Carrying amount (bank loan) and denominations	**(55.5)**	30.0	41.0
Hedge Ratio	**1:1**	–	–
Change in bank loan carrying amount as a result of foreign currency movements since 1 January 2021	**0.7**	–	–
Change in value of hedged item used to determine hedge effectiveness	**(0.7)**	–	–

The foreign exchange gain of £0.7m (2020: £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.

19. Deferred tax

The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation £m	**Tax losses £m**	**Retirement benefit obligations £m**	**Other £m**	**Total £m**
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 1 January 2021	**56.1**	**(2.6)**	**(3.6)**	**(9.6)**	**40.3**
Charge/(credit) to the consolidated income statement	**(2.7)**	**(1.0)**	**0.2**	**7.8**	**4.3**
Credit to equity	**–**	**–**	**(0.1)**	**(0.2)**	**(0.3)**
Acquisition of businesses	**–**	**–**	**–**	**1.3**	**1.3**
Transfers	**(1.6)**	**1.6**	**–**	**–**	**–**
Exchange differences	**(1.8)**	**0.1**	**0.2**	**0.5**	**(1.0)**
Effect of change in tax rate:					
Income statement	**–**	**0.1**	**0.1**	**–**	**0.2**
At 31 December 2021	**50.0**	**(1.8)**	**(3.2)**	**(0.2)**	**44.8**

	2021 £m	2020 £m
Deferred tax liabilities	**47.0**	42.7
Deferred tax assets	**(2.2)**	(2.4)
	44.8	40.3

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.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

19. Deferred tax continued

At the balance sheet date, the Group has unused tax losses of £40.4m (2020: £50.9m) available for offset against future profits. A deferred tax asset has been recognised in respect of £6.6m (2020: £9.0m) of such losses, based on management forecasts of future taxable profits against which the assets can be recovered in the relevant jurisdictions. No deferred tax asset has been recognised in respect of the remaining £33.8m (2020: £41.9m) of the losses where the likelihood that sufficient taxable profits of the appropriate type arising is not probable. The majority of losses may be carried forward indefinitely.

The Group has capital losses of £55.8m (2020: £55.8m) which are not recognised for deferred tax as future suitable profits against which the losses could be utilised are not probable.

A deferred tax liability of £1.9m (2020: £1.1m) 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.

20. Trade and other payables

	2021 £m	2020 £m
Amounts falling due within one year:		
Trade payables	**27.7**	28.3
Other taxes and social security	**20.2**	22.6
Deferred consideration on acquisition of businesses	**–**	58.7
Other payables	**9.0**	11.8
Accruals[1]	**53.1**	49.5
	110.0	170.9
Amounts falling due after more than one year:		
Other payables	**1.5**	2.3

1 Accruals include £31.1.m (2020: £21.0m) 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 33 days (2020: 35 days). The Directors' consider the carrying value of trade payables to approximate to their fair value.

Included in accruals in 2020 are £3.7m of legal provisions. Legal provisions have been transferred to provisions in 2021. Refer to note 21 for more information.

21. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Legal and operational £m	Total £m
At 1 January 2021	**24.5**	**4.8**	**7.7**	**–**	**37.0**
Increase in provision	**0.6**	**0.7**	**0.3**	**–**	**1.6**
Release of provision	**(3.2)**	**(0.7)**	**(0.9)**	**–**	**(4.8)**
Utilisation of provision	**(12.1)**	**(1.1)**	**(1.1)**	**–**	**(14.3)**
Recategorisation from accruals	**–**	**–**	**–**	**3.2**	**3.2**
Exchange difference	**(0.8)**	**(0.1)**	**–**	**–**	**(0.9)**
At 31 December 2021	**9.0**	**3.6**	**6.0**	**3.2**	**21.8**
Included in current liabilities					**14.4**
Included in non-current liabilities					**7.4**
					21.8

1 Included in the closing provisions at 31 December 2021 are £3.2m of legal provisions that have been moved to provisions from accruals in 2021. The 2020 equivalent is £3.7m which has not been represented and is stated within accruals.

21. Provisions continued

Included within the above balances are £8.4m of provisions which do not relate to the Group's 2020 exceptional restructuring programme, comprised of £1.2m of restructuring provisions, £1.2m of environmental restructuring provisions and £6.0m of environmental provisions.

Exceptional restructuring

At 31 December 2021, restructuring provisions of £7.8m (2020: £22.8m) and restructuring environmental provisions of £2.4m (2020: £2.9m) relate to restructuring initiatives across North America and Europe announced in 2020. The restructuring initiatives included the closure of several plants resulting in exceptional restructuring costs of £35.7m. £32.8m of these costs related to exceptional restructuring matters while £2.9m related to exceptional environmental matters.

In the year ended 31 December 2021, £12.6m of the brought forward exceptional restructuring provision was utilised in order to carry out planned activities which were mainly focused on employee severance and redundancy (£6.6m), costs associated with closing plants (£5.5m) and the remediation of environmental issues (£0.5m).

As at 31 December 2021, management has performed a detailed review of restructuring activities in order to determine the best estimate of future expenditure required to settle the present obligations and the related timing. As a result of this assessment, the exceptional restructuring provisions were adjusted as follows:

	Restructuring £m	Restructuring environmental £m	Total £m
Increase in provision	0.6	0.7	1.3
Release of provision	(2.7)	(0.6)	(3.3)
Net (release)/charge	(2.1)	0.1	(2.0)

These increases and releases to provisions have been charged/credited to exceptional items in the consolidated income statement.

Cash outflows in relation to exceptional restructuring initiatives were £13.0m (2020: £11.6m). The majority of the remaining cash outflows on these activities are expected to occur within 2022.

Of the remaining exceptional restructuring provision of £10.2m at 31 December 2021, £3.8m related to employee severance and redundancy, £4.0m to costs associated with closing plants and £2.4m related to environmental issues.

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 to determine the best estimate of expenditure required to settle the identified obligations 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.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

22. Share capital

	2021 £m	2020 £m
Issued and fully paid:		
191,456,172 (2020: 191,456,172) ordinary shares of 17 3/11p each	**33.1**	33.1

23. Acquisition of businesses

On 1 December 2021 the Group acquired 100% of the share capital of a new business in Western Europe, for total consideration of £8.2m. The acquisition was made to strengthen the Group's network and service offering within the Group's Western European business also complementing the Group's Specialist Technologies strategy. The accounting is provisional as the Group has twelve months to finalise the valuation of the acquired assets and liabilities under IFRS 3. The acquisition is not expected to have a material impact on net profit.

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

Fair value of net assets acquired:	2021 £m
Other intangible assets	**5.0**
Property, plant and equipment	**2.3**
Inventories	**1.7**
Trade and other receivables	**1.2**
Trade and other payables	**(1.1)**
Cash and cash equivalents	**0.4**
Deferred tax liabilities	**(1.3)**
Fair value of net assets acquired	**8.2**
Total consideration	**8.2**
Satisfied by:	
Cash consideration transferred in 2021	**8.0**
Post close adjustment payable in 2022	**0.2**
Total cash to be transferred	**8.2**
Net cash outflow arising on acquisition:	
Cash consideration	**8.2**
Less: cash and cash equivalents acquired	**(0.4)**
	7.8

Acquisition-related costs amounted to £0.7m (2020: £2.1m, relating primarily to the Ellison acquisition) of which £0.4m related to this acquisition and have been included in the consolidated income statement.

The gross contractual value of the trade and other receivables was £1.2m. The best estimate at the acquisition date of the contractual cash flows not expected to be collected was £nil. The business contributed £0.6m revenue and £nil of headline operating profit for the period between the date of the 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 £7.7m to Group revenue and £0.1m to Group headline operating profit.

Acquisitions prior to 2021

On 3 April 2020 the Group completed the acquisition of 100% of the ordinary share capital of Ellison Surface Technologies ('Ellison') for total consideration of £129.5m. Ellison is a Surface Technology business located in North America with a number of sites primarily serving the aerospace sector. The transaction was accounted for as a business combination under IFRS 3. Deferred consideration was settled in US dollars which translated to £64.3m at the acquisition date. £0.6m of the deferred consideration was paid in October 2020 and the remaining deferred consideration of £57.8m was settled in April 2021 as per agreement with the seller. As the deferred consideration was settled in US dollars, the final settlement was subject to foreign exchange movements of £5.9m which is recorded within foreign exchange reserves in the financial statements. Further details of this acquisition can be found in the 2020 annual report and 2021 interim results.

During the year £0.5m deferred consideration was settled in respect of an acquisition in 2019.

24. Investment in associate

On 26 November 2021 the Group disposed of its investment in Techmeta Engineering SAS for proceeds of £1.5m. A loss on the disposal of the investment in associate of £0.4m has been recognised in the consolidated income statement being the difference between the carrying amount of the investment on sale date of £1.8m and the proceeds received. The carrying value of the investment includes £0.1m profit prior to disposal.

Techmeta Engineering SAS is registered in France and has share capital consisting solely of ordinary shares of which the Group owned 49% prior to disposal. The Group provided an interest-bearing loan to Techmeta Engineering SAS which was repayable over 10 years. The loan payable was reimbursed in full prior to completion of the sale.

	2021 £m	2020 £m
Investment in associate	–	1.8
Loan receivable from associate	–	2.3
	–	4.1
Profit after tax from continuing operations	**0.1**	0.4

The Group holds no investments in associate at 31 December 2021.

25. Notes to the cash flow statement

	2021 £m	2020 £m
Profit for the year	**60.0**	0.8
Adjustments for:		
Finance income	**(0.3)**	(0.2)
Finance costs	**6.6**	6.7
Taxation charge/(credit)	**17.5**	(2.3)
Operating profit	**83.8**	5.0
Adjustments for:		
Depreciation of property, plant and equipment	**58.0**	65.2
Depreciation on closed mothballed sites due to restructuring recognised in exceptional items	**0.6**	–
Depreciation of right-of-use assets	**13.6**	14.8
Amortisation of other intangible assets	**12.1**	11.9
(Profit)/loss on disposal of property, plant and equipment	**(4.8)**	0.6
Share-based payments	**4.7**	0.4
Income from associate prior to disposal	**(0.1)**	(0.2)
Loss on disposal of associate	**0.4**	–
Impairment of property, plant and equipment and other assets recognised in exceptional items	**5.5**	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 APM definition on page 150)	**173.8**	120.7
(Increase)/decrease in inventories	**(2.7)**	2.1
(Increase)/decrease in receivables	**(1.6)**	35.6
Increase/(decrease) in payables	**1.9**	(35.1)
(Decrease)/increase in provisions	**(17.6)**	23.6
Cash generated by operations	**153.8**	146.9
Income taxes paid	**(9.5)**	(7.8)
Net cash from operating activities	**144.3**	139.1

	2021	2020
Cash and cash equivalents comprise:		
Cash and bank balances	**39.3**	30.7
Bank overdrafts (included in borrowings)	**(1.4)**	(1.5)
	37.9	29.2

Notes to the consolidated financial statements continued

Year ended 31 December 2021

26. 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.

	BIP 2021	BIP[1] 2020	**Other Plans[1] 2021**	Other Plans[1] 2020
At 1 January	**4,053,180**	**3,321,805**	**257,132**	149,674
Granted during the year	**1,562,488**	**1,990,004**	**133,527**	107,458
Exercised during the year	**(10,279)**	**(639,850)**	**(79,324)**	–
Expired during the year	**(1,105,659)**	**(618,778)**	**–**	–
At 31 December	**4,499,730**	**4,053,180**	**311,335**	257,132
Average fair value of share awards granted during the year at date of grant (pence)	**794.2**	**571.9**	**802.1**	487.2
Fair value of awards granted during the year (£)	**12,409,346**	**11,381,606**	**1,070,969**	523,484

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.

Other plans includes a deferred bonus plan for Senior Executives whereby 35% of any bonus earned is deferred into shares and a Restricted Share Programme (RSP). Under both plans, shares issued vest after three years from the grant date and are conditional only on continued employment.

More information on the BIP can be found in the Board Report on Remuneration.

The exercise price of shares exercised was £nil. As at year ended 31 December 2021 no 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:

The number of outstanding share awards is as follows:

	BIP 2021	BIP[1] 2020	**Other Plans[1] 2021**	Other Plans[1] 2020
Weighted average share price (pence)	**794.2**	571.9	**802.1**	487.2
Weighted average exercise price (pence)	**nil**	nil	**nil**	nil
Expected life (years)	**3.0**	3.0	**3.0**	3.0
Expected dividend yields (%)	**3.4**	3.5	**–**	0.0-3.5
Weighted average remaining contractual life of shares outstanding (years)	**1.1**	1.3	**1.7**	1.3
Average fair value of share awards granted during the year at date of grant (pence)	**794.2**	571.9	**802.1**	487.2
Fair value of awards granted during the year (£)	**12,409,346**	11,381,606	**1,070,969**	523,484

1 The 2020 comparatives have been restated from amounts disclosed in prior year. Opening BIP awards, BIP awards granted and BIP awards expired have increased by 1,423,631, 852,859 and 539,412 respectively. As a result, total BIP share awards outstanding as at 31 December 2020 have increased by 1,737,077 shares. Consequently, the fair value of awards granted during the year has also increased by £4,878,274. The Other Plans column has been added as this was previously omitted from the disclosure. The opening balance of outstanding share awards at 1 January 2020 and related comparative information have been restated to present these share awards.

The Group recognised a total charge to the consolidated income statement of £4.7m (2020: £0.4m) related to equity-settled share-based payment transactions.

27. 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 24.

The remuneration of the Board of Directors, who are considered key management personnel of the Group, was as follows:

	2021	2020
Short-term employee benefits	**2.8**	1.6
Share based payments	**1.2**	–
Pensions	**0.2**	0.3
	4.2	1.9

Further information about the remuneration of the individual Directors is provided in the Board Report on Remuneration on pages 64 to 84.

28. 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 the consolidated income statement of £6.4m (2020: £7.3m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2021 contributions of £0.3m (2020: £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

	2021 £m	2020 £m
UK Scheme	**–**	–
Non-UK Schemes	**13.9**	16.2
	13.9	16.2

Total (credit)/expense recognised in the income statement

	2021 £m	2020 £m
UK Scheme[1]	**0.5**	0.4
Non-UK Schemes[1]	**1.2**	(1.6)
	1.7	(1.2)

1 The UK scheme is closed to new members and the accrual of benefits and the costs represent administrative costs only. Costs associated with the non-UK schemes relate to employee service and related costs (see note 3) and administrative costs (see note 2).

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 2020 was completed by a qualified independent actuary and the results of this have been updated on an approximate basis to 31 December 2021.

The contributions made by the employer over the financial year have been £0.5m 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 consolidated income statement and in the consolidated statement of comprehensive income. The UK scheme was closed to new entrants and future accrual 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 2021 a restriction has been applied to the balance sheet, and the net surplus recognised on the balance sheet has been restricted to £nil.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

28. Retirement benefit schemes continued

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2021 £m	2020 £m
Defined benefit obligation at start of year	**124.9**	111.2
Interest expense	**1.6**	2.0
Actuarial gains arising from changes in demographic assumptions	**(5.7)**	(0.5)
Actuarial (gains)/losses arising from changes in financial assumptions	**(5.8)**	15.5
Experience gains	**(3.9)**	–
Benefits paid and transferred, death in service insurance premiums and expenses	**(9.2)**	(3.5)
Past service cost	**–**	0.2
Defined benefit obligation at end of year	**101.9**	124.9

Reconciliation of opening and closing balances of the fair value of the assets

	2021 £m	2020 £m
Fair value of assets at start of year	**127.2**	115.4
Interest income	**1.6**	2.1
Return on scheme assets excluding interest income	**(3.6)**	13.0
Scheme administration expenses	**(0.5)**	(0.2)
Contributions by employer	**0.4**	0.4
Benefits paid and transferred, death in service insurance premiums and expenses	**(9.2)**	(3.5)
Fair value of assets at end of year	**115.9**	127.2

Total expense recognised in the income statement

	2021 £m	2020 £m
Past service cost	**–**	0.2
Scheme administration expenses	**0.5**	0.2
	0.5	0.4

Assets

	2021 Quoted £m	2021 Unquoted £m	2020 Quoted £m	2020 Unquoted £m
Bonds	**32.9**	**5.7**	35.8	9.0
Liability Driven Investment	**27.6**	**–**	32.1	–
Diversified credit funds	**36.1**	**12.9**	35.6	13.0
Cash and Cash equivalents	**0.7**	**–**	1.7	–
	97.3	**18.6**	105.2	22.0

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. LDI's are held in pooled investment vehicles and includes over the counter derivatives and quoted equities.

28. Retirement benefit schemes continued

Assumptions for 2021

	2021 % per annum	2020 % per annum
RPI inflation	**3.40**	3.00
CPI inflation	**3.10**	2.55
Salary increases	**n/a**	n/a
Rate of discount	**1.80**	1.30
Allowance for pension in payment increases of RPI or 3% p.a. if more	**2.61**	2.42
Allowance for revaluation of deferred pensions	**3.10**	2.55

Mortality – current pensioners:

	2021	2020
Actuarial tables used	**S2PxA YoB CMI 2020 1.5% long term trend**	S2PxA YoB CMI 2019 1.5% long term trend
Life expectancy for members currently aged 65	**21.3**	22.3

Mortality – future pensioners:

	2021	2020
Actuarial tables used	**S2PxA YoB CMI 2020 1.5% long term trend**	S2PxA YoB CMI 2019 1.5% long term trend
Life expectancy at age 65 for members currently aged 45	**23.0**	23.9

	2021	2020
Cash commutation	**All members commute 75% of maximum permitted**	All members commute 75% of maximum permitted

The weighted average duration of the defined benefit obligation at 31 December 2021 is approximately 18 years (31 December 2020: 18 years).

The defined benefit obligation at 31 December 2021 can be approximately attributed to the scheme members as follows:

- Active members: 0% (31 December 2020: 0%)
- Deferred members: 49% (31 December 2020: 50%)
- Pensioner members: 51% (31 December 2020: 50%)

All benefits are vested at 31 December 2021 (unchanged from 31 December 2020).

Present value of defined benefit obligations, fair value of assets and deficit

	2021 £m	2020 £m
Present value of defined benefit obligation	**101.9**	124.9
Fair value of plan assets	**(115.9)**	(127.2)
Scheme surplus	**(14.0)**	(2.3)
Adjustment relating to asset ceilings and minimum funding requirements	**14.0**	2.3
Net defined benefit asset before deferred tax	**–**	–

Notes to the consolidated financial statements continued

Year ended 31 December 2021

28. Retirement benefit schemes continued

Reconciliation of asset ceiling

	2021 £m	2020 £m
Restriction due to asset ceiling at beginning of period	**2.3**	4.2
Interest on asset restriction	**–**	0.1
Other changes in asset restriction	**11.7**	(2.0)
Restriction due to asset ceiling at end of period	**14.0**	2.3

The best estimate of contributions to be paid into the plan for the year ending 31 December 2022 is £0.4m.

Amounts recognised in other comprehensive income

	2021 £m	2020 £m
Return on scheme assets excluding interest income	**(3.6)**	13.0
Actuarial gains/(losses) arising from changes in financial assumptions	**5.8**	(15.5)
Actuarial gains arising from changes in demographic assumptions	**5.7**	0.5
Experience gains on liabilities	**3.9**	–
(Loss)/gain due to change in asset restriction	**(11.7)**	2.0
Total loss recognised in other comprehensive income	**0.1**	–

Impact of changes to assumptions

	2021		2020	
	Increase £m	**Decrease £m**	Increase £m	Decrease £m
0.5% change in discount rate	**(8.1)**	**8.1**	(5.7)	5.7
0.5% change in price inflation (and associated assumptions)	**3.7**	**(3.7)**	2.7	(2.7)
1 year change in life expectancy at age 65	**(4.4)**	**4.4**	5.7	(5.7)

The sensitivity table is based on an illustrative 0.5% 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

	2021 £m	2020 £m
Defined benefit obligation at start of year	**26.4**	27.5
Current service cost	**0.8**	0.8
Interest expense	**0.2**	0.3
Actuarial gains arising from changes in demographic assumptions	**(0.3)**	–
Actuarial (gains)/losses arising from changes in financial assumptions	**(1.3)**	1.0
Experience gains on liabilities	**(0.4)**	(0.6)
Benefits paid and transferred, death in service insurance premiums and expenses	**(0.9)**	(1.2)
Employee contributions	**0.1**	0.1
Curtailments	**0.3**	(0.9)
Past service credit	**–**	(1.7)
Exchange rate (gain)/loss	**(0.9)**	1.1
Defined benefit obligation at end of year	**24.0**	26.4

28. Retirement benefit schemes continued

Reconciliation of opening and closing balances of the fair value of plan assets

	2021 £m	2020 £m
Fair value of assets at start of year	**11.2**	10.1
Interest income	**0.1**	0.1
Return on scheme assets excluding interest income	**1.2**	1.1
Contributions by employer	**0.1**	0.2
Contributions by employees	**0.1**	0.1
Benefits paid and transferred, death in service insurance premiums and expenses	**(0.5)**	(0.6)
Exchange rate gain	**–**	0.2
Fair value of assets at end of year	**12.2**	11.2

Total expense/(credit) recognised in the income statement

	2021 £m	2020 £m
Current service cost	**0.8**	0.8
Net interest on the defined benefit liability	**0.1**	0.2
Curtailments	**0.3**	(0.9)
Past service credit	**–**	(1.7)
Total expense/(credit)	**1.2**	(1.6)

Assets

	2021		2020	
	Quoted £m	Unquoted £m	Quoted £m	Decrease £m
Equities	**6.0**	**–**	5.1	–
Insurance contracts	**–**	**6.2**	–	6.1
Total	**6.0**	**6.2**	5.1	6.1

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 2021

	Salary increases % per annum	Rate of discount % per annum	Inflation % per annum	Pension increases % per annum
USA	n/a	2.5	n/a	n/a
France	2.5	0.8	1.5	1.0
Germany	2.5	1.3	n/a	1.8
Italy	2.5	0.8	1.5	n/a
Turkey	8.5	13.0	8.5	n/a
Liechtenstein	2.5	0.3	n/a	n/a
Switzerland	n/a	0.3	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 2021 range from 11 years to 20 years. The durations ranged from 12 years to 21 years as at 31 December 2020.

Notes to the consolidated financial statements continued

Year ended 31 December 2021

28. Retirement benefit schemes continued

Present value of defined benefit obligations, fair value of assets and deficit

	2021 £m	2020 £m
Present value of defined benefit obligation	**24.0**	26.4
Fair value of plan assets	**(12.2)**	(11.2)
Deficit in the schemes	**11.8**	15.2
Adjustment relating to asset ceilings and minimum funding requirements	**2.1**	1.0
Net defined benefit liability, before deferred tax	**13.9**	16.2

As all actuarial gains and losses are recognised, the deficit shown above at 31 December 2021 is that recognised in the balance sheet.

Amounts recognised in other comprehensive income

	2021 £m	2020 £m
Return on scheme assets excluding interest income	**1.2**	1.1
Actuarial gains/(losses) arising from changes in financial assumptions	**1.3**	(1.0)
Actuarial gains arising from changes in demographic assumptions	**0.3**	–
Experience gains on liabilities	**0.4**	0.6
Loss due to change in asset restriction	**(1.2)**	(0.4)
Total gain recognised in other comprehensive Income	**2.0**	0.3

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 2022 is £0.1m.

Sensitivities (changes to total defined benefit obligations)

	2021		2020	
	Increase £m	Decrease £m	Increase £m	Decrease £m
0.25% change in discount rate	**(0.8)**	**0.8**	(1.0)	1.0
0.25% change in price inflation (and associated assumptions)	**0.4**	**(0.4)**	0.5	(0.5)

The sensitivity table is based on an illustrative 0.25% change, although the assumptions may vary by greater amounts. Therefore, the Group considers the retirement benefit obligations a key source of estimation uncertainty.

29. 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.

In April 2019 the European Commission published their decision that certain aspects of the UK finance company exemption constitute illegal State Aid. Bodycote took advantage of this exemption in its overseas financing arrangements. As at 31 December 2020 the Group disclosed a contingent liability in respect of this issue of £22.0m. In December 2021 the UK tax authorities confirmed that Bodycote was not a beneficiary of illegal State Aid and therefore there should be no further assessment into the matter. Consequently the Group believes there is no longer a contingent liability in respect of this issue.

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 judgement 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.

Company balance sheet

At 31 December 2021

	Note	2021 £m	2020 £m
Non-current assets			
Intangible assets	3	**18.8**	15.4
Property, plant and equipment	4	**0.2**	0.7
Right-of-use assets	5	**0.2**	0.3
Investments in subsidiaries	6	**389.0**	391.0
Deferred tax assets	9	**–**	1.7
Trade and other receivables	7	**101.3**	148.3
		509.5	557.4
Current assets			
Trade and other receivables	7	**4.0**	4.0
Cash and bank balances		**0.1**	–
		4.1	4.0
Total assets		**513.6**	561.4
Current liabilities			
Trade and other payables	8	**13.2**	9.8
Borrowings		**–**	17.0
Lease liabilities	5	**0.2**	0.2
		13.4	27.0
Net current liabilities		**(9.3)**	(23.0)
Non-current liabilities			
Trade and other payables	8	**14.0**	1.0
Lease liabilities	5	**0.1**	0.3
		14.1	1.3
Total liabilities		**27.5**	28.3
Net assets		**486.1**	533.1
Equity			
Share capital	10	**33.1**	33.1
Share premium account		**177.1**	177.1
Own shares		**(6.3)**	(7.0)
Other reserves		**136.3**	132.4
(Loss)/profit for year		**(3.0)**	44.6
Retained earnings		**148.9**	152.9
Total equity		**486.1**	533.1

During the year the company has chosen to adopt an IAS 1 presentation for the balance sheet and use of IFRS terminology in the financial statements in order to be consistent with the presentation of the consolidated balance sheet for the Group.

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 14 March 2022.

They were signed on its behalf by:

S.C. Harris
Director

D. Yates
Director

Company statement of changes in equity

Year ended 31 December 2021

	Share capital £m	Share premium account £m	Own shares	Other reserves £m	Retained earnings £m	Total £m
1 January 2020	33.1	177.1	(11.7)	136.5	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	–	–	5.2	(4.5)	5.0	5.7
31 December 2020	33.1	177.1	(7.0)	132.4	197.5	533.1
Loss for the year	–	–	–	–	(3.0)	(3.0)
Actuarial gain on defined benefit pension schemes net of deferred tax	–	–	–	–	0.2	0.2
Total comprehensive expense for the year	–	–	–	–	(2.8)	(2.8)
Dividends paid	–	–	–	–	(49.0)	(49.0)
Share-based payments	–	–	–	4.7	–	4.7
Settlement of share options	–	–	0.7	(0.8)	0.2	0.1
31 December 2021	**33.1**	**177.1**	**(6.3)**	**136.3**	**145.9**	**486.1**

Details of dividends paid are set out in note 7 of the consolidated financial statements.

Details of share-based payment transactions are set out in note 26 of the consolidated financial statements.

Shares held in the Bodycote International Employee Benefit Trust have been presented separately from Other reserves, shown as Own shares, consistent with the presentation in the consolidated statement of changes in equity. 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 2021 775,962 (2020: 865,565) ordinary shares of 17 $^{3}/_{11}$p 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 £6.7m (2020: £6.5m).

Included in other reserves is £5.9m (2020: £2.0m) relating to a share option reserve and a capital redemption reserve of £129.8m (2020: £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

Interim dividend distributions (ordinary and special) to Bodycote plc's ordinary shareholders are recognised when paid and final dividends are accrued when approved by the ordinary shareholders at the Group's Annual General Meeting. Further detail is contained in note 7 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 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 98 to 99.

Investments

Investments are held at cost less provision for impairment. Any potential impairment is determined whereby the carrying value of the investment is not supported by the net assets of the investment, or discounted future cash flows in the form of expected dividend income.

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 applied in the Group consolidated financial statements on pages 101 to 102.

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 includes 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.

Company accounting policies continued

Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on a straight-line basis, to reduce the carrying value to the estimated residual value at the point of sale, at the following annual rates:

Fixtures and fittings 10% to 20%

Intangible assets

Intangible 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 2024. 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 2021. At the end of 2021, the LIBOR reference rate was phased out and transitioned to the Sterling Overnight Index Average (SONIA) which, as of 31 December 2021, has become the new interest reference rate). The impact of this change is not significant.

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 2024. 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 2021. At the end of 2021, the LIBOR reference rate was phased out and transitioned to the Sterling Overnight Index Average (SONIA) which, as of 31 December 2021, has become the new interest reference rate. The impact of this change is not significant.

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 relation to the non-recognition of the pension surplus.

Notes to the company financial statements

Year ended 31 December 2021

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 loss for the financial year ended 31 December 2021 of £3.0m (2020 profit: £44.6m).

The auditor's remuneration for audit and other services is disclosed in note 2 of the Group's consolidated financial statements.

2. Employees

	2021	2020
Average monthly number of employees	**51**	56

	£m	**£m**
Their aggregate remuneration comprised:		
Wages and salaries	**8.3**	3.0
Social security costs	**1.2**	(0.5)
Pension costs	**0.4**	0.6
	9.9	3.1

Included in wages and salaries are share-based payments (excluding social charges) resulting in a charge of £1.1m (2020: £0.1m).

All Directors of the Group with the exception of 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 84 and form part of these financial statements.

3. Intangible assets

	Software £m
Cost	
At 1 January 2021	32.6
Additions	5.1
At 31 December 2021	**37.7**
Amortisation	
At 1 January 2020	17.2
Charge for the year	1.7
At 31 December 2021	**18.9**
Net book value	
At 31 December 2021	**18.8**
At 31 December 2020	15.4

Included in software assets are ongoing development costs related to the Group's ERP solutions. £12.6m (2020: £7.6m) 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.

4. Property, plant and equipment

	Fixtures and fittings £m
Cost	
At 1 January 2021	1.5
Disposals[1]	(0.5)
At 31 December 2021	**1.0**
Depreciation	
At 1 January 2021	**0.8**
At 31 December 2021	**0.8**
Net book value	
At 31 December 2021	**0.2**
At 31 December 2020	0.7

1 £0.5m disposals in the period relate £0.1m for land which is not depreciated and £0.4m of IT equipment subsequently sold to other group companies prior to use and depreciation being applied.

5. Right-of-use assets

	Buildings and vehicles £m
Cost	
At 1 January 2021 and 31 December 2021	**2.3**
Depreciation	
At 1 January 2021	2.0
Charge for the year	0.1
At 31 December 2021	**2.1**
Net book value	
At 31 December 2021	**0.2**
At 31 December 2020	0.3

	2021 £m	2020 £m
Lease liabilities		
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**0.2**	0.2
One to five years	**0.1**	0.3
Total undiscounted cash flows	**0.3**	0.5
Current	**0.2**	0.2
Non-current	**0.1**	0.3
Total lease liabilities	**0.3**	0.5

6. Investments in subsidiaries

	£m
Cost	
At 1 January 2021	397.6
At 31 December 2021	**397.6**
Provision for impairment	
At 1 January 2021	6.6
Provision in the year	2.0
At 31 December 2021	**8.6**
Net book value	
At 31 December 2021	**389.0**
At 31 December 2020	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 2021.

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 Thermal Processing Mexico Limited
Bodycote America Capital Limited

A full list of directly and indirectly owned subsidiary undertakings can be found on page 152.

Notes to the company financial statements continued

For the year ended 31 December 2021

7. Trade and other receivables

	2021 £m	2020 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**0.9**	0.3
Corporation tax	**2.7**	2.7
Other receivables and prepayments	**0.4**	1.0
	4.0	4.0
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings[1]	**100.3**	147.3
Other receivables	**1.0**	1.0
	101.3	148.3
	105.3	152.3

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 borrower's liquid assets. Loans are repayable on 30 June 2024 and on each 30 June anniversary the loan facility is to be extended for a further 12 months.

8. Trade and other payables

	2021 £m	2020 £m
Amounts falling due within one year:		
Trade payables	**0.1**	–
Amounts owed to subsidiary undertakings	**4.3**	4.6
Other taxes and social security	**0.6**	0.3
Other payables	**3.9**	0.9
Accruals	**4.3**	4.0
	13.2	9.8
Amounts falling due after more than one year:		
Amounts owed to subsidiary undertakings[1]	**14.0**	1.0
	14.0	1.0

1 Intercompany loan from Bodycote Finance Limited, repayable on 30 June 2024. 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 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 1 January 2021	1.3	–	0.4	1.7
Credit/(charge) to profit or loss	(1.8)	(0.1)	0.1	(1.8)
Credit to other comprehensive income	–	0.1	–	0.1
At 31 December 2021	**(0.5)**	**–**	**0.5**	**–**

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:

	2021 £m	2020 £m
Net deferred tax asset	**–**	1.7

10. Share capital

Share capital:
Ordinary shares (allotted, called-up and fully paid)

	Number of shares	£m
At 1 January 2021	191,456,172	33.1
At 31 December 2021	**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 26 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 £3.8m (2020: £3.6m).

12. Pension commitments

The Company participates in a final salary defined benefit scheme in the UK, the details of which are disclosed in note 28 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 surpluses is an area of accounting judgement, which depends on the wording of the scheme rules and IFRIC 14. The pension asset surplus not recognised at 31 December 2021 was £14.0m (2020: £2.3m). Full disclosures concerning the scheme as required by IAS 19 (revised) are set out in note 28 of the consolidated financial statements and full disclosure concerning IFRIC 14 is set out in note 28 of the consolidated financial statements.

The contributions made by the Company over the financial year to the defined contribution scheme amounted to £0.4m (2020: £0.4m). As at 31 December 2021, contributions of £nil (2020: £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 84 and note 27 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.

Five year summary (unaudited)

	2021 £m	2020 £m	2019 £m	2018[1] £m	2017[2] £m
Revenue	**615.8**	598.0	719.7	728.6	690.2
Profit:					
Headline operating profit	**94.8**	75.3	134.9	140.7	123.9
Amortisation of acquired intangible fixed assets	**(10.3)**	(9.8)	(4.6)	(3.7)	(4.5)
Acquisition costs	**(0.7)**	(2.1)	(1.7)	(0.5)	–
Operating profit prior to exceptional items	**83.8**	63.4	128.6	136.5	119.4
Exceptional items	**–**	(58.4)	–	–	–
Operating profit	**83.8**	5.0	128.6	136.5	119.4
Net finance costs	**(6.3)**	(6.5)	(4.7)	(4.3)	(2.4)
Profit/(loss) before taxation	**77.5**	(1.5)	123.9	132.2	117.0
Taxation	**(17.5)**	2.3	(29.9)	(28.6)	(19.7)
Profit after taxation	**60.0**	0.8	94.0	103.6	97.3
Non-controlling interests	**(0.5)**	(0.4)	(0.2)	(0.4)	(0.2)
Profit attributable to the equity holders of the parent	**59.5**	0.4	93.8	103.2	97.1
Headline earnings per share (pence)	**35.8**	27.8	52.1	55.9	49.2
Dividend per share (pence)	**20.0**	19.4	19.3	19.0	17.4
Special dividend per share (pence)	**–**	–	–	20.0	25.0
Assets employed					
Intangible assets	**322.0**	323.5	212.4	206.9	201.0
Property, plant and equipment	**489.3**	522.6	534.5	546.6	520.5
Other assets and liabilities	**(9.5)**	(66.6)	17.4	9.9	(63.6)
	801.8	779.5	764.3	763.4	657.9
Financed by					
Share capital	**33.1**	33.1	33.1	33.1	33.1
Reserves	**651.6**	647.4	671.9	685.5	663.9
Shareholders' funds	**684.7**	680.5	705.0	718.6	697.0
Non-controlling interests	**0.7**	0.9	0.8	0.7	0.5
Lease liabilities	**64.5**	75.6	79.4	80.3	–
Net debt/(cash)	**51.9**	22.5	(20.9)	(36.2)	(39.6)
Capital employed	**801.8**	779.5	764.3	763.4	657.9
Net assets per share (pence)	**357.6**	355.4	368.2	375.3	364.1
Return on capital employed %:					
Headline operating profit divided by the average of opening and closing capital employed	**12.0**	9.8	17.7	19.8	19.3

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.

Alternative performance measures (unaudited)

Bodycote uses Alternative Performance Measures (APMs), in addition to those reported under IFRS, as management consider these measures enable users of the financial statements to assess the headline 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, organic sales, headline tax charge, headline tax rate, headline earnings per share (EPS), headline operating cash flow, free cash flow, headline operating cash conversion, free cash flow conversion, net (debt)/cash, net (debt)/cash plus lease liabilities and Return On Capital Employed (ROCE). These measures reflect the headline 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 trading performance of the Group. 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

	2021 £m	2020 £m
Operating profit	**83.8**	5.0
Add back:		
Amortisation of acquired intangibles	**10.3**	9.8
Acquisition costs	**0.7**	2.1
Exceptional items	**–**	58.4
Headline operating profit	**94.8**	75.3

Headline operating margin

	2021 £m	2020 £m
Headline operating profit	**94.8**	75.3
Revenue	**615.8**	598.0
Headline operating margin	**15.4%**	12.6%

Headline profit before taxation

	2021 £m	2020 £m
Profit/(loss) before taxation	**77.5**	(1.5)
Add back:		
Amortisation of acquired intangibles	**10.3**	9.8
Acquisition costs	**0.7**	2.1
Exceptional items	**–**	58.4
Headline profit before taxation	**88.5**	68.8

Alternative performance measures (unaudited) continued

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

	2021 £m	2020 £m
Operating profit	**83.8**	5.0
Depreciation and amortisation	**83.7**	91.9
Depreciation on closed mothballed sites due to restructuring recognised in exceptional items	**0.6**	–
Impairment of property, plant and equipment and other assets - recognised in exceptional items	**5.5**	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
(Profit)/loss on disposal of property, plant and equipment	**(4.8)**	0.6
Share-based payments	**4.7**	0.4
Income from associate prior to disposal	**(0.1)**	(0.2)
Loss on disposal of associate	**0.4**	–
EBITDA	**173.8**	120.7
Acquisition costs	**0.7**	2.1
Exceptional items, excluding impairments	**(1.3)**	35.7
Share-based payments	**(4.7)**	(0.4)
Headline EBITDA	**168.5**	158.1
Headline EBITDA margin	**27.4%**	26.4%

Organic sales

Excludes revenues from acquisitions in the current and comparative period to provide a like-for-like comparison, reconciled in the table below:

	2021 £m	2020 £m
Total revenue	**615.8**	598.0
Adjustment for revenue from acquisitions	**32.8**	22.6
Total organic revenue	**583.0**	575.4

Headline operating cash flow

	2021 £m	2020 £m
Headline EBITDA	**168.5**	158.1
Less:		
Net maintenance capital expenditure	**(43.1)**	(45.1)
Net working capital movement	**(3.4)**	17.2
Headline operating cash flow	**122.0**	130.2

Free cash flow

	2021 £m	2020 £m
Headline operating cash flow	**122.0**	130.2
Less:		
Restructuring cash flows	**(2.3)**	(11.6)
Income taxes paid	**(9.5)**	(7.8)
Interest paid	**(5.2)**	(4.7)
Free cash flow	**105.0**	106.1

Headline operating cash conversion

	2021 £m	2020 £m
Headline operating cash flow	**122.0**	130.2
Headline operating profit	**94.8**	75.3
Headline operating cash conversion	**128.7%**	172.9%

Free cash flow conversion

	2021 £m	2020 £m
Free cash flow	105.0	106.1
Headline operating profit	94.8	75.3
Free cash flow conversion	110.8%	141.0%

Headline tax charge

	2021 £m	2020 £m
Tax charge/(credit)	17.5	(2.3)
Tax on amortisation of acquired intangibles	2.5	2.4
Tax on exceptional items and acquisition costs	(0.3)	15.4
Headline tax charge	19.7	15.5

Headline tax rate

	2021 £m	2020 £m
Headline tax charge	19.7	15.5
Headline profit before taxation	88.5	68.8
Headline tax rate	22.3%	22.5%

Headline earnings per share

A detailed reconciliation is provided in note 8 of the consolidated financial statements.

Net debt and net debt plus lease liabilities

	2021 £m	2020 £m
Cash and bank balances	39.3	30.7
Bank overdrafts (included in borrowings)	(1.4)	(1.5)
Derivative financial instruments	0.5	–
Bank loans (included in borrowings)	(90.3)	(51.7)
Net debt	(51.9)	(22.5)
Lease liabilities	(64.5)	(75.6)
Net debt plus lease liabilities	(116.4)	(98.1)

Return on capital employed

	2021 £m	2020 £m
Headline operating profit	94.8	75.3
Average capital employed[1]	789.9	770.5
Return on capital employed	12.0%	9.8%

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

Revenue and headline operating profit at constant exchange rates

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

	Year to 31 December 2021			
	ADE £m	AGI £m	Central cost and eliminations £m	Consolidated £m
Revenue	245.6	370.2	–	615.8
Constant exchange rates adjustment	10.8	13.8	–	24.6
Revenue at constant exchange rates	256.4	384.0	–	640.4
Headline operating profit	44.2	69.5	(18.9)	94.8
Constant exchange rates adjustment	1.4	2.7	0.3	4.4
Headline operating profit at constant exchange rates	45.6	72.2	(18.6)	99.2

Subsidiary undertakings

Incorporated in the UK

Springwood Court, Springwood Close, Tytherington Business Park, Macclesfield SK10 2XF
Bodycote America Capital Limited[6]
Bodycote America Finance Limited[6]
Bodycote America Treasury Limited[6]
Bodycote Developments Limited[2,4]
Bodycote Finance Limited[6]
Bodycote Finance UK Limited[6]
Bodycote Heat Treatments Limited[1]
Bodycote H.I.P. Limited[1]
Bodycote HIP Germany Limited[3]
Bodycote International Limited[3]
Bodycote Investments[6]
Bodycote K-Tech Limited[2]
Bodycote Nominees No. 1 Limited[2]
Bodycote Nominees No. 2 Limited[2]
Bodycote Pension Trustees Limited[5]
Bodycote Processing (Skelmersdale) Limited[2,4]
Bodycote Surface Technology Limited[1]
Bodycote Thermal Processing Limited[2]
Bodycote Thermal Processing Mexico Limited[1]
Expert Heat Treatments Limited[2,4]
Taylor & Hartley Fabrics Limited[2]

Incorporated in Belgium

Font Saint Landry 11, 1120 Brussels, Belgium
Bodycote Belgium SA[1]

Industrie Park Noord 7, 9100 Sint-Niklaas, Belgium
Bodycote Hot Isostatic Pressing NV[1]

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'Aeroport 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., Limited[1]

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 (Jinan) 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.o[1]

Rohanske nabrezi 671/15, Karlin, 186 00, Praha 8, Czech Republic
Bodycote SSC s.r.o[6]

Incorporated in France

Ilena Park – Bât. B2, Parc Technologique de Lyon, 117, allée des Parcs, 69800 Saint Priest, France
Bodycote Bourgogne SAS[1]
Bodycote France Holdings SA[3]
Bodycote Haute-Savoie SAS[2]
Bodycote Lyon SNC[6]
Bodycote Metz-Tessy SAS[1]
Bodycote SAS[1]
Bodycote Sud-Ouest SAS[1]
HITEC SAS[2]
Nitruvid SAS[1]

Incorporated in Germany

Schiessstrasse 68, 40549 Düsseldorf, Germany
Bodycote Deutschland GmbH[6]
Bodycote European Holdings GmbH[3]
Bodycote Hirzenhain GmbH[1]
Bodycote Specialist Technologies GmbH[1]
Bodycote Specialist Technologies Deutschland GmbH[1]
Bodycote VHK Vakuum-Härterei Köllner GmbH[1]
Bodycote Wärmebehandlung GmbH[1]

Incorporated in Ireland

12 Merrion Square North, Dublin 2, Ireland
Bodycote Ireland Finance DAC[6]
Bodycote Ireland Treasury Limited[6] – A and B ordinary shares

Incorporated in Jersey

50 La Colomberie, St Helier, JE2 4QB, Jersey
Bodycote Jersey Finance Limited[6]
Bodycote Jersey Holdings Limited[3]

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] – merged into Bodycote Thermal Processing de Mexico, S. de R.L. de C.V. 1st November 2021
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 AB[1]

Box 124, 424 23, Angered, Sweden
Bodycote Sweden AB[3]
Bodycote Thermotreat AB[2]
Bodycote Värmebehandling AB[1]
Bodycote Ytbehandling AB[1]
Bodycote Yxan 5 AB[4]

Incorporated in Switzerland

Avenue Perdtemps 23, 1260 Nyon, Switzerland
Bodycote (Suisse) SA[6]
BDC Enterprises SA[3,6]

Jurastrasse 59, 2503, Biel, Canton de Berne
HTM Biel GmbH[1]

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 Corporation[1]
Bodycote Thermal Processing, Inc.[1]
Bodycote USA, Inc.[3]

Subsidiary undertakings continued

8118 Corporate Way Suite 201, Mason OH 45040, USA
Bodycote Surface Technology Property LLC[4]
Bodycote Surface Technology Mexico LLC[1]
Bodycote Surface Technology, Inc.[1]
Bodycote Surface Technology Group, Inc.[6]

1237 Knoxville Hwy, Wartburg TN 37887, USA
Bodycote Surface Technology Wartburg, Inc.[1]

Incorporated in other overseas countries

Boehlerdurplatz 1, 8605 Kapfenberg, Austria
Bodycote Austria GmbH[1]

Groethofstraat 27, 5916PA Venlo, Netherlands
Bodycote Hardingscentrum BV[1]
Bodycote Hardingscentrum No.2 BV[3]

ÁTI-Sziget Ipari Park, 23. Épület, 2310 Szigetszentmiklós, Hungary
Bodycote Hungary Hökezelö KFT[1]

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 Oy[1]

Wilgowa 65D, Czestochowa, 42-271, Poland
Bodycote Polska sp z.o.o.[1]

Im alten Riet 123, 9494 Schaan, Liechtenstein
Bodycote Rheintal Wärmebehandlung AG[1]

Matuškova 48, Vlkanová, Banksá Bystrica, 976 31, Slovakia
Bodycote Slovakia s.r.o.[1]

Via Moie 28, 25050, Rodengo Saiano, Italy
Bodycote Trattamenti Termici SpA[1]

Brasov, str. Zizinului nr. 119, cod 500407, Romania
Bodycote Tratamente Termice SRL[1]

Industribuen 16-18, 5592, Ejby, Denmark
Bodycote Varmebehandling A/S[1]

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 five German subsidiaries Bodycote Hirzenhain GmbH, Bodycote Specialist Technologies Deutschland GmbH, Bodycote Specialist Technologies GmbH, Bodycote VHK Vakuum-Härterei Köllner GmbH, and Bodycote Wärmebehandlung GmbH make use of the exemption option under Sec. 264 para. 3 German Commercial Code for the fiscal year 2021, and will not publish their annual financial statements according to Sec. 325 et seq. German Commercial Code.

The financial data of the above German companies for 2021 will be included in the consolidated annual accounts of Bodycote European Holdings GmbH.

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 enquiries continued

Shareholder analysis

Analysis of share register as at 23 February 2022:

Holding range	Number of shareholders	%	Number of shares	%
1 to 1,000	777	43.9	310,140	0.2
1,001 to 10,000	665	37.5	2,124,216	1.1
10,001 to 100,000	185	10.4	6,832,218	3.6
100,001 to 500,000	81	4.6	18,686,410	9.8
500,001 and over	63	3.5	163,503,188	85.4
	1771	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	32.5	98.5
Other shareholdings	67.2	1.1
	100.0	100.0

As at 15 February 2022 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 (EB)	14,161,855	7.4
NNIP Advisors B.V.	11,650,000	6.1
Franklin Templeton Fund Management Limited	9,598,720	5.0
The Vanguard Group, Inc.	8,252,199	4.3
Baillie Gifford & Co.	8,143,266	4.3
Mondrian Inv. Partners	7,812,125	4.1
Alantra Asset Management SGIIC, S.A.	7,122,245	3.7
Fidelity Mgmt. & Research Co.	6,777,139	3.5
Artemis Inv. Mgmt.	6,598,330	3.4

Company information

Advisers

Auditors
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	25 May 2022
Final dividend for 2021	3 June 2022
Interim results for 2022	July 2022
Interim dividend for 2022	November 2022
Results for 2022	March 2023

www.bodycote.com

For the online version of this report go to
www.bodycote.com/investors

Bodycote plc
Springwood Court
Springwood Close
Tytherington Business Park
Macclesfield
Cheshire
United Kingdom
SK10 2XF

Tel: +44 (0)1625 505300
Fax: +44 (0)1625 505313
Email: info@bodycote.com

Produced by Radley Yeldar
www.ry.com